

# **Best practices in reintegration services**

## **Analysing modes of contracting in the Dutch private reintegration market**

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### **1. Introduction**

Over the last decade, many of the Western welfare states have found themselves under pressure to reform due to both exogenous factors, such as globalization and the ageing of society, and endogenous factors, such as a shift in focus from welfare to workfare. An important aspect of these reforms concerns the introduction of processes of privatization. One of the elements of the welfare state that has been subject to privatization is the provision of reintegration services. The Dutch employment reintegration market is regarded as a prototype of this form of privatization. Since the implementation of the Work and Income Implementation Structure (SUWI) Act in 2002, the Institute for Employee Benefit Schemes (UWV) and the municipalities are obliged to purchase employment reintegration services for their clients on the market using tender procedures.

Since the implementation of the SUWI Act in 2002, the Dutch employment reintegration market has been investigated extensively. What we know from this research is that the privatization of reintegration services has gone hand in hand with many problems. The tender procedures have proven to be problematic and costly, the reintegration market is subject to negative selection processes like creaming and parking, and the net impact of reintegration services seems to be modest. At the same time, success stories have been identified. However, a clear understanding of the factors that have contributed to these successes is lacking. Given the importance of contracts as a steering mechanism for private service providers, in this paper we will explore to what extent the functioning of the reintegration market is associated with issues related to processes of contracting.

Until now, most research has focused on the outcomes of reintegration services in terms of the extent to which reintegration clients are successfully reintegrated into the labor market. Little attention has been given to processes of contracting, including the monitoring and enforcement of contracts. Tender procedures have been based on criteria of pay-for-performance and both policy and research have focused on the efficiency and effectiveness of the private reintegration market. Since the outcomes of reintegration services are influenced by many factors, like labor market conditions, client motivation, and client ability, it is, however, very difficult to demonstrate to what extent reintegration services have contributed to the outcomes. The quality of reintegration services is therefore difficult to measure on the basis of outcome measures alone, which might make output-based contracting inadequate. Moreover, by measuring the quality of reintegration services by its effectiveness and efficiency alone, one may neglect the safeguarding of other public values.

In this paper, we will argue that for a proper functioning of a private reintegration market the understanding and application of good contracting is essential. This entails more than just examining the design of the contracts, but also includes the comprehensive analysis of monitoring and enforcement of contracts. The goal of this paper is to identify some theoretical starting points for the safeguarding of public values during the process of delivering social

services through private actors and the consequences this may have for identifying best practices. For this, we examine and make use of existing theory, literature and documentary evidence combined with a limited explorative analysis of data collected in practice. By analyzing both the literature and modes of contracting between purchasers on the Dutch private reintegration market and providers of reintegration services, we hope to receive a better understanding of the factors that contribute to the successes and failures of reintegration services. We believe that the identification of these factors will be helpful in the process of identifying best practices in reintegration services.

The focus of our paper is important given that the theme of safeguarding public values within the context of privatization of social service delivery has not been extensively explored. On the one hand, there is a substantial body of literature dedicated to the safeguarding of public values. However, this literature focuses on the context of infrastructure or public service delivery, mainly related to the procurement of public works or to the delivery of utilities such as gas, electricity or water (De Joode, 2007; Furneaux and Brown 2007). On the other hand, much attention has been given to the phenomena of contracting out for social service delivery (Deakin and Walsh, 1996; Peat and Costley, 2001; Savas, 2002; Van Slyke 2003; Van Slyke, 2007). Within this body of literature there is also a growing attention for contractualism within the context of the activating welfare state (Sol and Westerveld, 2005; Sol and Westerveld, 2007) and more specifically employment services (Bruttel, 2004; Struyven, 2003; Struyven and Steurs, 2005; Van Berkel and Van der Aa 2005; Bredgaard and Larsen, 2007). However, within the contracting literature the topic of safeguarding public values has received little attention.

In this paper we will make an effort to use insights derived from the framework developed and proposed by Brown, Potoski and Van Slyke (2006) related to the contracting out of public services in combination with some of the concepts proposed by De Bruijn and Dicke (2006) regarding the safeguarding of public values. We have chosen these approaches because they offer specific insight into aspects of the contracting out process relevant for safeguarding public values in the case of the Dutch reintegration market. The insights derived from the work of de Bruijn and Dicke offer a macroscopic view on the mechanisms for safeguarding public values, and the framework of Brown, Potoski and Van Slyke offers insights into a more practical application of contracting out for public services. At the same time, both approaches share public values as an important element. We therefore believe, together with Furneaux and Brown (2007) that the combination of these approaches can yield relevant insights for developing strategies for a more practical application of the concepts related to the safeguarding of public values.

The paper is structured as follows. In section two, we will explore some of the problems regarding the identification and implementation of best practices. Given the problems with best practices, our focus in this paper will be on the process of contracting out. Section three focuses on the literature regarding the contracting out for service delivery, while section four offers a more specific examination of the process of contracting out for service delivery. In section five, we describe the empirical findings regarding the design of the contracting out process in the Dutch municipal reintegration market. Finally, section six concludes.

## **2. Best practices**

Best practices are hot. By implementing a best practice, one expects to gain some reassurance that the service is delivered in a way that in practice often yields good results. However, it is the question, whether a best practice in one situation will also work in a different context. The outcomes of reintegration services, for example, are influenced by many factors, like labor market conditions, client motivation, and client ability. The extent to which reintegration services have contributed to the outcome is therefore very difficult to demonstrate. Consequently, in the reintegration market, the label 'best practice' often is highly subjective. Many best practices are the result of a process of competition or selection, in which a group of experts decides that a certain approach deserves the predicate of best practice. The validity and generalization of these best practices can be questioned.

For a good identification of best practices, it is important that the assumption on which best practices are chosen are based on more than practical experience or judgments of professionals alone. Especially since best practices often are identified on the successfulness of achieving a single outcome or result, and this focusing on one specific outcome or result may entail that other interests or public values may not be taken into account. In fact, what may be considered as a best practice for attaining a certain objective may be at odds or even detrimental to the safeguarding of other public values. Moreover, very often best practices are identified on the basis of a successful outcome, without proper knowledge of the factors that have contributed to this success. One of the strongest criticisms of best practices is that the causal relation between the action undertaken and the outcomes are often not sufficiently explored or established. Often there is insufficient opportunity to test for effects related to contextual factors. Thoroughly testing assumptions and causal relations may be difficult, as insufficient data may be obtainable, available resource to explore different cases may be lacking, or the process may simply take too long in relation to the developments of practice (Bretschneider, Marc-Aurele and Wu, 2001; Myers, Smith and Lawrence, 2004).

Danger of the implementation of best practices is that a best practice in one situation may turn out to be a worst case when applied somewhere else. One cannot copy a best practice into a different context and expect the same result (Smith and Sutton, 1999). At most, one can try to learn from the factors that have contributed to the success of the best practice, and try to implement these factors within a different context. In this paper we will focus on the process of contracting out for social service delivery. We expect that the analysis of the contracting out process will increase our understanding of how this process (as a contextual factor) contributes to the successes and failures of reintegration services, which in turn will be helpful in the process of identifying best practices.

## **3. Contracting out for service delivery**

### *3.1. The contract as a mechanism for safeguarding public values*

The literature on safeguarding public values in utilities (De Bruijn and Dicke, 2006; Charles et al., 2007; Van Gestel et al., 2007), acknowledges three important governance mechanisms which can be used to safeguard public values, each with their respective characteristics:

1. Market: safeguarding public values through competition and contracts
2. Hierarchy: safeguarding public values through imposition based on authority
3. Networks: safeguarding public values through interaction between stake holders

In this paper, we focus on the market mechanism as this was introduced in the Dutch context through the implementation of the Dutch SUWI act in 2002.<sup>1</sup> This reform introduced a prominent role for private actors within the previously public domain of employment reintegration services. With this reform and the mandatory contracting out for these types of services, a quasi-market (Bartlett and Le Grand, 1993; Struyven, and Steurs, 2005) for the delivery of employment re-integration services was created within the Dutch context.

Within the institutional arrangement of the market, the safeguarding of public values entails specific challenges. One of the challenges of the use of the market relates to conveying preferences about how and which public values need safeguarding. This seems to be even more so when private actors need to take decisions involving public value trade-offs during service delivery. An important issue in this respect seems to be how to steer such decisions or influence the outcome of these type of choices in such a way, that this ensures public values are safeguarded in a desirable manner. An important tool for achieving this in the context of the market is the contract. Once one enters the domain of the market, the primary governance relation is contractual. The contract and steering strategies applied to enforce compliance play an important role in conveying policy aims, priorities, and preferences to the agent (contractor) to ensure that the best results are achieved.

In this paper the central focus will lay on contracting out in the municipal part of the reintegration market. Where in accordance with the SUWI ACT of 2002, the Dutch municipalities operate as buyers of employment reintegration services for welfare benefit recipients. However, from 2006 onwards, the contracting out for service delivery is no longer mandatory for Dutch municipalities. The experience of Dutch municipalities with contracting out and the freedom that municipalities currently have to make or buy reintegration services, makes the Dutch case a good example for analyzing the process of contracting out for social service delivery.

### *3.2 Factors influencing the safeguarding of public values in a process of contracting out*

Once the governmental or public agency responsible for a certain public service has decided to explore the option of contracting out, the public entity responsible must overcome several important challenges. Brown, Potoski and Van Slyke (2006) distinguish three important phases of the contracting out process.

- First: assess whether to make or buy a service
- Second: draw up specifications and select an appropriately suited vendor
- Third: implement a steering and monitoring strategy

Each of these phases involves different challenges regarding the safeguarding of public values. In section four, we will describe the choices concerning the three phases of the contracting out process. In these choices, four factors play an important role: the service characteristics, the specification capacity, the institutional context, and the characteristics of the market.

#### 3.2.1 Service characteristics

One of the most important notions identified in the literature on contracting out for public services relates to the difficulty of specifying and measuring service outcomes. Most of the

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<sup>1</sup> Wet Structuur Uitvoeringsorganisatie Werk en Inkomen, SUWI (29 -11-2001), Stb. 2001, 624.

literature we build upon in this paper is based on experiences and research into contracting out for easily quantifiable services. There is, however, a significant difference between the delivery of utilities or public services such as refuse collection and the delivery of less easily quantifiable or measurable services such as social services (Van Slyke 2007). The employment reintegration services contracted for encompass quite a wide variety of services, many of which do not have easily specifiable requirements or have easily measurable outcomes. The more difficult it is to define or measure an outcome or result of service, the more difficult it is to contract out for this service (Deakin and Walsh, 1996; Van Slyke, 2003; Van Genugten, 2008). Moreover, contracting out for complex services can also bring difficulties with disentangling short-term and long-term results and outcomes (Deakin and Walsh, 1996). In the context of reintegration services, the measurement of final service outcomes is, for example, in some cases not possible before contracts have long expired.

### 3.2.2 Specification capacity

A second factor of importance in the contracting out process concerns the governmental or public agencies capacity for core management activities related to planning, resource allocation, monitoring, evaluating and handling of external relations. The development of these capacities is vital for ensuring successful managing of any form of service delivery and can have a profound impact on various aspects of the different phases of the contracting out process (Brown and Potoski, 2006). Not only is the ability to specify goals and objectives of great importance for being able to effectively steer a contractor or agent in relation to achieving these goals or objectives (Peat and Costley, 2001), a good understanding of what kind of service is being bought is also useful in the later stages of the contracting out process. Additionally, retaining some form of residual capacity for service delivery is of great use when contracting partners or the market fails in delivery, and direct public service provision is, albeit temporally, required (Warner and Hefetz, 2004).

### 3.2.3 Institutional context

With regard to the legal institutional settings there are several areas of legislation (contract law, social security legislation, administrative law) influencing the extend and modalities of the process of contracting out. The first is legislation relating to the subject matter of the service being delivered; in the case of reintegration services the SUWI act and the WWB<sup>2</sup> act. These acts contain several important provisions regarding the requirements that need to be met, among which the obligation for the Institute for Employee Benefit Schemes (UWV) and, until 2006, the municipalities to contract out reintegration services. Second, the legislation related to procurement, which strongly influences and to some extent constrains the process of contracting out. In the Dutch case, the national legislation BAO ACT<sup>3</sup> and the European Public Procurement (EPP) legislation (2004/18/EC) dictating that “*public sector procurement must follow transparent open procedures ensuring fair conditions of competition for suppliers*”.<sup>4</sup> The EPP legislation prescribes that tender procedures above a certain threshold value and for specific services must comply with the stringent tendering requirements based on the principles of non-discrimination, transparency, proportionality and mutual recognition. The

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<sup>2</sup> Wet Werk en Bijstand, WWB (9-10-2003), Stb. 2003, 375.

<sup>3</sup> Besluit aanbestedingsregels voor overheidsopdrachten, (16-07-2005), Stb.2005 408.

<sup>4</sup> Council Directive No. 18/2004 , (30.4.2004), OJ L134/114.

[http://ec.europa.eu/internal\\_market/publicprocurement/legislation\\_en.htm](http://ec.europa.eu/internal_market/publicprocurement/legislation_en.htm) (27-02-2008).

requirements dictated by the legislative regime for public procurement, emphasize the importance of thoroughly drafting and formulating the tender documents as procurement requirements leave little room for negotiations after the selection of a contractor has taken place.

#### 3.2.4 Market characteristics

A final factor influencing the choices in the different phases of the contracting out process is the characteristic of the service market. Characteristic of the market in the case of social service delivery is the quasi-market structure. The quasi-market structure goes together with a specific set of issues and constraints (Le Grand, 2001; Lowery, 1998), one of which relates to the availability of information on service delivery and achieved results. By its nature the quasi-market exacerbates the information asymmetry between principal and agent, and this information deficiency poses an important challenge that needs to be overcome, for example, by more extensive monitoring.

### **4. The different phases of the contracting out process**

#### *4.1 The first phase: buy or make*

In the first phase, one must assess whether to buy or make a service. Service characteristics, the associated asset specificity, the reoccurrence of the need for the service, and the transaction costs associated with the type of service (Williamson, 1981) influence this choice. Specification capacity is of great importance too. One needs to have the capacity to specify what the service requirements are. For if the governmental or public agency responsible for service delivery is not able to specify the service requirements or the relevant service goals, it will not be able to make a sound decision on whether to buy or make a service. The buy or make decision is further influenced by the capacity of the buyer to produce the service in house and the nature of the market (Domberger and Jensen, 1997; Brown and Potoski, 2003 A). In order for the market mechanism to work, it is not only necessary to have competition between different providers, but it is also useful that there exists a threat of exit on the side of the buyer when the market fails. The freedom of choice in relation to the make or buy decision allows for the maintaining of residual capacity for service delivery. In house knowledge about service delivery may further strengthen the capacity to steer and monitor contractors (Provan and Milward, 2000). In this respect, one can applaud the choice in the Dutch institutional context to discharge municipalities from their contracting out obligation.

#### *4.2 The second phase: specification and selection*

The second phase of contracting out involves the specification and selection process. This process involves a trade-off between the costs of specification and selection and the benefits such investments can have in terms of selecting the best supplier. Choices regarding such trade-offs are, however, influenced by the institutional context. When contracting out services above a certain threshold value, EPP legislation prescribes the use of a tender procedure. For this reason, in the specification and selection process in the Dutch context, the call for tender or procurement document is central.

The call for tender document serves multiple purposes. First, it is a means of specifying and communicating to potential bidders the preferences about the desired service provision. Second, it can help in overcoming one of the important challenges of the contracting out process: that of aligning values of the contracting parties. The call for tender document can help in se-

lecting a value congruent contractor. Finally, in a later stage the call for tender document will be the basis for monitoring and steering efforts.

The drafting of a call for tender document requires skill, good planning, and preparation. In the specification phase, both the service characteristics and the specification capacity are very important. Depending on the complexity of the service characteristics, the specification of service requirements requires more or less specification capacity: the more complex the service characteristics, the more difficult and potentially more costly is the use of contracts as a governance tool (Deakin and Walsh, 1996; Brown and Potoski, 2003A). Clearly specified service goals also form the basis on which to build any monitoring strategy at a later stage. In fact, there may be a trade-off between ex ante (specification and selection) costs associated with setting up a selection and bidding procedure, and the ex post costs associated with monitoring. The more one invests in the specification and selection phase, the less monitoring usually is required. If monitoring is expected to be difficult, for example due to underdeveloped monitoring capacities or when the service characteristics are expected to bring high monitoring costs, it might therefore be preferable to invest more in the ex ante specification and selection strategy.

A possible strategy in the specification and selection phase is to select the most value and goal congruent contracting partner, that is, the contractor who is believed to share the same values and goals pursued by the public entity that is contracting out. The advantage of a value congruent selection strategy, is that the selection of a value congruent bidder involves less danger of adverse selection or moral hazard, and consequently requires less monitoring. However, such a strategy does necessitate the inclusion in the selection criteria of some kind of means to expose and assess the vision and values of the potential contractors with regard to service delivery. It is the question whether this is possible within the institutional context and to what extent the vision and values of potential contractors differ in the market. Nevertheless, the literature certainly supports the notion that there is an important role for ex-ante specification and selection processes of potential bidders in relation to achieving good contracting performance (Peat and Costley, 2001; Fernandez, 2007).

#### *4.3 Phase three: monitoring and steering*

The third phase is the monitoring and steering phase, in which the governmental or public agency responsible for service delivery needs to monitor the contract compliance and service quality and implement a steering strategy. As with any form of service delivery, when contracting out for public services, monitoring and steering have an important role to play in the success of the contracting out process (Warner and Hefetz, 2004; Brown and Potoski, 2006).

Monitoring is all about reducing the information asymmetry between principal and agent (Martimort and Laffont, 2001). The complexity of the service characteristics influences the effectiveness of different monitoring strategies, since the measurability of a service is a fundamental factor in determining whether monitoring efforts will provide useful information for the evaluation of the service delivery. A further important factor influencing the monitoring strategy is the capabilities and resources that the governmental or public agency, contracting out for service delivery, can employ for monitoring. Moreover, each monitoring strategy offers its own trade-off in relation to monitoring costs and the nature of information that is gathered. Easily measurable services demand far less monitoring, while heavy monitoring may be applied in cases where measurability is very problematic. However, an intensive monitoring strategy still may not yield adequate information about service outcomes or effects. In such a

case, the costs associated with monitoring efforts are not likely to outweigh the benefits. For this reason, governmental or public agencies tend to focus on monitoring services that are moderately difficult to measure, as this seems to be most cost effective (Deakin and Walsh, 1996; Brown and Potoski, 2003A).

Related to the monitoring strategy is the steering strategy. Important factors that influence the choice for a specific steering strategy are the service characteristics, the capacities for core management activities, and the institutional context of the contracting relationship. Two different steering strategies can be discerned (Greve, 2000). On the one hand, a more classic contractual at arms length relation with contractors, where the contract and the specified *results* play an important role in the steering of the contractor. On the other hand, a closer steering relationship relying on frequent interactions with contractors, coupled with informal monitoring efforts regarding the *process* of service delivery (Van Slyke, 2007). The former steering strategy is sometimes described as a “hard” notion of contracting, while the latter type of steering relation is more in line with the notion of the “soft” contracting and relational or trust based contractual relationship. The hard notion of contracting is appropriate for less complex services that are easy to measure. The soft type of steering strategy is useful when service results are difficult to measure and information is difficult to acquire through monitoring.

With regard to the three phases of the contracting out process, overall, it is clear that there are important interaction effects between each of the phases, as each of the three phases has elements that may strongly influence decisions taken in another phase. For instance, the shortcomings in the specification and selection phase will strongly influence the monitoring phase and monitoring costs, which, in retrospect, may alter the make or buy decision of the first phase.

## 5. Empirical findings

### 5.1. Method

In section four, we have described the challenges a contractor is confronted with in the three different phases of the contracting out process. In this section, we examine how some of the issues identified in previous sections are dealt with in the Dutch municipal reintegration market. For this we make use of two recent evaluation reports commissioned by the Council for Work and Income<sup>5</sup> (RWI, 2008A; RWI, 2008B), in combination with some data obtained through a set of exploratory interviews with field professionals. We interviewed six professionals, responsible for the contracting out of reintegration services, from four different municipalities: the capital Amsterdam, the provincial capital of Zwolle, the city of Schiedam a satellite of Rotterdam, and the city of Purmerend in the urban region of Amsterdam.<sup>6</sup> The mu-

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<sup>5</sup> The Council for Work and Income (Raad voor Werk en Inkomen - RWI) is a consultative body, which exists of representatives from employers, employees and municipalities. It was created in the beginning of 2002 with the implementation of the SUWI act. The mission of the Council is to contribute to the functioning of the labor market and the employment reintegration market.

<sup>6</sup> We interviewed professionals from Amsterdam (pop. approx. 740.000), Zwolle (pop. approx. 115.000), Purmerend (pop. approx. 78.0000), and Schiedam (pop. approx. 75.000). The interviews were topical semi-structured interviews and consisted of 29 open ended questions covering three topics: the procurement process, the contract, and the steering or contract management. The interviews were recorded and transcribed. The cities or municipalities covered in our interviews differ from the municipalities that were involved in the two RWI studies.



municipalities are selected on the basis of their availability to cooperate and the size of the city. In addition, we analyzed 5 call for tender documents.<sup>7</sup>

### *5.2 Findings relating to the make or buy phase*

With regard to the make or buy decision, overall there remains a strong tendency to contract out for the delivery of employment reintegration services. However, at the same time, the data collected in the studies of the RWI and our own interviews indicate a growing predisposition to the re-internalization of direct service provision (RWI, 2008B). This finding is in line with results in the United States, where reverse contracting (re-internalization) now exceeds the level of new contracting out (privatization) (Warner and Hefetz, 2007). The activities and services internalized by Dutch municipalities mainly relate to diagnosing of clients and case management. The main reason for choosing for in house service provision is the disappointment with the results achieved by private contractors.

As a response to the previous contracting experiences, many Dutch municipalities adopt a modular buying strategy. These municipalities no longer buy complete tracks or packages of reintegration services. The reason is that these long tracks entail considerable difficulties regarding the measurement of results, for example, with regard to the long time span before results will be visible and the type of outcomes these types of tracks aim to achieve. Instead, municipalities buy shorter tracks with more measurable results. This modular buying strategy has gone along with a stronger and more active role in case management.

With regard to the make or buy phase, the RWI reports and the data collected in our interviews thus show two contrasting processes: a process of reverse contracting internalizing part of the reintegration services and intensifying monitoring, and a modular buying process contracting out specific reintegration services. The underlying reason for these processes seems to be that the municipalities do not have the capacity to monitor the reintegration services when the whole process is contracted out, nor do the municipalities have the capacity to provide all the reintegration services in house. The development of in house monitoring capabilities combined with a modular buying strategy therefore offers the possibility to increase both types of capabilities. It may come as no surprise, that for the municipalities the availability of these capabilities is one of the most important factors influencing the make or buy decision.

### *5.3 Findings relating to the specification and selection phase*

With regard to the specification of the services, the RWI report (RWI, 2008A) finds that in general the participating municipalities attempt to use SMART<sup>8</sup> indicators for measuring service characteristics, output and outcomes. The data from our interviews confirm this finding. Furthermore, all tender documents state that the price quality relation forms the determining criteria for adjudication, which is in line with expectations, as the EPP legislation dictates that either price must be a determining criteria or the price quality relation. The specification of the price quality relation as the most important selection criterion, confirms the insights gathered through the interviews and findings from the RWI reports that the price is not the most important determinant for selecting a specific contractor.

All call for tender documents we examined, also included the requirement for potential bidders to operationalize in their proposal how they aim to achieve certain results and how these results should be measured. A factor that is helpful in the ex ante selection of better suited

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<sup>7</sup> Two from Amsterdam and one from each of the other cities.

<sup>8</sup> SMART: *Specific Measurable Achievable Relevant Time-bound*.

contractors. Additionally, in one way or the other, the notion of vision on service delivery or “vision on the process of employment reintegration” was part of the selection criteria stated in all call for tender documents. Even though in itself this may seem at odds with the EPP legislation, as vision hardly seems to be an easily objectifiable criteria, the use of such criteria is helpful in the ex ante selection of contractors, as it leaves room to select the most value congruent contractor.

With regard to the selection of contractors, the municipalities bring forward that the procurement requirements are a bothersome factor as these consume too much administrative resources and entail constraints with regard to contracting contractors that have provided good service delivery in the past (RWI, 2008A). In the interviews, the same sentiments have come up. Municipalities find that satisfying legal procurement requirements can be a considerable constraint bringing substantial costs and limiting selection possibilities, especially when newcomers or smaller local contractors want to participate in the tendering procedures. The smaller local contractors often do not have the experience, resources and capacities in drafting tender proposals. Consequently, they may lose out to bigger contractors even though these contractors may not be better suited for service delivery or offer better quality. In fact, the municipalities in our interviews and the RWI report (RWI, 2008A) claim that the availability of knowledge of the local labor market on the part of contractors is an important factor for success.

#### *5.4 Findings relating to the monitoring and steering phase*

With regard to the monitoring of contractors, the RWI reports find that the municipalities perceive difficulties in monitoring results and effects of reintegration services due to lack of information regarding the performance of the contractor. The difficulties in monitoring are, on the one hand, related to the service characteristics: the difficulties associated with service measurability and the lack of a well-developed set of common performance indicators. However, on the other hand, the limited monitoring capacities of municipalities play a role too. The RWI (RWI, 2008B) further observes a tendency among municipalities to reduce performance related contract elements. Instead, municipalities increasingly make use of closer steering relations.

The data from our interviews confirm the tendency to make use of closer steering relationships. Municipalities feel that steering based on tendering documents and contracts only, is too limited and inflexible. A close steering relation encompassing frequent contact and consultation between contracting parties is considered vital for keeping sufficient control over the service delivery (RWI, 2008B). Moreover, the preference for closer steering relations is accompanied by an inclination to use more informal tools instead of formal sanctioning tools to achieve contract compliance. All the municipalities we interviewed, except the biggest, indicated that they did not want to damage the trust and close relationship with their contractors by being too rigid and formal in relation to contractual specifications. Because much time, effort, and resources have been invested in the selecting of contractors, only as a last resort option formal penalties or contract termination will be used to achieve contract compliance. Instead, informal tools are applied to maintain a strong and active role in the day-to-day operation of case management. According to the municipalities, advantage of this approach is that it allows for earlier detection of problems when service delivery is unsatisfactory or unexpected complications arise. Consequently, interventions can take place during service delivery, offering the opportunity to solve problems before it is too late.

## 6. Conclusion

Very often best practices are identified on the basis of a successful outcome, without proper knowledge of the factors that have contributed to this success. Danger of this approach is that a best practice in one situation may turn out to be a worst case when applied somewhere else. One cannot copy a best practice into a different context and expect the same result (Smith and Sutton, 1999). At most, one can try to learn from the factors that have contributed to the success of the best practice, and try to implement these factors within a different context. In a private reintegration market, the understanding and application of good contracting is essential for the functioning of the market. In order to receive a better understanding of the factors that contribute to the successes and failures of reintegration services, in this paper we have analyzed the contracting out process of reintegration services using existing theory, literature and documentary evidence combined with a limited explorative analysis of data collected in practice.

According to the theory, the following factors are of importance when attempting to safeguard public values while contracting out for delivery of social services. First, throughout the different contracting out phases, it is imperative that the governmental or public agency responsible for service delivery has the capacity to specify the service goals. Second, having the freedom to choose whether to make or buy certain services contributes to the safeguarding of public values, because a threat of exit on the side of the buyer when the market does not deliver well increases the working of the market. In the Netherlands, the municipalities have this option since 2006. However, in order to be able to make this decision, in house knowledge about service delivery is also required. Third, for achieving good contracting performance, it is recommended that the design of the specification and selection phase enables the selecting of a value congruent contractor. Finally, the monitoring strategy needs to be suited to specific service characteristics, and must be feasible in light of the capabilities and resources that the governmental or public agency has available.

Our empirical findings show that the possibility to choose between make or buy has induced two seemingly contrasting processes. On the one hand, a process of reverse contracting internalizing part of the reintegration services and intensifying monitoring. On the other hand, a modular buying process aimed at contracting out for shorter tracks intended to achieve more specific and easily measurable goals. The municipalities make use of SMART indicators when specifying service goals for these shorter tracks. With regard to the specification and selection phase, the municipalities state that EPP legislation forms a constraint in the selection of the most suitable or value congruent contractor, especially when it comes to selecting smaller local contractors. Finally, regarding the monitoring and steering strategy, the municipalities perceive difficulties in monitoring due to lack of information regarding the performance of the contractors. To increase their monitoring capacity, they make use of closer steering relations, coupled with more informal compliance strategies.

To conclude, the findings from theory and practice show that the process of contracting out is not an easy road to success. Our study shows that the following factors are of importance when contracting out for employment reintegration services and attempting to identify best practices. In the first place the nature and characteristics of the service. Given the complexity of reintegration services, the contracting out of reintegration services is not an easy task. For this reason, it is not a matter of course that the buy or make phase will always result in the choice for contracting out. In fact, since the Dutch municipalities have the option to make or

buy, many municipalities have chosen not to buy (RWI, 2008 B). However, the modular buying strategy adopted by the Dutch municipalities shows that one can think of innovative ways to reduce the complexity of service characteristics. Second, the institutional context is an important factor that can support or undermine efforts of contracting out and successful strategies for delivering services. To this respect, contracting out parties need to operate strategically within the boundaries set by National or European legislation. For the Dutch case, this entails that municipalities make use of the freedom they have since 2006, when the mandatory contracting out for service delivery is ended. Third, the characteristics and development of the market. Municipalities can influence the working of the market by buying reintegration services together with other municipalities, and by using the threat of providing the services in house. Finally, and most importantly for the identification of best practices, the capacity of the municipalities to specify and monitor service delivery. Since capacity is the factor influenced most by the municipalities themselves and may therefore, in similar settings, discriminate good from bad performance, it is important to put a stronger emphasis on this aspect when searching for best practices in the context of contracting out for service delivery.

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