

# Deregulation in placement services: a comparative study for eight EU countries

**Jaap de Koning**  
Netherlands Economic Institute  
(Co-ordinator)

**Jan Denys**  
Hoger Instituut voor Arbeid

**Ulrich Walwei**  
Institut für Arbeitsmarkt  
und Berufsforschung



**Employment & social affairs**

Employment and European Social Fund

**European Commission**  
Directorate-General for Employment, Industrial Relations  
and Social Affairs  
Directorate V/A.2

Manuscript completed in January 1999.

This report was financed by and prepared for the use of the European Commission, Directorate-General for Employment, Industrial Relations and Social Affairs. It does not necessarily represent the Commission's official position.

# Table of contents

	<b>Page</b>
Executive summary	5
1 Introduction	7
2 The context	10
2.1 Introduction	10
2.2 Why deregulation of placement services	10
2.3 Labour-market developments challenging the position of the PES	12
2.4 The labour market problem	15
3 Types of private placement services	18
3.1 Introduction	18
3.2 The intermediaries	18
3.3 Skill providers	20
3.4 Suppliers of direct services	22
4 The regulatory framework	25
4.1 Introduction	25
4.2 The different elements of the regulatory framework	26
4.2.1 License systems	26
4.2.2 Labour and social law	27
4.2.3 Self regulation: collective labour agreements	29
4.2.4 Self regulation: code of ethics, code of good practice	29
4.2.5 Public offer	30
4.3 Regulation and deregulation	30
5 Quantitative description of the placement services sector	33
5.1 Introduction	33
5.2 The Size of the Industry: Offices and Agencies, Staff and Resources	34
5.3 Outputs of the Placement Sector	38
5.4 Conclusions: Findings and Shortcomings	42
6 Placement agencies as recruitment and search channels	45
6.1 Introduction	45
6.2 Use of placement services as job search channels	45
6.3 Use of Placement Services as Recruitment Channel	48
6.4 Job Matching	46
6.5 Findings and Shortcomings	55

	<b>Page</b>	
7	Implications for the functioning of the labour-market	57
7.1	Introduction	57
7.2	Theoretical framework	57
7.3	Empirical evidence	59
8	Summary and conclusions	63
	References	66

## **Executive summary**

Until the 90s job placement was seen as a public task in which the Public Employment Service (PES) was to play the central role. Under the influence of the general tendency towards deregulation and privatisation, and more specifically due to criticism of the PES performance, this has changed. In many countries the PES monopoly in job broking was abolished in the first half of the 90s. Often this change was followed by further liberalisation of the job services market. And still the end of this development has not been reached.

In principal the deregulation has provided more opportunities for private agencies. But the question is how this has worked out in practice. In some countries private agencies already had a high market share in the job placement market before the state monopoly in job broking was abolished. This was mainly due to the activities of temporary work agencies (TWAs). In the countries concerned the use of temporary work as a recruitment channel was not considered as placement and thus allowed. In such cases the question is whether deregulation makes a difference in practice.

Based on national reports for 8 countries (Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Sweden and the United Kingdom), this summary report tries to draw a number of general conclusions about deregulation in placement services. The 8 countries were chosen because deregulation was an important or potentially important development in placement services. A serious problem was the lack of data with respect to many relevant aspects.

The main conclusion is that of the countries involved the market share of private agencies in job placement is only high in the Netherlands and the United Kingdom (and in the Flemish community in Belgium). In the latter countries private placement overlaps to a large extent placement by TWAs. The reason for the success of the TWAs is that they can combine placement with a commercial activity: temporary work. It is difficult if not impossible to carry out PES-like placement services on a commercial basis as long as the PES can offer these services for free.

There are a number of reasons why TWAs have not yet expanded in other countries. First of all, in some countries the activities of TWAs are still hampered by government regulations (such as Austria and Germany). However, the tendency is to remove the remaining restrictions (particularly in Germany). Therefore, one would expect an expansion of TWA-activity in these countries in the coming years. In countries such as Sweden TWA-activity is still very low in spite of the liberal law. Maybe this has to do with specific factors such as a low population density. But it is also possible that the changes have occurred so recently that the impact has still to come.

The position of the PES is also challenged by another development. In a number of countries municipalities are playing an increasingly important role in ALMP. Often municipalities outsource implementation of their programmes to placement agencies. It is not always the PES that is selected. Municipalities make also use of private agencies.

It is difficult to say what deregulation means in terms of labour market outcomes. One of the main functions of the PES is to offer job opportunities for unemployed job-seekers who need special assistance in job search. Private agencies may not offer the same opportunities for those groups automatically. Therefore, some kind of government intervention in the job placement market is necessary. On the basis of the limited experience with implementation of placement activities and other measures for difficult-to-place groups by private agencies it is hard to say whether private agencies can be as effective as the PES in those cases.

# 1 Introduction

There is an increasing interest in private placement services. In most EU countries the state monopoly in job broking has been abolished in recent years. This development follows the general tendency towards privatisation of government services and deregulation. But what does deregulation in placement services mean in practice? Is the role of private agencies in job search and recruitment becoming more important as a result of the new legislation? And if that is the case: does this affect the total supply of placement services, both in quantitative and qualitative terms? And does it affect labour market outcomes?

Before we go further it is necessary to define a number of concepts. The title of this report contains two key concepts: “deregulation” and “placement services”. The phrase “placement services” refers to activities which help job-seekers to find jobs and employers to recruit workers. Examples of “placement services” are:

- job broking;
- temporary labour;
- staff leasing and detachment;
- executive search and personnel recruitment;
- outplacement;
- placement in sheltered employment;
- training which is fully focused on placement.

We will use the expression “employment services” as a synonym for placement services.

By “deregulation” we understand the removal of legal restrictions for private placement services. Deregulation may go hand in hand with privatisation, but this is not necessarily the case. We would speak of privatisation of placement services in the following cases:

- 1) privatisation of the Public Employment Service (PES), but maintaining the public funding of it;
- 2) shrinking of the PES by reducing public funding and leaving a larger part of job placement to the private market;
- 3) shrinking of the PES by forcing it to outsource implementation of some (or even all) of its activities to private companies.

Deregulation need not be that far-reaching. It may simply mean the removal of a ban on private placement, while maintaining a completely state-subsidised PES at the same time. In that case private agencies would be forced more or less to concentrate on new forms of placement services which were not covered by the PES at all. Deregulation would then lead to an increase in the total supply of placement services in stead of substitution of public by private placement services.

Most or perhaps even all types of employment services can be carried out by private agencies in principle and in fact are carried out on a commercial basis. In countries such as the Netherlands and the United Kingdom the government has the opinion that employment services should be left to private suppliers as much as possible. In that view the role of the government should be complementary. Other countries rely more on the government.

What could be the motives for deregulation and/or privatisation of employment services? Private companies that are operating in a competitive environment are more or less compelled to offer products of good quality at the lowest possible prices. If a company is not performing well enough it will simply lose clients to competing companies. Although imperfect markets certainly exist, competition implies an important drive towards quality and efficiency. This mechanism is lacking in the government sector. Therefore, it is widely believed that also in the employment services sector competition would be beneficial to quality and efficiency. Giving more room to private placement agencies would, in that line of thought, lead to more and higher quality output of this sector. Both the competition between the private agencies and the fact that the Public Employment Service has to take account of private agencies could contribute to that.

But there are alternative views. Representatives of the Public Employment Service often claim that public employment services in which private agencies are less interested, such as services for disadvantaged groups, can only be carried out with success when the Public Employment Service is a key player in the total employment services market. Two reasons are frequently mentioned. The first one is that a large share in vacancy fillings is necessary in order to have access to vacancies. The second reason is that before an employer accepts a long-term unemployed person or another disadvantaged person he has to trust the intermediary agency and that will only be the case if this agency has come up with 'good' candidates on earlier occasions. De Koning (1997) refers to both theories as the carrier-wave and the slipstream theories respectively. However, he finds no empirical evidence in favour of these theories.

There seems to be no disagreement about the proposition that the government should intervene in the employment services sector. But there are different views concerning the type and the degree of intervention. The two basic questions are<sup>1</sup>:

- 1) Should public employment services concentrate on disadvantaged groups or should its domain be much larger, including services for job seekers in general?
- 2) Should public employment services be carried out by government agencies or should implementation be outsourced to private companies?

The answers to both questions largely determine the relative size of private compared to public employment services.

---

<sup>1</sup> A third question which may affect private placement indirectly is how public employment services are organised. Are they concentrated in one government organisation or divided over a number of public bodies?



But what is the role of private employment services in practice? The fact that placement on a commercial basis is allowed in a country does not automatically mean that private placement has a large share in vacancy fillings compared to public placement. One reason might be that the Public Employment Service unlike private agencies can offer its services for free. Another reason could be that although private placement is allowed, some legal restrictions still exist. On the other hand, in some countries private placement already existed on a legal basis before the state monopoly was abolished, but then it was given a different name. Particularly temporary labour was (and still is) used by many employers for recruitment in those countries. Therefore, the question is whether the changes in legislation make any difference in practice.

These questions induced the European Commission to ask experts in a number of countries (Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Sweden and the United Kingdom) to investigate the role and the significance of private placement services in their countries<sup>2</sup>. These countries were chosen because deregulation was an important or potentially important development in placement services. The following aspects were covered in the various country reports:

1. the legislation with respect to public and private placement services;
2. a description of both public and private placement services in terms of the types of service, the staff size, expenditure and so on;
3. the relations between private and public employment services in terms of competition, complementary and co-operation;
4. the relative importance of private placement in terms of placements, both compared to the number of vacancies filled by public employment services and to total vacancy fillings.
5. the effects of the new liberal legislation concerning private placement on the volume and quality of public and of total employment services;
6. likely future developments.

This report summarises the results from the country reports and tries to draw a number of general conclusions. What are similarities and differences between the countries? And are differences in the share of private agencies in the total employment services market mainly due to differences in the regulatory framework or to differences in labour-market situation.

The structure of the report is as follows. Chapter 2 deals with labour-market developments in the various countries. A description of the employment services sector is given in chapter 3. Legal and organisational aspects are covered in chapter 7. Chapter 5 provides information about input and output indicators of public and private employment services. The next chapter, 6, focuses on the role of public and private services in job search and recruitment. The effects of private placement activities on the volume and quality of both public and total employment services are dealt with in chapter 7. The conclusions are summed up in the final chapter, chapter 8.

---

<sup>2</sup> In alphabetical order of the countries mentioned: Biffle, Csonka et al, Denys, Ross and Katajamäki, Walwei, De Koning, Wadensjo and Haslock and Purple (all 1997).

## 2 The context

### 2.1 Introduction

In this chapter we will highlight a number of general developments which can be said to form the context of deregulation in placement services. First of all in section 2.2 the question is addressed: why deregulation? Consequently we will highlight a number of labour market developments which are likely to affect the position of the Public Employment Service. This will be the subject of section 2.3.

### 2.2 Why deregulation of placement services

Deregulation of placement services seems to be a natural consequence of the general trend in most EU countries towards deregulation and privatisation. There is a general belief that the government cannot effectively control the economy and the labour-market by Keynesian, demand-driven policies. This belief is first of all rooted in the fact that using this type of policies governments were not able to prevent unemployment rates from rising to unprecedented post-war levels during the 70s and the 80s. Furthermore, high government expenditure appeared to be a cause of the economic problems rather than a cure for it. And a number of theorists could also explain why the demand driven policies did not work<sup>3</sup>. Perhaps the fall of communism reinforced the bad reputation of government intervention.

As a result the current tendency is to privatise government activities where ever this seems possible. Telecommunication is an obvious example. In countries such as Germany, the Netherlands and the United Kingdom the former state-owned telecommunication services are now privatised and demonopolised. Where the government remains responsible implementation is often outsourced to the private sector. Selling public transport licenses by auction is an example of this development. And in cases where (semi-)government organisations implement policy measures new management techniques are introduced which have been borrowed from the private sector. Increasingly targets are set for government agencies and budgets are made dependent on results.

The privatisation and deregulation trend did not leave public employment services unaffected. Until the 90's in most EU countries a state monopoly existed in job broking. The only exception was the United Kingdom in which private placement was never forbidden. In the 90's this state monopoly was abolished in countries such as Austria, Belgium (Flanders), Finland, Germany, the Netherlands and Sweden. There is also an increasing tendency to involve private placement and training agencies in the implementation of government measures. And the government is trying more and more to improve the performance of the Public Employment Service (PES) by introducing targets and incentives in the budgeting system. In a number of countries

---

<sup>3</sup> Lucas (1976) should be mentioned in the first place.

the Public Employment Service seems not to have the dominant role anymore it used to have. Municipalities in particular are increasingly involved in active labour-market policy. The PES is not the only partner municipalities are considering for implementation of measures; private agencies are sometimes asked to carry out activities such as placement in subsidised jobs. This may be called the deconcentration of public employment services. The position of the PES is therefore challenged by a number of developments<sup>4</sup>. However, in the various countries the PES is still subsidised by the government and there are not yet indications of budget cuts intended to increase the share of private agencies. Therefore, in the employment services sector deregulation and not privatisation is prevailing.

Deregulation of placement services is thus to some extent a consequence of a general trend. However, dissatisfaction with the performance of the PES has played a role too. Partly this dissatisfaction was due to an overly optimistic view about what the PES can do to reduce unemployment. In the 70's and the 80's Active Labour-Market Policy (ALMP) was seen as one of the most or perhaps the most effective type of policy to fight unemployment<sup>5</sup>. As a result the budget for the PES was raised considerably. But there was no visible effect of the increased expenditure on the level of unemployment<sup>6</sup>. Implicitly or explicitly the PES was (perhaps wrongly) blamed for this. More or less comparable figures for the countries involved in this study are only available since 1985. Table 2.1 shows the development of unemployment (as a percentage of the labour force) and ALMP (as a percentage of GDP) for the period 1985-1995. As far as we can deduce a relationship between unemployment and ALMP expenditure it appears to have a positive rather than a negative sign. In the countries included in table 2.1 both unemployment and ALMP expenditure are higher in 1995 compared to 1985. The only exception is the United Kingdom for which both variables are **lower** in 1995 compared to 1985. Furthermore, comparing countries we observe that a relatively low unemployment rate can coincide with a relatively low level of ALMP expenditure. That does not imply that ALMP is ineffective but it does mean that if ALMP is effective, the effects are not directly visible from the data.

There were also complaints from individual job seekers and employers about the quality of the services provided by the PES. It was - rightly or wrongly - seen as a typical government organisation lacking market and client orientation. But maybe too much was expected from the PES. This is often the case when products are offered for free. Zero prices induce infinite demand which can never be fulfilled.

---

<sup>4</sup> Some of these developments have occurred only recently and may not be reflected in the data presented in this report. Often the most recent data available refer to 1995.

<sup>5</sup> There are different kinds of ALMP. Roughly one can distinguish between information and registration, job broking, training and wage subsidies. It is likely that these kinds of ALMP differ in effectiveness. Which type is most effective will also depend on client's characteristics. For reviews of existing studies, we refer to Fay, 1996.

<sup>6</sup> Which does not mean, of course, that there is no effect. However, so far the econometric research in this field did not lead to consensus about the aggregate impact of ALMP.

Table 2.1 Unemployment and ALMP expenditure

		1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Austria	U	4.2	4.5	4.9	4.7	4.3	4.7	5.2	5.3	6.1	5.9	5.9
	PE	0.28	0.33	0.36	0.26	0.28	0.31	0.35	0.36	0.33	0.35	0.36
Belgium	U	12.4	11.8	11.5	10.4	9.4	8.8	9.4	10.4	12.1	13.1	13.0
	PE	1.23	1.31	1.23	1.14	1.12	1.23	1.22	1.21	1.25	1.37	1.41
Denmark	U	9.0	7.8	7.8	8.6	9.3	9.6	10.5	11.3	12.3	12.2	10.0
	PE	x	1.09	1.08	1.21	1.29	1.26	1.45	1.64	1.97	2.01	2.14
Finland	U	5.0	5.4	5.1	4.5	3.5	3.5	7.6	13.1	17.9	18.4	17.2
	PE	0.91	0.92	0.94	1.07	0.97	1.01	1.38	1.80	1.72	1.67	1.59
Germany	U	8.0	7.7	7.6	7.6	6.9	6.2	6.7	7.7	8.9	9.6	9.4
	PE	0.81	0.91	1.01	1.07	1.02	1.04	1.33	1.69	1.62	1.36	1.34
Netherlands	U	9.2	8.4	8.0	7.8	6.9	6.0	5.5	5.4	6.5	7.6	7.1
	PE	1.09	1.12	1.10	1.10	1.07	1.04	1.10	1.15	1.40	1.36	1.27
Sweden	U	2.9	2.5	2.1	1.7	1.5	1.6	3.0	5.3	8.2	8.0	7.7
	PE	2.11	2.01	1.88	1.77	1.54	1.69	2.44	3.07	2.97	2.99	2.25
UK	U	11.0	11.0	9.8	7.8	6.0	5.8	8.2	9.9	10.2	9.2	8.2
	PE	0.74	0.86	0.86	0.76	0.67	0.62	0.58	0.59	0.58	0.54	0.46

U = Unemployment rate (as a % of the labour force)

PE= Public expenditure in active labour market programmes as a percentage of GDP

N.B. The figures about Public Expenditure in active labour market programmes as a percentage of GDP for Sweden and the United Kingdom concern the years 1985/1986 up to and including 1995/1996. For Germany, up to and including 1990, the figures are for western Germany; thereafter for the whole of Germany.

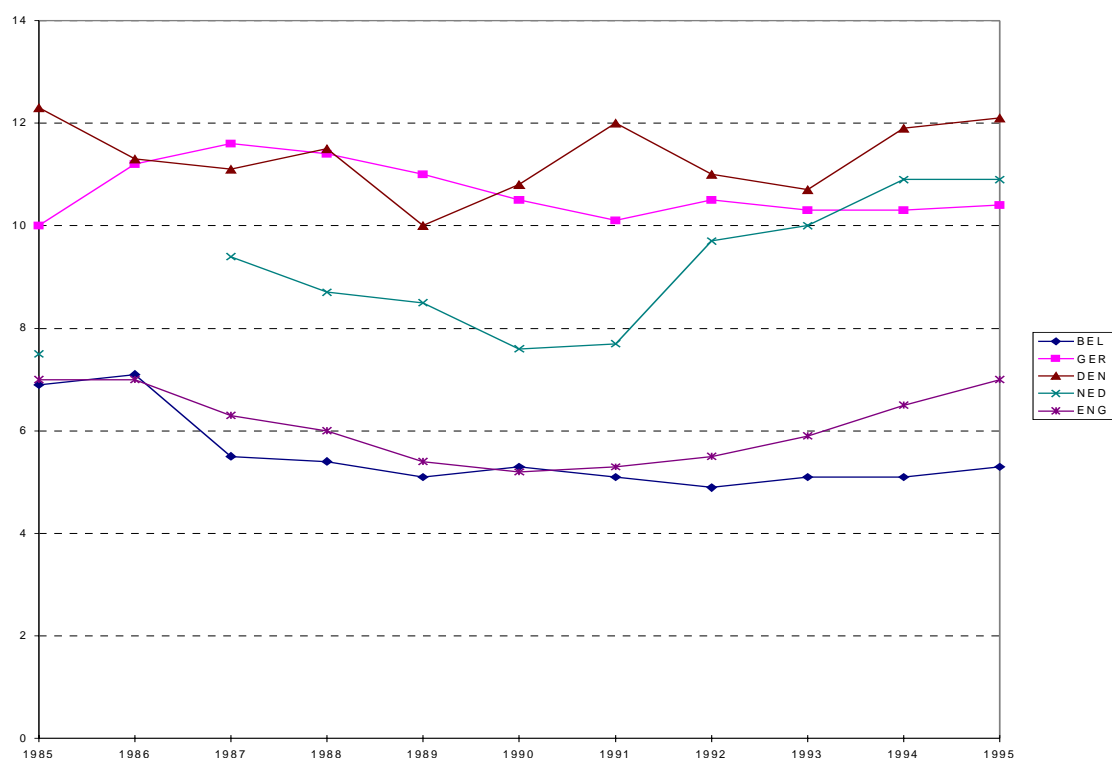
Source: OECD

## 2.3 Labour-market developments challenging the position of the PES

The position of the PES is not only threatened by deregulation and privatisation, but also by a number of labour-market developments. First of all the trend towards flexibility must be mentioned. The present economic situation requires labour to be more flexible. It is becoming increasingly uncommon that a worker spends his whole working life in one firm. There is a tendency towards shorter job contracts and job durations. The PES, however, is traditionally focussed on placement in permanent jobs.

It is important to note that it is not so much the total number of contracts of fixed duration which is growing. Figure 1 shows the development of the number of workers with a fixed-term contract as a percentage of total employment for five EU-countries (Belgium, Denmark, Germany, the Netherlands and the United Kingdom) over the period 1985-1995. In none of the countries included in the figure structural trend can be observed in this period.

Figure 2.1 The share of workers with fixed-firm contracts in total employment (1985-1995)



But commercial temporary work agencies (TWAs) have definitely benefited from the increasing need for flexibility. In table 2.2 index figures of TWA-employment as a percentage of total employment are shown for the five countries. All countries show a considerable growth in TWA-employment. Given the fact that the share of workers with fixed-term contracts in total employment has not increased over time, temporary work (which is only one form of flexible labour) has probably increased at the cost of other forms of flexible labour. We should note, however, that according to table 2.2 the growth of temporary work has largely occurred after 1993 (except for the United Kingdom). Therefore, we cannot exclude the possibility that flexible labour as a whole did increase, but that this development is even more recent than the growth in temporary work.

Table 2.2 Index figures of TWA-employment as a percentage of total employment (1988=100)

	1993	1995
Belgium	123	182
Denmark	83	150
Germany	107	181
Netherlands	100	158
United Kingdom	166	207

Source: Bakkenist management consultants (1996).

Temporary work constitutes only a small percentage of employment in terms of labour volume. In comparison to other countries it is relatively high in the Netherlands, but

even in that country it was only 3,0 per cent in 1995 (see table 2.3). However, the picture changes completely when one looks at turnover. Data for the Netherlands are again used as illustration. According to table 2.3 temporary work has a share of about 65 per cent when it comes down to labour turnover (or transactions). And since employment services have to do with transactions (helping job-seekers to find a job and employers to fill vacancies) the latter figure gives a better illustration of the significance of temporary work than its share in employment. It should also be noted that temporary work is often the first step to a 'permanent' job.

Table 2.3 The share of temporary work in employment and in labour turnover (Netherlands, 1995)

Share in employment (%)	3,0
Share in labour turnover (%)	64,7

Sources: Statistics Netherlands;  
-Branch organisation for temporary work.

Another development posing a threat to the position of the PES in the employment services market is the changing sectoral structure of employment. In terms of vacancy fillings the position of the PES is by far strongest in the traditional industry (manufacturing and construction). But the share of those industries in total employment is declining (see table 2.4) and the share of service industry is rising.

Table 2.4 The development in the percentage share of industry in total employment

	1975	1985	1995
Austria	40,9	38,1	33,2 <sup>a</sup>
Belgium	39,6	30,2	27,7 <sup>b</sup>
Denmark	31,5	28,1	27,4
Finland	36,1	32,0	27,7
Germany	45,4	41,0	37,5
Netherlands	34,9	28,1	22,4
Sweden	36,5	29,8	25,9
United Kingdom	40,4	34,8	27,4

a) 1994

b) 1992

Source: *Labour Force Statistic*, OECD, 1997.

The position of the PES is also threatened by the shift from low-skilled to high skilled jobs. The PES is traditionally strong in the lower-skilled segments of the labour-market. There are some data available about the educational attainment level of the labour force or of the employed labour force for some countries. For Germany, the share of the labour force with upper secondary education or higher has increased between 1978 and 1995. The share of the unskilled in employment has diminished from 31 per cent in 1978 to 15 per cent in 1995. For the United Kingdom, the percentage of the labour force without qualifications has decreased from 40 per cent to 21 per cent in the period 1984-1990. The Netherlands shows a similar pattern: the share of unskilled workers has

diminished from 33 per cent in 1975 to 8 per cent in 1996. For Sweden, the proportion of labour force participants aged 25 to 64 who have nine, or fewer, years of education, has decreased from around 60 per cent in the early 1970s, to 24 per cent in 1995. All these figures indicate that, although the definitions of the educational categories differ from country to country, the average level of education of the labour force in these countries is considerably higher now than it was several years ago.

## 2.4 The labour market problem

Although the position of the PES in the placement services market is challenged by a number of developments, the need for assistance to unemployed job-seekers is invariably big. Table 2.5 contains a number of unemployment indicators for the eight countries: the general unemployment rate, the unemployment rate of the low-skilled, the youth unemployment rate and the share of long-term unemployment in total unemployment (1994 figures). Particularly striking is the high share of long-term unemployment: approximately 50 per cent in Belgium, the Netherlands and the United Kingdom and almost one-third in Denmark and Finland. Sweden is the only exception with less than 20 per cent. However, to some extent the Swedish figure is artificially low, because after participation in a ALMP scheme unemployment spells are considered to start from zero again. Table 2.5 also indicates that unemployment rates among low-skilled people are generally higher than the general unemployment rate. Presumably the difference would even be higher when inactivity rates were considered including persons without a job who are not included in the official unemployment figure. Therefore low-skilled persons have a large share in total unemployment despite their diminishing share in the labour-force. One of the biggest challenges of the PES is to find ways to re-integrate low-skilled and long-term unemployed persons.

Table 2.5 Unemployment rates for low-educated people, young people and long-term unemployment, 1994

	Overall unemployment rate	Unemployment rate among people with less than secondary education	Unemployment rate among young people from 15 to 24 <sup>a)</sup>	Share of long-term unemployment (12 months and over) in total employment
Austria	4,4	4.9	4.8	x
Belgium	12,5	12.5	21.8	58.3
Denmark	12,1	17.3	10.2	32.1
Finland	18,4	22.7	30.9	30.6
Germany	9,6	13.9	8.2	44.3
Netherlands	7,5	8.2	11.3	49.4
Sweden	8,0	8.8	16.7	17.3
UK	9,2	13.0	16.2	45.4

a) Sweden and United Kingdom: age group 15 to 24 refers to 16 to 24.  
Source: OECD

Also striking are the extremely high youth unemployment rates in most of the countries. However, high unemployment rates will to some extent reflect high

turnover rates: average unemployment duration may be relatively low among young people. Youth unemployment is largely a problem of specific groups of young people. Particularly, drop-outs from the educational system and young people from ethnic minorities are vulnerable on the labour-market. Although comparable data for the eight countries is not available national data point clearly in this direction<sup>7</sup>. And in the future the share of ethnic minorities in the labour-force will increase considerably. This will re-inforce the tendency that unemployment consists of people that are difficult to employ.

Table 2.6 Share of labour force aged 45 and over (1990 and forecast for 2005)

	1990	2005
Austria	26.9	28.8
Belgium	24.3	32.5
Denmark	31.6	39.0
Finland	28.9	39.9
Germany <sup>a</sup>	34.0	36.8
Netherlands	23.7	29.8
Sweden	35.7	42.9
UK	30.7	35.5

a) Including Eastern Germany.  
Source: OECD

And finally the increasing share of the elderly in the labour-force must be mentioned. Even when we consider a relatively short period (until the year 2005; table 2.6) this effect is already large. Taken over a longer period (for instance the year 2015) it is not less than drastic. The potential danger is that in the past activity rates among older workers have fallen. In most countries this development is encouraged by the government preferring inactivity of older workers to youth unemployment. However, in view of the future demographic development low activity rates among the elderly pose the danger of labour shortage. This problem is already felt in a number of countries such as Denmark, Ireland and the Netherlands, which are currently experiencing a rapid increase in vacancies and diminishing unemployment rates. Probably due to the increased heterogeneity of labour, bottlenecks on sub-market level already occur with national unemployment rates of 5 or 6 per cent. We do not deny, of course, that on European level unemployment is still the dominant problem. However, in countries such as Germany the same demographic tendencies are active and in a few years time the same phenomenon may appear (employers having difficulties in filling their vacancies, while unemployment, though on lower levels than at present, is still considerable. Therefore, it is likely that in stead of discouraging labour-market

<sup>7</sup> That does not mean that all ethnic groups have a weak labour-market position, but for most of them unemployment rates are considerably higher than average, even when factors such as education and age structure are taken into account.



participation governments will more and more encourage older workers to continue working. Preventing older workers from becoming unemployed and re-integrating older unemployed workers will become increasingly important as a result. Both public and private employment services could play a role in this.

## 3 Types of private placement services

### 3.1 Introduction

The ILO distinguishes three types of PRivate Employment Services (PRES): intermediaries, skill providers and suppliers of direct services (ILO, 1996). An intermediary can be defined as a private employment agency which provides services intended to match supply and demand, without the agency being a party to the employment relationship. Skill providers are characterised by the fact that the agency assumes the role of employer. Along with the contract of employment there is also a traditional contract between the agency and the employer. Finally, direct services are characterised by the fact that there is no employment contract binding the worker to the agency or employer. Each type can be subdivided in more categories. In all the European countries the three types and almost all the categories are in operation<sup>8</sup>. It is clear that there will never be a definitive PRES typology. Rapidly changing labour markets are constantly faced with new demands for services. So it is not always possible to classify real firms in one of the categories. For instance, there is no clear borderline between executive search firms and fee charging employment agencies. A lot of firms also belong to several categories, they combine different kind of services. A second problem is that a lot of these categories cover only a very minor segment of the labour market. This means that sometimes their activities are not even known. Thirdly there are also illegal activities in this field. In this chapter we will give an extensive overview of the most important categories based on the existent ILO-classification<sup>9</sup>.

### 3.2 The intermediaries

Within the intermediaries we have first of all the fee-charging employment agencies. This is the traditional type of PRES. However, in most of the European countries this category doesn't exist at all (at least not in its pure form) or only in a very limited way.<sup>10</sup> The main reason for this is that the Public Employment Service (PES) delivers this service (viz. job broking) free. So it is only possible to commercialise this services in some specific segments of the labour market. Agencies which offer these services are labelled under a different category (executive search, agencies for special categories) in this section. A second reason is that a lot of firms do offer job broking or placement-services besides other services. A good example are temporary working agencies who also offer placement. So, the pure job broking service is in a way hidden behind other services. Another reason is the existence of the recruiting and selection firms. Their service is first of all extended search for suitable candidates, extended screening and

---

<sup>8</sup> With 'all the European countries' we mean the eight countries concerned in the study.

<sup>9</sup> We changed the ILO-classification after reading the different country-reports. We dropped some categories since they were not mentioned in any report at all: for instance, overseas employment agencies, agencies for the recruitment and placement of foreigners and employment enterprises. On the other hand we add the non profit agencies since they were mentioned in most of the country-reports. Finally, we consider the agencies for special categories like paid sportsmen, artists, models, au pairs etc. (in the ILO-classification labelled as career management agencies) as intermediaries and not like skill providers as the ILO does.

<sup>10</sup> In Belgium this category is still not allowed.

selection etc. Recruitment and selection firms are dealt with in a different category. The last reason is that due to several reasons (for instance the growing importance of computerised job databases) the simple job broking function is losing importance.

The second category are the executive search agencies. These agencies are operating in all the European countries. These agencies are operating in Europe since the sixties and seventies (or even earlier), that is a long time before the demonopolisation. So, officially these agencies were illegal. They place highly qualified employees (sometimes even only top executives) following even the most strict definition of placement. But policy-makers and unions tolerated these agencies since it was clear that their activities did not interfere with the activities of the PES. One can distinguish four types of executive search firms with the combination of two criteria (national, international and specialised, non-specialised). National firms can handle international assignments and vice versa. In some countries these agencies are organised in a federation (for instance Belgium, the Netherlands and Germany). Besides these national federations there is an international federation (Association of Executive Search Consultants, AESC) which organises the more international oriented firms. Due to the international dimension of the service (although a lot of assignments are still national) the sector is dominated by multinationals. Sometimes these firms combine this executive search service with other services (consultancy, training, management audit, management assessment, compensation surveys, advice etc.). There are no data concerning executive search agencies. We have no idea about the amount of assignments and on trends. In general one can suppose that the sector roughly parallels world economic trends.

Recruitment and selection firms are very close to executive search agencies. Generally spoken one can say that these firms are operating in the labour market segment just below that of the executive search agencies but there is no clear border between this two types and some agencies label themselves as providing the two services. Recruitment and selection firms are operating in all the European countries but there are no comparable data. One can detect a gradual growth of the sector during the last decades although the turn over is connected with the economic cycle. In most of the European countries there are Federations.

A little bit connected but certainly not equal with executive search agencies are the interim management agencies. These agencies are operating in all the European countries. As the name already suggests they are somewhere between executive search agencies and temporary work agencies. The difference with temporary workers is that these managers are self-employed, so they are not employees of the agency. Interim management agencies are often connected with consultancy firms or executive search agencies but the kind of service is completely different. In contrast with former ideas interim managers are not so often used to deal with situations of crisis in firms but more to lead projects of change in the firm. Interim management is a booming sector all over Europe but covers still a very small segment of the labour market for executive managers even if we compare with the executive search agencies. There are no exact data available on the sector.

A fifth category is agencies for special categories like paid sportsmen, artists, models, au pairs etc. The situation in this segment of the labour market is very complex. In the

ILO-classification these agencies are classified under skill providers. However, in most of the cases there is no employment relationship between the agency and the sportsman, model, artist, etc. but only a commercial contract. In most of the cases these people are self-employed. So, these agencies are acting as intermediaries. Again we can make a distinction between national and international agencies. A lot of these agencies are in fact one person companies. All European countries have agencies in this category but there are almost no data available. In Germany these agencies (for artists and sportsmen) are the most important (commercial) intermediary (Walwei, 1997).

A sixth and last category are the non profit agencies. In fact these agencies are operating like fee charging agencies but they charge only a cost covering fee or they don't charge at all. Within this category we can make a distinction between four subcategories. First of all there are voluntary charitable organisations or organisations active in the welfare sector. Even within this subcategory there is an enormous diversity. Some of them are working in close co-operation with the PES and are often (partly) subsidised. Their status is rather (semi) public than private. It is interesting to mention here that, as a consequence of the current activation strategy (active labour market policy) in Europe, more and more public welfare organisations (for instance, those dealing with people getting a subsistence level allowance) are placing clients into jobs. This trend is for instance very clear in the Netherlands, Denmark (unemployment insurance funds) and to a lesser extent in Belgium. There are no data available for this subcategory.

A second subcategory is placement offices at universities, higher education schools and training institutes. This subcategory exists in all the European countries but the way they function can differ very much (from a rather informal service to a very formalised and profiled service). Also here there are no data available for this subcategory.

A third subcategory are professional (engineers, nurses etc.) or student organisations. They exist in all the European countries but there are no data available concerning their activities. In Germany the student organisations are the most important non profit organisation concerning placement.

A fourth subcategory are the trade unions. In Denmark and Finland trade unions developed placement activities. In the other countries this is not the case. In Denmark these trade unions are co-operating with both PES and PRES. In that country trade unions are the most important private intermediary. Although both the Finnish and the Danish report do mention figures for this subcategory it is not possible to estimate the relative importance of this subcategory on the labour market but it seems that at least in Denmark the unions are not negligible in the placement market.

### **3.3 Skill providers**

Temporary work agencies (TWAs) are the most important category of this type and by far world-wide the most important PRES (both in terms of market share and turn over). The ILO defines TWAs as follows: 'any natural or legal person who, under national legislation, is qualified to recruit workers who then become its legal

employees, with a view to making these workers available to a third-party user who supervises this work and with whom the agency has signed an assignment contract, (ILO, 1996). TWAs started their activities shortly after the adoption of Convention 96 and are gaining importance since then. This has to do with the fact that the reasons for firms to use temporary workers has increased over the last decades. Originally temporary workers were hired to replace female workers who were on maternity leave or sick workers in general. In that period the sector was completely oriented towards administrative functions and hostesses. Later on, more and more firms used temporary workers to deal with sudden and short changes in production demands. It is the growing need for flexibility of firms which explains most of the spectacular growth of the sector in several European countries in the eighties. In that period blue collar workers became the dominant temporary worker. In the nineties it became clear that firms are hiring more and more temporary workers as a kind of recruitment channel.

Just like the executive search agencies one can distinguish this sector in four sub-categories following the same two criteria: national, international and specialised, non-specialised<sup>11</sup>. Competition in this sector is increasing and the role of the international players becomes more and more dominant. In a lot of countries temporary work agencies do also offer placement (and other related services) but temporary work is still (and will be in the near future) the core business and certainly the biggest money-maker. TWAs are operating traditionally mostly in the rather lower segments of the labour market but during the last decade that picture is slowly changing. In most of the countries (Scandinavia, the Netherlands, Great Britain) TWAs have the possibility to offer also a detachment-service although the content of the service can differ between countries. This means that they build up a team of permanent employees who are then sent on different and mostly successive assignments with different user enterprises. With this service TWAs can attract better qualified workers.

TWAs are not only the most important PRES but they are the main competitor of the PES. This has to do with two phenomena. First of all, as already mentioned, some TWAs are broadening their services with for instance placing. More important is that more and more employers (although still a minority) are using TWAs as a recruitment channel. They hire a temporary worker from a TWA and use the assignment as a screening-period. In some countries the TWA gets even a fee if the temporary worker is recruited by the firm. The role of TWAs in the recruitment process is underestimated in some countries (like Germany and Great Britain) since the recruitment-surveys in these countries are not considering TWAs as a recruitment channel (see chapter Walwei). At least in Belgium and the Netherlands TWAs are the most important PRES in the recruiting process. TWAs are also competing, in some segments of the labour market, with other PRES such as the recruitment and selection firms. TWAs are the only PRES from which we have enough data to make a European comparison.

---

<sup>11</sup> With 'non specialised' we don't mean that the firms are not delivering specialised services. It means that the firms cover a broad spectrum of the market. In some niches of that market they can deliver specialised services which is the case with all the international oriented TWAs.

Table 3.1 TWA-employment as % of total employment

	1988	1993	1995
Austria	-	-	0.36
Belgium	0.6	0.74	1.09
Denmark	0.06	0.05	0.09
Finland	-	-	-
Germany	0.27	0.29	0.49
UK	1.6	2.66	3.31
Netherlands	1.7	1.69	2.68
Sweden	-	-	0.08

Source: Bakkenist Management Consultants (1996).

Great Britain and the Netherlands are by far the most important TWA-countries followed by Belgium. In Germany and Austria the sector seems to expand also very rapidly. In the Scandinavian countries TWAs were still marginal in 1995 although also growing. In most of the European countries 'normal' firms have the legal possibility to hire-out workers to other employers. In countries with a license-obligation these firms need a license to. In the Netherlands and Germany more than 50% of the license-holders are 'normal' firms. In all the European countries there is a national federation. There is also a international federation (CIETT).

The second category is the staff leasing agencies. These agencies relieve enterprises of the burden of personnel management in exchange for a comprehensive fee fixed in advance. From the workers' point of view, the agency is their legal employer, while to the enterprise it is the lessor of his staff. In the USA this service is the fastest growing in the staffing business. Due to abuses in the past and the negative connotation of the word 'leasing' the name of the business changed in 'professional employer organisations'. In most of the European countries this service is still forbidden (exception: Great Britain).

### 3.4 Suppliers of direct services

Outplacement can be defined as 'a package of services and consultation provided individually or collectively by an outplacement agency upon request of and payment by an employer, so that workers may on their own accord and as quickly as possible find employment with a new employer or develop a professional activity on a freelance basis' (ILO, 1996). Outplacement exists in all the European countries. These agencies started in Great Britain in the late seventies with a service oriented towards executives who became redundant. This service is individual. In the eighties these companies spread over the other European countries. Later on, some outplacement-firms expanded their services to all workers threatened with redundancy. This service is mostly collective. In some countries executive search agencies also offer outplacement services. There are not many data available concerning this service so it is difficult to detect major trends. The most important trend is that contrary to TWAs

outplacement (even collective outplacement) did not expand so much during the last years. If we look to turnover data and compare them with the total employment population then it is clear that the Netherlands is the best performing country concerning outplacement, followed by Great Britain, Belgium and Germany. In Scandinavia the private outplacement-sector seems to be rather marginal. One has to keep in mind that only services delivered by outplacement firms are analysed here. In reality a lot of services similar to outplacement are delivered by different providers in different countries (job search consultancy, coaching, assessment etc.). Due to the slacking business a lot of big outplacement firms try to diversify the delivered service. In some European countries there is a federation (Belgium, the Netherlands, Germany, Great Britain). There is also an international federation (Association of Outplacement Consulting Firms International, AOCFI).

Computerised job database agencies are the second category of this type. It is clear that this category will gain importance in the future. In different European countries the PES developed successfully their own system. Individuals have the opportunity to help themselves concerning job search via the use of terminals (placed in the job centres but sometimes also in public places) or internet. In Flanders the PES makes already 50% of its market share in placement through the direct use of this computerised job databases. On the other hand it is clear that also the private sector is developing systems but there is no general overview available on the current activities. One has to make a distinction between the old providers of services who are using internet as an extra channel to communicate their vacancies (for instance all the newspapers with a large vacancy-section put their vacancies on Internet) and real new players who try to develop a new market. One should also not forget the new development that more and more firms are using their website to advertise their job openings. In table 3.2 we give an overview of the existence of different types of PRES in the European countries.

Table 3.2 Overview of private employment services in Europe

	Belgium	Austria	Denmark	Germany	Finland	UK	Netherlands	Sweden
1. Intermediaries								
1.1 Fee charging agencies	yes	yes	yes	yes	yes	yes	yes	yes
1.2 Executive search agencies	yes	yes	yes	yes	yes	yes	yes	yes
1.3 Recruitment & selection firms	yes	yes	yes	yes	yes	yes	yes	yes
1.4 Interim management agencies	yes	yes	yes	yes	yes	yes	yes	yes
1.5 Agencies for sportsmen, artists, models, au pairs	yes	yes	yes	yes	yes	yes	yes	yes
1.6 Non profit agencies								
- voluntary charitable organisation, welfare organisation	yes	yes	yes	yes	yes	yes	yes	yes
- universities, higher education schools, training institutes	yes	yes	yes	yes	yes	yes	yes	yes
- Professional, student organisation	yes	yes	yes	yes	yes	yes	yes	yes
- Trade unions	no	no	yes	no	yes	no	no	no
2. Skill providers								
2.1 Temporary work agencies (detachment agencies)	yes	yes	yes	yes	yes	yes	yes	yes
2.2 Staff, leasing agencies	no	no	no	no	no	yes	no	no
3. Suppliers of direct services								
3.1 Outplacement agencies	yes	yes	yes	yes	yes	yes	yes	yes
3.2 Computerised job database agencies	yes	yes	yes	yes	yes	yes	yes	yes



## 4 The regulatory framework

### 4.1 Introduction

In this chapter we will deal with the regulatory framework of Private Employment Services (PRES). Before we will discuss existing regulations in the various countries, we warn the reader that the information we present may differ in some respects from the actual situation. First of all, the regulatory framework is subject to constant change. In a number of countries major changes in the system in the early 90s were followed by other changes and this process is still not finished. Regulations are often complicated and sometimes it is difficult to find out whether a new regulation is official or still in preparation.

A regulatory framework contains more than a licensing system. A licensing system implies that all the PRES need a license to operate. To get a license one needs to fulfil some criteria. We will see in this chapter that only four countries still have a licensing system. However, this does not mean that the other countries have no regulation at all. First of all, in all countries there is common (and economic) law applicable on PRES (for instance. laws on honest trading practices, permits to establish a business). Secondary, in all the European countries there is labour and social law applicable to PRES. This is most of all the case with the temporary working agencies. Even in countries where there is no special regulation for temporary workers at least some part of the labour law is applicable to this workers (for instance. regulation for workers with fixed term contracts). Thirdly, in some countries collective labour agreements also regulate different PRES. The sector itself can play an important role also with the implementation of an ethical code or a code of good practice. This is called self-regulation. Finally, the public authorities can regulate the sector with a public offer of the same service by setting good standards. In table 4.1 we summarise the different elements of the regulatory framework.

Table 4.1 The regulatory framework

licence system
common and economic law
labour and social law
self regulation: collective labour agreements
self regulation: ethical codes, codes of good practice
public offer

It is important to note that the regulatory framework is influenced by international standards. Very important is the new ILO-convention 181 which replaces the old convention 96. The old convention restricted or even forbade PRES. The new convention does not restrict PRES as long as (well defined) worker rights are respected. The new convention will have a major influence on the future regulatory framework of different European countries. Most of the countries will have to change their national

regulation at least if they want to ratify this new convention. Also the European Union plays a role here e.g. directive 383 dealing with safety for temporary workers. The role of European Union will increase especially concerning temporary work agencies.

This report will not deal with common and economic law since no national reports provided any information on that topic. There are however no indications that in general common and economic law functions as an alternative (or a compensation) for license systems.

## 4.2 The different elements of the regulatory framework

### 4.2.1 License systems

The ILO-convention 96 stipulated that PRES need to be licensed. The new Convention 181 leaves this subject to the authority of the individual countries. A licensing system is seen as only one of the possibilities to regulate the sector.

In table 4.2 we give an overview of the situation in Europe.

Table 4.2 License obligation for intermediaries and temporary working agencies?

	Intermediaries	Temporary working agencies
Belgium	Yes	Yes
Austria	Yes	Yes
Denmark	No	No
Germany	Yes	Yes
Finland	No	No
UK	No	No
Netherlands	Yes	No
Sweden	No	No

There is a licensing system in Austria, Belgium, Germany and the Netherlands (only for intermediaries). In the Netherlands the license obligation for temporary working agencies was lifted in 1997. Due to the ratification of the old ILO-Convention it is not possible to lift also the obligation for intermediaries but it is clear that this will happen in the future. In the United Kingdom the license obligation (introduced in 1973) was lifted in 1995. Licensing was seen as less effective in raising industry standards than statutory standards of conduct. The licensing arrangements were considered as an unnecessary cost on the industry. Since 1995, inspectors have concentrated on investigating complaints and other indications of breaches of standards of conduct. The Scandinavian countries on the other hand didn't introduce a license-obligation with the demonopolisation in the beginning of the nineties.

Between countries with a license-obligation there can be big differences concerning the amount of and the content of the rules. There is not sufficient information available in the reports to make a detailed comparison between the different countries on this point. In principle one can distinguish between three kinds of criteria (besides the

general condition that firms have to respect all the regulation concerning labour and social law) which PRES has to fulfil to obtain a license: suitability, solvability and reliability. In the four countries with a license-obligation the three kinds of criteria are used although in a different way. There can also be differences between types of PRES. In Flanders (Belgium) there are solvability-criteria for temporary working agencies<sup>12</sup> but not for outplacement agencies. Besides this three kinds of criteria one can distinguish four basic rules with a job seeker (or employee) protection function namely not charging any job seeker, not sending any job seeker to companies in strike, not to discriminate between job seekers and to respect the privacy of job seekers etc. Some of these rules are even in use in countries with no license-obligation. It is important to note that the new Convention 181 kept these four basic principles which means that every country which will ratify this Convention will have to include this rules in the national legislation.

In Belgium it is the Minister of Labour who distributes the licenses after advice of the social partners. In Germany and the Netherlands it is the Public Employment Service (PES) which has the authority. In Austria the license system differs in a more fundamental way from the other countries, in the sense that it is a part of a global regulation system for a lot of professions.

#### **4.2.2 Labour and social law**

As already mentioned in this report even in countries without a license-system there are some rules which has to be followed. Most of these rules can be classified under labour or social law. In theory there can be as many rules in countries with than in countries without license-system. Most of these rules can be classified under labour and social law. In table 4.3 we give an overview of the most important rules concerning temporary work.<sup>13 14</sup> At the bottom of the table one finds a regulation index. The higher the number is the more regulated the country.

---

<sup>12</sup> In Belgium different legal provisions exist for the 3 regions (Brussels, Flanders and Wallone).

<sup>13</sup> With temporary work we mean work done by individuals with a contract with a temporary working agency.

<sup>14</sup> Due to a lack of information for the other providers it is only possible to make a comparison for temporary working agencies.

Table 4.3 Regulation concerning temporary work in Europe<sup>a)</sup>

	Belgium	Netherlands	Germany	Sweden	Austria	Denmark	Finland	UK
1. Existence of regulation typical for TWAs	+	+	+	-	+	-	+	+
2. Forbidden in some sectors	+	-	+	-	-	-	-	-
3. Obligation for financial guarantee	+	-	+	-	+	-	-	-
4. Mixing with other services is not allowed	+	-	+	-	-	-	-	-
5. Obligation to inform authorities	+	-	+	-	+	+	-	-
6. Limitation in which cases a firm can use TWAs	+	-	-	-	-	-	-	-
7. Ban on the use of TWA in case of strike	+	+	+	-	+	-	-	+
8. Necessity on a written labour contract	+	+	+	-	+	+	-	-
9. Necessity to dispose on a labour contract	+	-	+	-	+	-	-	-
10. Limit on amount of successive contracts	+	+	+	-	+	-	-	-
11. Maximum length of contract is fixed	+	+	+	-	+	-	-	-
12. Statute typical for temporary workers	+	-	-	-	-	-	-	-
13. Obligation of consultance trade unions	+	-	- <sup>1</sup>	-	-	-	+	-
14. Collective labour agreements on temporary work	+	+	-	+	-	+	+	-
15 Synchronisation ban <sup>b)</sup>	-	-	+	-	-	-	-	-
Regulation Index <sup>c)</sup>	14	6	11	1	8	3	3	2

+: Yes

-: No

a) Source : Siau (1995) completed with own information.

b) The synchronisation ban prohibits restricting the duration of an employment relationship with the agency to the time of the first period of work for a lessee. In reality this ban limits very much the possibilities for temporary agencies. This ban only exists in Germany and is relaxed gradually since 1994.

c) It is clear that this regulation index only provides a very raw picture since we measured no values of weight of the different regulation measures. It is clear that a synchronisation ban limits much more the activities of the temporary agencies than the necessity on a written labour contract. So only general conclusions can be drawn from this table.

A few conclusions can be drawn from this table

- At first sight Belgium is by far the most regulated country concerning temporary agencies. However one has to keep in mind that we didn't measure values of weight of the different regulation measures. So it is not clear which country has the most stringent legislation.
- There is a clear demarcation between countries with and countries without a license-system. Countries without a license-system have less rules than countries with. This means that a license-system is more than a rather formal procedure. It reflects at least partially a political willingness to regulate.
- If we relate the regulation-index with the importance of temporary work in the European countries (table 3.1.) then we can conclude that there is no linear relationship between both. Great Britain has the highest TWA-employment and is indeed very deregulated. The Netherlands are second although the sector is still relatively regulated. The Scandinavian countries have at least till now an almost non-existent TWA-sector although there is no regulation at all. The reason for this was probably the recession which prevented a substantial growth in the sector. Also cultural factors can play a role here. For instance a resistance of the unions or the social partners in general to use temporary agencies. However, in the near future at least Sweden and Denmark expect an explosion in this sector. So, at the moment one can conclude that the development of a sector is related with more factors than only regulation

#### **4.2.3 Self regulation: collective labour agreements**

As an alternative to state regulation the sector can negotiate collective agreements with the social partners. This can be seen as a form of self regulation. There is no information available of this form of regulation in most of the country-reports. However, table 4.3 made clear that at least in Belgium, the Netherlands and the Scandinavian countries collective labour agreements are used to regulate the temporary agencies. It is supposed that these agreements play a rather additional role and that they play a very minor role to regulate other providers. It would be very interesting to research the content of this agreements and to make a comparison between different countries.

#### **4.2.4 Self regulation: code of ethics, code of good practice**

Self regulation of the sector can have different functions. It can be an alternative for state regulation. In Denmark for instance. the Association of Danish Temporary Work Agencies stipulated (amongst other things) that the temporary work agencies may not take fees from job seekers and that temporary workers have to enjoy working conditions equivalent to those laid down in prevailing labour market agreements. Self regulation can also have a complementary function. State regulation can deal for instance with reliability and solvability criteria and leave the suitability criteria for self regulation. State regulation and self regulation can also have mutual influences. The authorities can take over elements of the self regulation in the own regulation. The authorities can even support self regulation activities of the different types of PRES. In the Netherlands for instance the authorities are passing the buck of regulation more

and more to the social partners and the sector. It is likely (and maybe preferably) that self regulation will play a more important role in the future. Two factors need to be fulfilled if self regulation will play that role. First of all it is necessary to have representative Federations. Although all the European Countries have federations for at least some types of providers it is not known how important these federations are. Belgium, the Netherlands and Austria are doing well in this sense and the Scandinavian countries perform rather weak. Secondly, it is necessary that the concerned Federations have a transparent procedure to deal with complaints. This is not the case in most of the European countries with the Netherlands as an exception. With the current knowledge it is impossible to measure the impact of self regulation in the European countries. At first sight one can find that self regulation does not function as an alternative for state regulation at the moment. Countries with the best developed self regulation (like the Netherlands) have still a rather developed state regulation. Self regulation can also take place in an international context. For instance the international Football Association (Fifa) has it's own regulation (even with a license!) for football-brokers. The Association of Executive Search Consultants has also it's own ethical code and professional standards. The same can be said for The International Au Pair Association (IAPA).

#### **4.2.5 Public offer**

With a public offer of a service provided by the private sector the authorities can also regulate the market by setting good standards of conduct. There are not many examples of this kind of regulation in Europe. Only Belgium and the Netherlands, where public temporary working agencies are functioning for a long time, have experiences in this sense. In both cases one can doubt if the public offer really had an impact on the development of the sector. In the case of the Netherlands the public TWA 'START' was introduced in the 80s. From the start private TWAs complained that an element of unfair competition was introduced, because START could make use of PES facilities. START was supposed to differ from commercial TWAs in paying more attention to target groups and in viewing temporary work as a first step towards permanent jobs. Perhaps, too some degree this influenced the way commercial TWAs are operating, but in practice the differences between START and the other TWAs appeared to be small. Gradually, START developed as a private company, which it became indeed recently.

### **4.3 Regulation and deregulation<sup>15</sup>**

As already mentioned in the first chapter there was a clear trend towards more labour market deregulation in general (individual dismissals, trial periods, working time,

---

<sup>15</sup> In chapter 7 we will deal in more detail with the effects of regulation and deregulation

part-time work etc.) in Europe during the last decade. This is also true for the PRES in particular. For the intermediaries the most important fact was the demonopolisation. Besides this demonopolisation there was also a clear deregulation in the Scandinavian countries and the United Kingdom where the license obligation for intermediaries was lifted. A third deregulation trend can be seen in the field of the temporary working agencies. All the countries made it easier for employers to use temporary working agencies and fixed term contracts in general. This measure was more oriented towards labour market flexibility in general but as we will see later in this report influenced also allocation mechanisms. A fourth deregulation trend is the de-compartmentalisation of services of PRES. In the Scandinavian countries, the United Kingdom and the Netherlands PRES can combine different services. Also in Belgium there is a market driven trend towards more full-service (which means that an individual firm offers for instance both recruitment and selection, temporary work, outplacement, consultancy etc.) although it is still not legal. For the PRES in general this means that in the future two different strategies will be implemented. Besides more or less full service firms there will still operate firms which stick to their core business.





## 5 Quantitative description of the placement services sector

### 5.1 Introduction

The main task of placement services is to bring together employers and job-seekers to establish employment relationships. In other words they try to find suitable employment for job-seekers and proper candidates for employers intending to fill vacancies. Placement services can be delivered either by public or by private agencies. Generally, placement services are an integral part of the activities of the Public Employment Service (PES) including the provision of information to job-seekers and employers as well as active job matching. In some countries (e.g., in Belgium, Denmark, Germany and the Netherlands) also local communities increasingly provide (public) placement services especially in order to find jobs for welfare recipients. Such local communities may co-operate with the PES or provide placement services quite independently.

The private placement sector is highly diversified (see for details chapter 3). Private agencies differ from public services in many ways. Whereas public placement services are set up by government, private services are set up as a result of private initiative. They can be run for profit but must not. They may also be run as a principal line of business by specialist agencies or a secondary line of business by other staff service providers. One needs to distinguish also between the mere procurement of information about vacancies or about applicants (the recruitment function) and the actual matching of supply and demand (the selection function). Although there is a variety of private placement agencies this and the next more quantitatively oriented section will for reasons of data availability concentrate on the two most important types of private placement agencies: (1) intermediate agencies and (2) temporary work agencies<sup>16</sup>.

This section deals with the role of placement providers in quantitative terms. It contains - as far as available - information about the eight countries which are part of this comparative study. On the basis of certain indicators, e.g. by using the number of public offices or private agencies or figures about the staff in both the public and the private sector, it describes the size of the industry in the different countries. With respect to PES the section will also provide data concerning public spending on labour market programmes (including spending on active labour market policies or costs for public administration). In a further step such indicators describing the size of the placement sector will be related to the most relevant output indicators (e.g. inflow of vacancies or placements). By interpreting these figures it should always be taken into account that public as well as private placement agencies offer more than only placements, e.g. services such as counselling or skill provision which should be mentioned here but do not have the main emphasis in this study. In its final part the section concludes the main empirical findings, investigates important changes since

---

<sup>16</sup> Chapter 3 includes more information about the different private placement agencies and some more indication about the quantitative importance of the various types.

deregulation, tries to uncover gaps of information and data, and clarifies the meaning of input and output indicators based on absolute figures.

## **5.2 The Size of the Industry: Offices and Agencies, Staff and Resources**

There are two main providers of placement services: public and private agencies. The size of the public part of the placement service sector can be described by certain indicators: number of local offices (related to the labour force), staff (related to the labour force) and public spending on labour market programmes (related to the gross domestic product).

The comparison in Table 5.1 shows that two Scandinavian countries (Finland and Sweden) have the highest local office density and Germany the lowest. The relatively favourable scores for Finland and Sweden may not only indicate a comparatively high degree of decentralisation within PES but also the existence of large sparsely populated areas in both countries. The picture is changing partly if staff figures are set against the labour force. It is again Sweden scoring highest. But now Germany is second and Finland is at the very end. This has to do with the fact that the tasks of PES can either be defined narrowly or broadly. Differences in staffing levels can at least partly be explained by the various organisational approaches in labour departments. There are countries (B, DK, NL, S, SF) where the administration of unemployment insurance schemes are institutionally separate from the placement services and others (A, D, UK) where both tasks are integrated in the PES. If one asks in addition for the proportion of placement staff as part of total PES staff - like the ISSA-Survey of Walwei (1996a) did - the story is getting even more complicated. In this case the interpretation of the data need not only to take into account the various tasks of PES in different countries but also the internal organisation of placement services. Thus there are countries (e.g. the United Kingdom) that have adopted a more integrative concept, where many staff, in addition to placement duties, also perform other related tasks (e.g. providing counselling for job seekers or checking unemployment benefits). Again other countries have adopted a more separate approach, which involves some of the staff concentrating exclusively or mainly on placement activities.

Table 5.1 The size of the public sector in selected EU-countries – expenditure, offices and staff in 1995

Countries	Public spending on labour-market programmes <sup>a)</sup>				PES local offices <sup>b)</sup>		PES staff <sup>c)</sup>	
	Total expenditures (in US-Dollars per capita)	Passive measures (in US-Dollars per capita)	Active measures (in US-Dollars per capita)	Administration of PES (in US-Dollars per capita)	Total number	Labour force per local office (in 1,000s)	Total number	Labour force per staff member
Austria	465	370	95	36	118	33	4200	930
Belgium	989	658	331	52	123	34	6800	619
Denmark	2025	1383	642	36	99	29	5350	530
Germany	912	563	349	60	861	43	89200	416
Netherlands	1004	718	286	81	215	34	7350	986
Sweden	1739	799	940	85	390	11	11900	369
Finland	1573	1048	525	45	183	14	2350	1059
United Kingdom	412	298	114	47	1100	26	45000	637

a) Source: OECD National Accounts 1960-1995 (GDP per capita) and OECD Employment Outlook 1997 (Public Spending on labour market programmes as a percentage of GDP).

b) Source: Ecotec 1996 (Number of PES offices) and European Commission 1997 (Labour force data).

c) Source: Ecotec 1996 (PES staff) and European Commission 1997 (Labour force data).

The presence and quantitative importance of PES placement activities is, of course, not independent from the availability of sufficient resources. Such resources include spending on all kind of labour market programmes, i.e. active as well passive labour market policies and last but not least costs for the administration. The OECD „Employment Outlook“ publishes regularly the data concerning public expenditures on labour market programmes. The data indicate that the availability of resources may vary over time and across countries. The figures in Table 5.1 based on OECD data correspond with indicators such as local office density and staffing levels. They underline that the Scandinavian countries (DK, S and SF) spend most on labour market programmes (as a share of GDP per capita). Opposite to this, Austria and the United Kingdom are the countries with the lowest degree of public spending. The differences between countries have two main reasons. On the one hand, they reflect to a great extent the employment situation in a country which in the case of Austria explains the relatively low expenditure on labour market programmes. On the other hand, the differences have to do with the policy approach of government. There are countries (like the Scandinavian ones) with quite generous unemployment benefits (e.g., high replacement rates) and a comparatively high involvement of active labour market policies (such as training programmes and job creation schemes). But there are also other countries (such as the United Kingdom) with relatively poor benefits and less labour market policy intervention.

In table 5.1 a distinction is made between passive and active policies. The definition of what constitutes an active or passive measure is arbitrary to some degree. First of all unemployment benefits, which are classified as passive expenditure, are in principal only paid when the beneficiary is prepared to search for work actively. The question is, however, whether search behaviour is monitored effectively by the authorities in practice. More importantly, unemployment insurance money is increasingly used to finance subsidised labour with it. Subsidised labour is then seen as a first step towards regular jobs.

Unlike statistics for PES, much less reliable information is available on Private Employment Services (PRES). Since not all countries (e.g., DK, S and since 1995 the UK) require special licences for PRES, even the exact number of such agencies is unknown. Since compulsory reporting requirements do only exist in Germany, very little administrative data is available about their characteristics and their activities. Table 5.2 at least tries to summarise the available information on PRES and to calculate indicators which are more or less similar to those for the PES in Table 5.1. First of all, the table uncovers considerable lacks of information. Secondly, it indicates a relatively high agency density and considerable staffing levels in the United Kingdom and the Netherlands. The reasons why both countries stand out are twofold. In the United Kingdom the private employment service sector has a long tradition and experienced a remarkable growth in the last two decades (see the national report for more details). Today there are around 15 000 private employment agencies in the United Kingdom against 5 000 at the beginning of the 1980s. The other reason is that in both countries TWA play a more significant role in the labour market than in the other six countries.

Table 5.2 The size of the private sector in selected EU-countries – agencies and staff in 1995/1996

Countries	PRES agencies				PRES staff			
	Recruited and selected agencies	TWA	Total number of agencies	Labour force per PRES agency (in 1,000s)	Recruited and selected agencies	TWA	Total number of staff	Labour force per PRES staff (in 1,000s)
Austria	20	600	620	6.3				
Belgium	200	620	820	5.1	No info	2350	No info	No info
Germany	2800	6500	9300	4.0	No info	No info	No info	No info
Denmark <sup>a)</sup>								
Netherlands	800	2200	3000	2.4	2000	14000	16000	0.5
Sweden <sup>a)</sup>								
Finland	50	150	200	12.4	No info	No info	No info	No info
United Kingdom <sup>a)b)</sup>			15000	1.9			60000	0.5

a) In those countries PRES does not need any special licence for job placement (in the UK since 1995).

b) Recruitment and selection agencies and temporary work agencies were never recorded separately in the UK..

### 5.3 Outputs of the Placement Sector

The core task of placement services is to bring together job-seekers and vacancies in the labour market by providing information on vacancies or by referring job-seekers to particular employers. Therefore, the main clients of placement services are job-seekers on the one hand and employers with their particular vacancies on the other hand. It is obvious that there can be different types of job-seekers registering with the various types of placement services. One group of job-seekers are certainly the claimant unemployed. But there are also other people actively looking for work. Firstly, there are the unemployed who are not claiming unemployment benefits but who may be in receipt of other state benefits. Some of them may be returning to the labour force after a period of inactivity, others may be on active labour market schemes (e.g. training programmes), and again others may simply be ineligible for benefits. Secondly, there are the employed looking for a new job. These could be people being in danger to lose their actual job or people who for different, mostly economic reasons, just want to do something different.

In particular in the case of PES indicators such as the stock, inflow or outflow of job-seekers must not necessarily reflect activities (see Walwei 1996b). Since most of the registrations can be expected to be involuntary in the case of the claimant unemployed stock and inflow of registered job-seekers mainly document ups and downs of the economic cycle. Not every unemployed person claiming unemployment benefit will actively search and those who do may not use the PES as a search channel<sup>17</sup>. Only registrations of employed job-seekers and non-employed people (who are not claiming unemployment benefits) may directly indicate that these groups expect any benefits by involving the PES in their search efforts (e.g., the expectation that attractive vacancies will be proposed to them). In the case of PRES the situation is different because the involvement of such agencies by job-seekers is already from the start voluntary. But unfortunately there is no kind of data offering internationally comparable information about the voluntary use of PES and PRES by job-seekers measured in absolute numbers.

In contrast to the registration of job-seekers the majority of vacancy registrations is by and large voluntary. This is not only true for PRES but also for the PES. Although there are still few countries with a mandatory notification of vacancies (e.g., in Belgium and Sweden) such regulations do only partly explain the number of vacancies registered with the PES.<sup>18</sup> Basically, vacancies notified by firms do reflect their expectation that placement services might be able to bring suitable candidates to their attention. Therefore, vacancy registrations can be seen as the most expressive indicator of the appeal of placement services to employers. In addition, it should be emphasised that each additional vacancy registration offers an opportunity for placement services to

---

<sup>17</sup> It is well known that in the Netherlands some people (although a minority) prefer TWAs to the PES (De Koning et al, 1995)

<sup>18</sup> In those countries failure to register vacancies seems not to result in severe sanctions. This might be attributable to the fact that PES would probably not be able to fill all vacancies in the economy with suitable candidates. In addition, enforcing the requirement to register vacancies would entail considerable administrative effort. Furthermore, attempts to impose vacancy reporting requirements could significantly impair the relationship between PES and firms currently reporting vacancies on a voluntary basis

place one of their clients, i.e. for the PES (at least potentially) one more opportunity to place one of their mostly jobless candidates. Table 5.3 relates figures concerning the inflow of registered vacancies with PES indicators from Table 5.1 (describing the size of the public sector). It indicates that office density, staffing levels and expenditure per registered vacancy (based on administrative data provided by PES) is highest in Sweden and Belgium and lowest in the United Kingdom and Austria. That means, these indicators confirm to a large extent the ranking and scores of Table 5.1. Unfortunately, because of lacking data there is no opportunity to calculate similar indicators for PRES.

But independent of the availability of data for several countries not only total numbers, i.e. the absolute size of vacancy inflow, would be of interest. In addition, the type and quality of vacancies is decisive in order to offer adequate opportunities to clients and to properly assess the mediatory role of placement services. Vacancies registered can be biased by an over-representation of low-quality jobs. In this respect it is, of course, relevant to which extent the inflow of vacancies include permanent or temporary jobs, full-time or part-time jobs, and jobs with high or low skill requirements etc.

Matching refers to both placing of job-seekers as well as filling of vacancies. The total number of placements can be seen as a direct measurement for activities. Information about PES local offices, staffing levels and expenditure per placement are included in Table 5.3. The data shows that again Belgium use on average comparatively large resources per placement whereas in the UK the opposite is the case. In general, costs of individual placements can vary considerably. They mainly depend on the use of staff and equipment but also on other additional resources such as active labour market policies (e.g. training programmes, wage-cost subsidies and job-creation programmes) which are often a prerequisite for successful placements of the hard-to-place people. Therefore, placement statistics require careful interpretation. In order to avoid misinterpretation it is important to distinguish carefully between unsubsidised (i.e. ordinary) placements and subsidised placements. This is not only necessary in order to evaluate active labour market programmes aimed at job creation (i.e. how often they have lead to a reintegration of participants into regular employment). Furthermore such a distinction would give information how often active labour market policies are involved before clients are placed. That means, the share of placings after leaving programmes as part of total placements would indicate to which extent the PES can be seen as a provider of information (matching function) and to which extent as an agency offering packages of policies connected with each other (policy function).

Table 5.3 PES expenditure, staff and offices per unit output indicator in selected EU-countries (1995)

Countries	Inflow of registered vacancies <sup>a)</sup>					Placements <sup>b)</sup>				
	Total (in 1,000s)	PES expend. of act. measures <sup>c)</sup> per vacancy (in US-Dollars)	PES administration costs <sup>c)</sup> per vacancy (in US-Dollars)	PES local offices per 1,000 vacancies	PES staff per 1,000 vacancies	Total (in 1,000s)	PES expenditures on act. Measures <sup>c)</sup> per placement (in US-Dollars)	PES administration costs <sup>c)</sup> per placement (in US-Dollars)	PES local offices per 1,000 placements	PES staff per 1,000 placements
Austria	228	2918	1075	0,52	18,42	no info				
Belgium	149	19488	3040	0,83	45,64	106	27394	4274	1,16	64,15
Denmark	211	14484	812	0,47	25,36					
Germany	3174	7544	1295	0,27	28,10	2466	9710	1667	0,35	36,17
Netherlands	273	14652	4153	0,79	26,92	179	22346	6334	1,20	41,06
Sweden	348	20138	1818	0,89	34,20					
Finland	185	12153	1124	0,99	12,70	91	22850	2471	2,01	25,82
United Kingdom	2447	2282	930	0,45	18,39	2043	2738	1113	0,54	22,03

a) Source: Ecotec 1996; OECD ( Registered Vacancies) and Table 5.1 (Local Offices and Staff).

b) Source: Ecotec 1996; OECD (Placements) and Table 5.1 (Local Offices and Staff).

c) PES Expenditures as Share of GDP in US-Dollars (Source: Employment Outlook, 1997 and OECD National Accounts 1960-1995).



Absolute figures do have the disadvantage that they not necessarily reflect net benefits of placements. There is an obvious risk that local operating offices would aim for high volume of placements at low unit costs, and therefore concentrate on helping short-term unemployed people most of whom would have found jobs anyway. Due to this danger the composition of placements might be of particular interest for evaluation purposes. Taking into account the results of the available impact studies the effectiveness of PES placement activities depend heavily on whether hard-to-place people represent a considerable part of the total number of placements.<sup>19</sup> That means, the total number of hard-to-place people placements as well as the share of problem groups as part of total placements would indicate whether limited public resources were used effectively, i.e. have actually reached those people where net benefits of PES activities can be assumed as being highest.

Similar to the PES (but certainly to a lower extent) PRES placements can be interpreted as an indicator for success. Table 5.4 offers the available information on the number of placements by private agencies and relates them with the indicators from Table 5.2. Also this table reveals considerable gaps of information - especially for the Scandinavian countries. Furthermore, it should be noted that the figures in table 5.4 for the various countries are difficult to compare. For instance, for the United Kingdom only total PRES placements are available, including placement by TWAs. But for instance in the figure for the Netherlands placements by TWAs are not taken into account. If we did the number of PRES placement for the Netherlands would increase considerably. On the basis of the available data it is impossible to present comparable data. But it should also be pointed out here that for private agencies turnover and profits are much more important indicators to orientate their activities than the simple number of placements. Such information is, of course, more or less secret, and only in parts available as the two national reports on the Netherlands and the UK illustrate.

Table 5.4 Intermediate agencies and staff per placement in selected EU countries (1994/1995)

Countries	Placements of Intermediate Agencies		
	Total <sup>a)</sup> (in 1,000s)	Agencies <sup>b)</sup> per 1,000 placements	Staff <sup>c)</sup> per 1,000 placements
Austria			
Belgium(1995)	11.5	17.4	no info
Germany (1995) <sup>c)</sup>	88	31.8	no info
Denmark (1994)	7	no info	no info
Netherlands (1994)	12	66.7	166,7
Sweden			
Finland (1994)	1.4	36.0	no info
United Kingdom (1995)	300	50.0	200,0

a) Source: National Reports.

b) Source: Table 5.2.

c) Only placements in jobs lasting longer than 7 days.

<sup>19</sup> See for the results of impact studies in the area of job placement Walwei 1996c.

## 5.4 Conclusions: Findings and Shortcomings

A main result of this section is that Scandinavian countries tend to have the highest local office density, employ the largest staff and use the most resources in terms of public spending on labour market programmes. By contrast, Austria and the UK are the two countries where the opposite is the case. This can be either explained by a better employment situation (in Austria) or a more market-oriented approach with less labour market policy intervention (in the UK). If such indicators used to describe the size of the placement sector are related with output figures (such as vacancy registrations or placements) the picture does not change very much. Only Belgium stands out and joins the Scandinavian countries by also using comparatively large resources per unit output indicator. Placements at higher unit costs (like in Belgium) must not necessarily reflect lower efficiency but can possibly be explained by a more target-group oriented approach. Concerning the private sector information is unfortunately much more limited. The quantitative indicators used in this context suggest that PRES in the UK (as a country with a long tradition of private placement agencies) and in the Netherlands (as a country with a large temporary work sector) play the most significant role in labour markets compared to the other EU countries included in this study.

It is a very difficult task to assess how far deregulation of placement services may or may not have influenced the indicators used in this section. In order to answer this question one would need to have time series at least for the 1990s and to know what would have happened to those indicators without there being any deregulation. Due to the problems of data availability as well as obvious methodological problems only more general and pragmatic considerations can be made. First of all, there is no indication that after deregulation in the early 1990s public resources in terms of staff or spending on labour market programmes were cut severely. By contrast, due to the rising unemployment in several countries the OECD data indicates that even more resources for PES were made available in the 1990s (see for more details: Walwei 1996d). Only two countries (the United Kingdom and the Netherlands) are exemptions from this general trend. But this may not only have to do with the obviously dynamic development of the private placement sector there but also with a more favourable employment situation in both countries since 1993. Secondly, there is also no hint that the number of public placements and vacancy registrations based on PES statistics declined since deregulation. By contrast, in Denmark, Germany and the Netherlands such output indicators increase to a considerable extent in the last few years, i.e. after deregulation. This development may have to do with the business cycle. More PES placements can be a result of more hirings in a boom period. But the rising number of placement can also at least partly or in certain countries be seen as an indirect effect of deregulation. The growing importance of private agencies may have speeded up reforms and efforts in the PES. Thirdly, there seems to be clear evidence that the possible quantitative effects of deregulation (in particular concerning the activities of private agencies) take time. In countries where the state placement monopoly was abolished in the 1990s the number of private placements grew only very slowly. It obviously takes time before an effective private sector comes into existence and firms as well as job-seekers involve these agencies in their recruitment and search efforts. Fourthly, in addition to the demonopolisation of job placement there seems to be an

independent trend towards an increased utilisation of TWA which has continued steadily.

The eight national reports also have revealed that there are considerable gaps of knowledge. The lack of information is severe in the case of PRES. We do not know enough about their size, their characteristics and their activities. In order to fill these gaps we would need more surveys of private agencies - such as the one by Wadensjö cited in the Swedish national report - giving information about their range of services and their clients on both sides of the market. But if we intend to continue with international comparisons in the area of job placement we would also need more consistent and deep information about PES placement activities (e.g., the relative importance of subsidised vs. ordinary placements or the share of hard-to-place people as part of total placements).

But even if we would have more general and more desegregated information about the activities of PES and PRES there is one main disadvantage of such absolute figures. They tend to ignore the total market. The number of registered job-seekers do not refer to the total number of job-seekers, and the number of registered vacancies as well as the number of placements do not refer to the total number of hirings. Because absolute output figures depend very much on the economic cycle they should be interpreted very carefully. Changes in output figures may reflect the economic situation and not only efforts. But this criticism can be countered by the use of market shares.



## 6 Placement agencies as recruitment and search channels

### 6.1 Introduction

In order to measure the relative market importance (market share) of Public Employment Service (PES) and Private Employment Services (PRES) compared to other recruitment and search channels it is necessary to relate the number of placements by public or private agencies with the relevant market, i.e. the total number of hirings and/or the total number of job-seekers. In this context it should be pointed out that at least to a certain extent also the supply of temporary workers can take on a placement function, e.g. by workers first undergoing a non-binding work trial before being employed on a permanent basis. Empirically it is obvious that core workforces play only a subordinate role in many temporary work agencies. The data used to calculate these market shares can be based either on process-generated data provided by the PES or on particular survey data. There are three possible measures of the PES and PRES market importance: the use of placement services as a search channel by job-seekers (section 2.1); the use of placement services as a recruitment channel by employers (section 2.2); the percentage of all hirings on the external labour market that result from job mediation by placement services (section 2.3). In the final part of this section the main findings will be summarised. Special emphasis will be given to the possible reasons for the considerable differences between market shares based on either process-generated data or survey data. Another important aspect will be the possible impacts of deregulation on the process of recruitment and job search. Similar to the previous section the concluding remarks will also reveal gaps of information and discuss the suitability of market shares as performance indicators.

### 6.2 Use of placement services as job search channels

For the public and private placement sector it might be of some interest to know how great the share of job-seekers is who make use of their services. The relevant indicator is the *job-seeker user rate* which can be defined as follows:

$$\text{Job-Seeker User Rate} = \frac{\text{inflow of registered job-seekers}}{\text{inflow of total job-seekers}}$$

The higher the job-seeker user rate, the more job-seekers expect advantages of using placement services and the more often placement services have the opportunity (or even the obligation like in the case of PES) to assist job-seekers. But in contrast to PRES a high job-seeker user rate of PES does not necessarily reflect efforts and attractiveness. This is again due to the fact that in most countries the registration of unemployed with

the PES is more or less obligatory. Basically, the unemployed do not have any choice, they have to use PES services in order to receive unemployment benefits. In addition, labour force surveys also show that significant numbers of registered unemployed are not actively seeking work and are thus not unemployed on the labour force survey definition. The OECD (1992, 126), therefore, concludes that „... if they are too difficult to place, registering them may only dissipate PES efforts.“ Only if user rates are calculated according to certain subgroups of job-seekers (e.g., the non-employed or employed job-seekers) will they indicate attractiveness of PES in relative terms.

But the crucial problem here is to define and to measure the size of the total market. In particular, it is difficult to decide who should be counted as a „job-seeker“. Basically, each worker can be seen as a potential job-seeker if we assume that an interesting job is offered to him or her. However, search activities could vary widely from those spending several hours a day for job search to those occasionally looking at advertisements in newspapers. What kind of possibilities are available to estimate the total number of job-seekers? One possible answer may be given by labour force surveys where one can ask pragmatically whether members of the labour force are actually looking for a job or have been actively looking for a job recently.

Mosley (1997) has examined evidence on PES and PRES market share and market segments from the European Labour Force Survey (ELFS). Since 1992 the ELFS includes a question on the „main method of job-search“ used by job-seekers, including public and private agencies as job-search channels. Before presenting the results it is important to know that the ELFS survey question does not distinguish between different types of PRES; i.e., the user rates of PRES include recruitment and selection agencies as well as temporary work agencies.

Table 6.1 shows that the percentage of job-seekers reporting that the PES was their main search method varies considerably among European countries. The very high rate in Germany overstates actual use of the PES mainly for technical reasons, although the PES clearly does play an important role in individual job search in this country. In the 1992-94 ELFS data an undocumented coding convention leads to classification of all registered unemployed persons in these countries as using the PES as their main search method. It should be taken into consideration that Table 6.1 only offers information on placement services as a main search method. But they may also be used additionally as a second search method. E.g. the Dutch national report suggests that the role of PRES may be underestimated if one only looks at main search methods. It refers to the labour force survey which shows that in 1993 not less than 28% of all unemployed job centres use both PES and TWAs as search channels For two countries (Sweden and Finland) which were not included in the study by Mosley the national reports offer additional information on job search channels. The results for Finland are quite similar to those of Germany. 79% of all unemployed report in the labour force survey 1995 that they did use the PES. The Swedish information is unique in one respect. In contrast to the ELFS their national labour force survey asks newly employed which source of information finally lead to their present job. The results indicate that in 1996 only a minority of all unemployed (18%) respectively all job-seekers (11%) received the information about the job from the PES.

Table 6.1 PES and PRES as search channels: rate of use as a % of all job-seekers in selected EU-countries (1992-1994)

Countries	PES as "Main Method of Job Search"		PRES as "Main Method of Job Search"	
	Male % Rate of Use	Female % Rate of Use	Male % Rate of Use	Female % Rate of Use
Belgium	39,5	40,4	4,9	5,0
Germany	76,9	79,0	4,9	4,2
Denmark	30,1	32,8	1,1	0,8
Netherlands	53,5	38,8	5,8	7,0
United Kingdom	23,9	17,6	3,0	3,2

Source: Mosley 1997.

Despite of these inconsistencies the ELFS and the two Scandinavian national labour force surveys generally indicate that unemployed persons are two to four times more likely to use the PES as the main search method than are employed persons. By using other empirical sources the Dutch and the German national reports confirm the quantitatively important role of PES as a search method for the unemployed in the Netherlands the share of unemployed among the persons hired by the use of PES was 65% in 1995 compared to 47% for all recruitment channels. In Germany PES official data show that the share of unemployed as part of total placements was comparatively high over the last years (e.g. in 1996 50% in Western Germany and remarkable 87% in Eastern Germany). The ELFS data also shows a clear pattern of higher use of the PES among workers in industry, especially in construction, mining and manufacturing. Gender differences in the use of PES as „main search method“ are by contrast relatively small.

Table 6.1 also provides data on the use of PRES. The percentage of respondents reporting the use of PRES as the „main search method“ is highest in the Netherlands (6-7%) followed by Belgium (5%). The Swedish national labour force survey reveals a quite low rate of job-seekers (0,4%) who found their present job by using PRES. Although reported PRES use is as a rule higher among the employed there is also significant use of PRES by the unemployed.<sup>20</sup> E.g., in Belgium ELFS data shows that the use of PRES is clearly higher among the unemployed than the employed. The relatively high percentage of PRES users who are unemployed is probably due to the importance of TWA, which serve a very diverse clientele. Therefore, PRES users among job-seekers seem to be very heterogeneous and differ - other than probably expected - only slightly from the PES clientele.

<sup>20</sup> This is also true for Finland where the national labour force survey indicates that 4% of the unemployed use PRES (including placement facilities provided by trade unions).

### 6.3 Use of Placement Services as Recruitment Channel

The user rate referring to vacancies indicates how often placement services were able to attract vacancies (in relative terms). The indicator of interest in this context is the *vacancy registration rate* which is defined as follows:

$$\text{Vacancy Registration Rate} = \frac{\text{inflow of registered vacancies}}{\text{total hirings}}$$

The vacancy registration rate indicates the extent to which placement services are called in by industry and public employers. It can be assumed that firms will not use placement services if they do not expect a suitable referral. The higher the registration rate, the greater the chance for placement services to contribute towards filling of vacancies and the greater the possibilities to place their various clients. Such as in the case of job-seekers the principal problem when measuring user rates among vacancies is again how to define the relevant market for placement services. A commonly used concept of measuring the total market is the total number of actual hirings.<sup>21</sup>

Vacancy registration rates can be based on administrative data as well on survey data. On the basis of administrative data it is only possible to calculate vacancy registration rates for PES. Table 6.2 gives information on vacancy registration rates, which are highest in Belgium (47%) and Western Germany (42%). It should be mentioned that the data on vacancy registrations is official data provided by the PES itself whereas the data on hirings are based on various sources: Finland (rough estimate by the Research Institute at the University of Vaasa); Germany (Social Security Data); Netherlands and Belgium (Employer Surveys) and the United Kingdom (Labour Force Survey). Because the number of hirings in the economy are not known from PES records and vacancy registrations can be defined very differently the rates are not strictly comparable.

---

<sup>21</sup> The concept is a more or less pragmatic approach. It involves serious problems. On the one hand not every vacancy requires placement services, e.g. because an employer and a job-seeker may already know each other from an earlier employment relationship or another occasion. On the other hand there might be potential hirings because in many instances a vacancy could come up at the same time as a suitable person applies for a job.



Table 6.2 Market shares of public employment services. Results from administrative data in selected EU-countries (1995-1996)

Countries	Hirings <sup>a)</sup> (in 1,000s)	Inflow of reg. vacancies <sup>b)</sup> (in 1,000s)	Placements <sup>b)</sup> (in 1,000s)	Vacancy registr. rate (as a %)	Success rate as a %	Penetration rate (as a %)
	1	2	3	2/1	3/2	3/1
Austria (1995)	no info	228	no info			33%
Belgium (1995)	320	149	106	47%	71%	
Denmark (1995)	no info	211	no info			32%
West-Germany(1996)	5651	2394	1795	42%	75%	24%
Netherlands (1995)	707	273	173	39%	63%	
Sweden (1995)	no info	348	no info			11%
Finland (1996)	1000	193	109	19%	56%	27%

a) Source: see section 6.3.

b) Source: administrative data provided by PES.

In order to proof the quality of vacancy registration rates based on administrative data it makes sense to compare them with information provided by systematic employer surveys on recruitment practices. Table 6.3 shows that there are five countries (Austria, Belgium, Finland, Germany and the Netherlands) which carry out such employer surveys. In the United Kingdom three employer surveys were conducted since the early 1980s (every five years: 1982, 1987 and 1992). There are no recent results from employer surveys available for Denmark and Sweden. Table 6.3a also illustrates that advertisements (27-50%) are the recruitment channel which was used most followed by the PES (17-49%). This finding underlines that the PES is a very important recruitment channel for employers. Competitive advantages for PES as a recruitment channel lie in the fact that their services are offered free of charge plus the fact that they have an easily accessible pool of applicants. In addition, the surveys show that firms do not rely on a single recruitment but often use several in parallel, including the PES. The relatively strong use of the PES in Eastern Germany can be explained by the significant role of active labour market policies (in particular: subsidised forms of employment) in the process of transition.

Table 6.3 Market Shares of Recruitment Channels. Results from Employer Surveys in Selected EU countries (1990s)

a) Use (Market Reach) of Recruitment Channels as a %

<i>Countries</i>	PES	PRES (incl. TWA) 2)3)	Advertise- ments 4)	Spontaneous Application 5)	Informal Channels	Other/ No Answer 6)	<b>Sum</b>
A (1996) 1)	46	5	50	29	22	23	<b>175</b>
SF (1996) 1)	31	2	17		59	35	<b>144</b>
B (1995)	17	13	35	18	39	8	<b>130</b>
W-D (1996)	38	2	56	18	24	21	<b>159</b>
E-D (1996)	49	1	27	13	28	7	<b>125</b>
NL (1995)	20	11	30	21	28	17	<b>127</b>
UK (1992)	31	6	34	20	16	52	<b>159</b>

b) Market Share of Recruitment Channels as a %

<i>Countries</i>	PES	PRES (incl. TWA) 2)	Advertise- ments 3)	Spontaneous Application	Informal Channels	Other/ No Answer	<b>Sum</b>
B (1995)	10	10	29	13	31	7	<b>100</b>
W-D (1996)	13	2	40	12	15	18	<b>100</b>
E-D (1996)	34	1	14	9	18	24	<b>100</b>
NL (1995)	13	9	24	18	22	14	<b>100</b>
UK (1992)	12	5	25	17	13	28	<b>100</b>

c) Success of Recruitment Channels as a %

<i>Countries</i>	PES	PRES (incl. TWA) 2)	Advertise- ments 3)	Spontaneous Application	Informal Channels
B (1995)	59	77	83	72	79
W-D (1996)	34	100	71	67	63
E-D (1996)	69	100	52	69	64
NL (1995)	65	82	80	86	79
UK (1992)	39	83	74	85	81

- 1) The Austrian and the Finish employer survey do not offer any information about the success and the market share of recruitment channels.
- 2) The Austrian, Finish, German and the British employer survey do not explicitly include TWA as recruitment channel.
- 3) In Finland the rate of use does include placement activities by trade unions.
- 4) In Germany the figures include replies of companies to advertisements placed by job-seekers.
- 5) In Finland "spontaneous application" is not included as recruitment channel in the survey.
- 6) Other recruitment channels include , e.g., internal notices.

Source: National Reports

A striking fact, however, are the remarkable differences between the vacancy registration rates for two countries (Belgium and the Netherlands) based on administrative data and on survey data. One reason for these discrepancies may be the fact that surveys rely very much on the memory of employers. Especially the - very often considerable numbers of - short-term vacancies particularly in less-skilled occupations may be underrepresented. This is relevant here because one can assume that the PES has a considerable high market share in these market segments which may explain at least partly its underestimation in survey data. A related question in this

context also referring to the memory of employers is how far they actually remember which channels were used for a single recruitment. Often recruitment can be seen as a process where employers use one channel after another. The other possible reason for differences between administrative data and survey data is a lacking reliability of the vacancy figures provided by PES. An overestimation of the PES involvement could, of course, have several reasons (see also the next section 6.4). The differences in the data can be caused by double counts by local operating offices (e.g. in the case of interregional vacancies). Also different perceptions of the PES constitution to a placement can play a role. E.g., PES offices could make their figures look better by counting as a vacancy filled the case of a registered unemployed person who found a job through some other channel after successfully participating in a labour market programme such as training. Perhaps in those cases the placement could be attributed to the PES when the persons concerned find a job thanks to the programme. But from evaluation research we know that this is true for only a limited number of programme participants (see for instance Fay, 1996).

According to the survey results PRES are a recruitment channel with a relatively low use (1-13%) compared to other channels. But especially the relatively high use of PRES in Belgium and the Netherlands should be pointed out. One important reason for the high involvement of PRES in these two countries is the fact that both surveys ask explicitly (and in contrast to the other surveys) employers whether they have used TWA as a recruitment channel. In the other countries TWA may also play a role as a recruitment channel but this is not visible in the statistics. Their activities may be hidden in categories such as „other search channels“ or even „no answer“.

## 6.4 Job Matching

Market shares referring to the success of placement activities offer information about the relative importance of PES activities in the area of job matching. The *success rate of vacancy registrations or users* represents the proportion of vacancies filled and the proportion of job seekers placed. Because there is only valid empirical and internationally comparable information about vacancies the following considerations concentrate on the success rate of vacancy registrations and the corresponding penetration rate or market share. The success rate of vacancy registrations is defined as follows:

$$\text{Success Rates of Vacancy} = \frac{\text{Filled vacancies}}{\text{Registrations} \times \text{inflow of registered vacancies}}$$

Two sources provide information about success rates of vacancy registrations in an international comparison. First of all, again administrative data provided by the PES allow to calculate success rates for the public sector (see Table 6.2). Secondly, there are

at least for four countries results available from employer surveys (see Table 6.3c The administrative data in Table 6.2 show comparatively high success rates (>50%) for all countries included in this study. The overall score depends on whether placement services (here PES) are able to offer suitable candidates to employers and whether after an attempt - a contract between both sides can be achieved. A high score of successful attempts would indicate careful selection of candidates for vacant positions, and might be considered as a measure of quality and internal efficiency. At the same time a relatively high success rate might also imply a market approach which is too narrow. The success rate must, therefore, be viewed in relation to the registration rate

The survey data in Table 6.3c does not generally confirm high success rates for PES. This is in particular true for Western Germany and the United Kingdom. Such discrepancies may have a number of reasons. On the one hand, the variations may be caused by problems related to statistical sampling (e.g., representativity of survey) and/or false indications by the parties concerned regarding the actual success of different recruitment channels. Many people may have found jobs by using PES facilities that do not show up in any survey statistic (e.g. due to the introduction of open self-services systems such as personal computers or other modern information technologies such as the Internet). On the other hand, process-generated data on placements might also be distorted in many ways. Sometimes it is argued that PES operating statistics are manipulated because the number of vacancies filled is still an important measure for the success of local job centres and even individual staff members.

Table 6.3c also reveals that the use of other recruitment channels (e.g. advertisements, informal channels or PRES) seems to be more successful than the use of the PES. This may have to do with the observation that employers often use several channels (incl. the PES as a second-best alternative) in a number of cases. An interesting finding of all employer surveys which should be underlined. They document a remarkably high success rate of PRES in all countries conducting employer surveys. The main reason for their success seems to be their commercial orientation. They often get exclusive orders from employers to fill a certain vacancy because they may - at least from the viewpoint of the employer - have a comparative advantage to do so.

The arithmetical result of both the registration rate and the success rate is the *penetration rate*, i.e. the proportion of all hirings (vacancy inflows) that are made with ES help. The penetration rate is defined as follows:

<b>Penetration Rate = Registration Rate x Success Rate</b>	
<b>Penetration Rate=</b>	$\frac{\text{filled vacancies}}{\text{total hirings}}$

Similar to success rates two data sources are available for offering information about penetration rates. Table 6.2 covers results based on administrative data shows (with the exception of Finland) that penetration rates (often also called: market shares) lie in the mid of the 1990s between one quarter and well above one third. Germany is the only country where also on a regular basis administrative data is available for PRES.<sup>22</sup> But compared with the PES the market share of PRES is comparatively low (only between 1% and 2%).

Table 6.3b gives corresponding information about the results of employer surveys. It is worth mentioning that obviously penetration rates (market shares) of PES do not differ so much between countries (except Eastern Germany where large subsidised employment schemes are the main explanation for the high PES market share). Therefore, the results of Table 6.3b question the validity of performance indicators based on administrative data. The statistical reasons for a lower market share in surveys compared to administrative data can be the result of a lower vacancy registration rate (like in Belgium and the Netherlands) and/or a lower success rate of vacancy registration rates (like in Western Germany and the United Kingdom). Both possible deviations between administrative and survey data and the reasons behind them were already discussed in detail.

Concerning PRES as a recruitment channel the differences across countries are more significant. This has to do with the explicit inclusion and the particular importance of TWA (under the heading of PRES) as a recruitment channel in Belgium and the Netherlands. The market shares of intermediate agencies in both countries (excluding TWA) seem not to be much higher than 2-3%. In general, there is no doubt that PRES providing firms with permanent staff (i.e. recruitment and selection agencies) have the highest market share in the United Kingdom. This may have to do with the fact that PRES of any kind do have a long tradition in this country and experienced a considerable boom in the 1980s and the 1990s. There are two major reasons for this trend. On the one hand, companies envisage much more difficulties to recruit trained staff and executives because qualification requirements have generally risen as a result of increased automation, the use of modern information technologies and the emergence of more complex service activities in the world of work. On the other hand, firms do outsource more and more personnel functions that used to be performed within the company or to use outside agencies for the first time as part of the general move towards services. These two developments seem to be relevant for the whole Western world and offer an interesting opportunity for PRES to move into the placement market and to increase their market importance also in those countries which have demonopolised their placement systems in recent years. But nevertheless, Table 6.3b also clearly reveals that placement services as such (i.e. PES and PRES) do not even cover a quarter of all hirings (except Eastern Germany). Other recruitment channels, in particular advertisements and informal channels, did in the past play a much more relevant role as recruitment channel in quantitative terms. There is no hint, that this will change considerably in the future.

---

<sup>22</sup>

This is because all licence holders are obliged to make available to the PES service statistics concerning the number and structure of their placements (for more details see the German national report).

In addition, to the quantitative comparison of market shares between PES and PRES (and even between placement services and other recruitment channels) it is of particular interest to know in which market segments both the public and the private sector are active. Such information would answer the important question how far PRES can be seen as a substitute or as a complement to the PES. The results from employer surveys which are summarised in Table 6.4 provide at least some background material in this respect. Two findings are worth mentioning. Firstly, concerning occupational groups (but also sectors or qualification levels) PRES obviously operate in different market segments than the PES. But this complementary function is only valid in the case of intermediate agencies. But if we include the information on TWA as recruitment channel (at least for the two countries Belgium and the Netherlands where such information is available) the relationship between them and PES seem to be more competitive. The market importance of TWA (as a recruitment channel) in certain labour market segments are quite similar to those of the PES.

Table 6.4 PES and PRES Market Segments: Results from Employer Surveys in EU Countries in the 1990s<sup>a)</sup>

Countries: Market Segments	PES Market Segments	PRES Market Segments <sup>b)</sup>
A: Occupational Groups	unskilled workers, skilled workers (apprenticeships)	INT: managers, highly skilled personnel, special skills
B: Sectors	construction, non-profit	INT: services, commerce, hotel, catering TWA: industry
Occupational Groups	servicing, manual labour	INT: specialised, administrative, commercial TWA: manual labour
Qualification Level	vocational & technical higher secondary, lower secondary  100+	INT: university, non-university higher  TWA: vocat.&technical higher secondary, lower secondary, non-university higher INT:100+ TWA: 10+
W-D: Occupational Groups	blue-collar, semi-skilled white-collar	INT: skilled white-collar
E-D: Occupational Groups	blue-collar, semi-skilled white-collar	INT: skilled white-collar
NL: Sectors	construction, non-profit	INT: industry TWA: industry, commercial services
UK: Occupational Groups	operative, routine	no info

a) Such market segments are reported where market shares of either PES or PRES were above.

b) INT – Intermediaries; TWA = Temporary Work Agencies.

## 6.5 Findings and Shortcomings

In general, one can conclude that the market shares of PES are higher than those of PRES. This is especially true if we only look at user (or registration) rates. In contrast to PRES the PES has the task to provide labour market transparency which allows employers and job-seekers to help themselves (e.g. by using their open-file systems). The basic condition for producing such a public good is a considerable use of the service. A high market reach of PES tends to improve job matching and should, therefore, not be a matter of concern. However, self-service systems should be open to everyone (including PRES which could bring in vacancies, e.g. on an anonymous basis, or could help to fill vacancies respectively to find employment for job-seekers).

Another finding is that PES and PRES - at least to a large extent - do complement each other. This is definitely true for intermediate agencies which only play a limited role in quantitative terms and obviously do serve different clients than the PES. Less clear is the relationship between the PES and TWA as labour force and employer surveys indicate. There seem to be not only marginal areas where their activities do overlap each other (e.g. manual labour with higher as well as lower secondary vocation).

The quantitative developments in the field of job placement after deregulation have so far proceeded unspectacularly. The trend towards an increased number of temporary workers was not noticeably affected by it either. Compared with the number of hirings in the national economy, the market share of PRES (excluding TWA as a recruitment channel) is still relatively low. PES continue to be the dominant provider of placement services and were at least according to administrative data able to expand their market shares compared to the early 1990s (see for data: Walwei 1996a). However, it is a difficult question to assess how far the business cycle or organisational reforms have contributed to the growth in PES market shares. But nevertheless other methods such as advertisements and informal channels are the most important ways of job search and recruitment. Although certain market segments, such as arts-related occupations, executives or temporary work, do constitute a domain of PRES, this was already the case before deregulation. The new, only slowly growing intermediate agencies have at least opened up new markets in particular in the field of highly qualified skilled workers particularly in service occupations.

The empirical discrepancies arising from the comparison of PES market shares based on either administrative data or employer surveys are also worth mentioning. Therefore, the question is: Does administrative data overestimate the market importance of PES or do surveys underestimate the role of the PES or may even both be true. It seems to be reasonable that surveys constitute the minimum market share of PES, and administrative data produced by the PES the maximum. The deviations result from the various perceptions of the contribution of the PES to a placement. Job-seekers and employers may have another view than the counsellor of the PES. A first problem is the always limited memory of employers which may lead to under-representation of certain types of labour turnover (e.g. concerning short-term vacancies) and to a false assessment which channel was used or even successful. Secondly, all kinds of new self-service transactions (e.g., via open-file systems or the Internet) may lead to an

underestimation of PES involvement in surveys. A third question is how far administrative data on vacancy registrations or on placements is reliable. Often PES have an incentive to make their figures look better because the magnitude of the market share is still an important performance indicator.

In order to assess the market importance of placement services and the impact of liberalisation in the area of job search and recruitment we require ideally comparable and desegregated cross-national data on PES and PRES market shares in relation to other search and recruitment channels. This section has also revealed a number of significant information gaps. There is almost no information (except: Sweden) about the success of job search channels. However, the ELFS at least includes data on the use of different search channels. We also miss the number of total hirings for three countries (Austria, Denmark and Sweden) which is not only necessary in order to calculate performance indicators (such as market shares) but is also indispensable for other kind of flow-oriented labour market analyses. Furthermore we miss regular employer surveys in Denmark, Sweden and the United Kingdom (only every five years) offering information about the use and the success of recruitment channels.

But even if we assume that there are reliable data and are able to calculate indicators (such as market shares) for the eight countries one should bear in mind that information about effectiveness will still be incomplete. Performance indicators like market shares only show how many vacancies have been filled by placement services and how many people they have assisted to find employment. But what we know nothing about is the impact of these placements on the labour market. In the case of PRES this question is even not so much important. One can assume that the services provided by the PRES against a fee are cost-effective; otherwise they would probably not be offered and not be used. By contrast, the case of PES is different because their services are free of charge for users. However, the services are not free with respect to society. PES are financed by taxpayers and/or social security contributors (worker and firms) who expect an efficient (semi-) public body in return. The relevant questions in this context are: How many of the vacancies filled by PES might have been filled with people with the same characteristics, and in the same time period, through the use of other channels. How many people who find a job with any kind of help from the PES would have found comparable jobs in the same time without assistance. These questions can only be answered by more impact evaluation studies (see for an overview of methodological questions and results: Walwei 1996c). Such impact evaluation studies are a necessary precondition for PES performance measurement. They are needed to define reasonable performance standards, thus enabling cross-office comparisons of relative efficiency. Because of the complex interaction of factors, however, a great deal of additional work is required to determine which variables and estimation procedures should be used to measure performance as well as to define suitable performance goals.



## 7 Implications for the functioning of the labour-market

### 7.1 Introduction

In chapter 3 issues relating to the organisational and legal aspects of public and private employment services were treated. In the previous chapter a description was given of both private and public employment services and of their significance for recruitment. In this chapter we will concentrate on the implications of the developments in the employment services sector. Before we start discussing this we emphasise that impact assessments of organisational and legal changes in the field of employment services are extremely scarce. What we can do is providing a framework for answering the right questions and offering the most plausible answers in the light of the available information.

This chapter is organised as follows. Section 7.2 deals with the theoretical framework and section 7.3 tries to throw light on the impact of the changes in the employment services sector on labour-market outcomes.

### 7.2 Theoretical framework

The first question we raise is: what are the **possible** effects of deregulation of job placement services? From a theoretical point of view abolition of a monopoly leads to an increase of the total supply in the market concerned, to lower prices, to higher quality of the products and to higher production efficiency. Therefore we would expect that abolition of the state monopoly in job broking leads to more placement services of higher quality at lower prices. And as a result one would expect total hirings to rise at given levels of unemployment and unfilled demand. And this would mean that both unemployment and unfilled demand diminish and that employment rises. Or, when placement services are more concentrated on disadvantaged groups, one would expect a more equal distribution of job opportunities and a reduction in long-term unemployment

There are four ways in which abolition of the monopoly can affect volume and quality of the employment services sector. First of all the need for employment services may differ from the services the Public Employment Service (PES) used to supply. A government organisation does not depend on the market for its existence. This makes it at least possible that the services offered by the PES did not match the demand for it. The services offered may not have been the services companies and job seekers demand (in terms of type and quality) and services which were in demand were perhaps not supplied at all. Therefore, the abolition of the state monopoly in job placement may have given private agencies the opportunity to fill up the gap between the supply of and the demand for placement services. This could even happen when the activities of the PES were left totally unaffected.

The second way in which the abolition could affect the employment services market refers to precisely this last assumption, because it is quite possible that the PES would react on newly emerging competitors. Assuming that private agencies are operating more efficiently and more effectively, competition from the private sector could induce the PES to improve quality and efficiency. Even when the private agencies would at first concentrate on activities left over by the PES, the PES might fear that once private agencies have conquered a firm position on the employment services market challenging the PES on its traditional market segments could be the next step.

The third way in which privatisation could affect employment services positively is by outsourcing implementation of publicly financed activities to private agencies. A number of private agencies could be asked to compete for contracts, which normally has a downward effect on the price and an upward effect on quality. The PES could in principle remain responsible<sup>23</sup>.

But there are also possible drawbacks. In the first place the urge to compete with private agencies could imply that the PES pays less attention to disadvantaged groups. One of the reasons why companies may prefer private to public placement agencies is that private agencies will meet employer's demands without questioning job requirements, while public agencies will try to change these requirements so that disadvantaged groups get a better chance. Therefore, the PES might be tempted to change their priorities to job seekers with better labour-market prospects. Obviously, this would increase the number of placements by the PES and the PES's market share in vacancy fillings, but probably at the cost of disadvantaged groups.<sup>24</sup>

A second critical remark is that companies are basically competing with each other for personnel. Companies use placement services to recruit personnel, but that means that other companies may not be able to fill their vacancies. The fact that companies are using placement services does not automatically imply that total employment increases. Society as a whole is not necessarily better off when the supply of employment services increases. To a large extent the employment services sector is involved in a zero-sum game. And the question is whether public money should be spent on activities which have no value added to society as a whole. However, even when the total level of employment is not affected, placement services can still lead to a more equal distribution of job opportunities.

The third point refers to outsourcing implementation. Outsourcing improves efficiency and quality under specific conditions only. Most important the responsible authorities should be able to monitor and evaluate the results. If this is not the case private agencies will be inclined to select the 'easy' cases and thus minimise costs and maximise output, that is **their** costs and output not that of society.

---

<sup>23</sup> A more revolutionary solution would be to let private agencies compete for completely running public employment services for a certain period of time. In the United States this idea has been put into practice for social assistance.

<sup>24</sup> See also chapter 1 for a critical assessment of the so-called career-wave and slipstream theories, which pretend to reconcile the idea of maximising placements with target group policy.

But there is a fourth potentially positive effect of privatisation in job placement as far as it implies a liberal legislation with respect to temporary labour. Traditionally the PES was not engaged in providing temporary labour to companies.<sup>25</sup> It even held a negative attitude towards this type of labour. Therefore at first it did not respond to the growing need for flexibility in the labour market. The important point however is that flexibility is not only demanded by employers but also by some categories of labour, particularly young people who want to 'shop around' or combine school and work and women who want to work part-time on a temporary basis. Therefore, it is plausible that the growth in temporary labour implied a growth in total labour supply and total employment.

It is not very likely that employment created in the employment services sector adds up to aggregate employment on national level. When more money is spent on private employment services this will be at the cost of other activities and the employment involved in those activities. For example companies may decide to outsource personnel selection to private agencies.

### 7.3 Empirical evidence

Did the demonopolisation lead to an increase in private job placement compared to public job placement? In the previous chapter we saw that the importance of private placement activities varies considerably between countries. In some countries such as Sweden, the number of private job placements is very small compared to the number of placements by the Public Employment Service. In those countries the impact of the abolition of the state monopoly in job broking on the job placement market and on the PES must have been small so far. Perhaps the PES changed its operations to some extent to prevent loss of market share to private agencies, but there is no hard evidence to support this hypothesis. And it is possible that the low share of private placement is due to the fact that the state monopoly was abolished only recently.

In other countries, particularly Belgium (Flanders), the Netherlands and the United Kingdom private placement is an important activity compared to public placement. However, the UK has a long tradition in job broking on a commercial basis. And in the Netherlands private placement is to a large extent connected with temporary labour. Many firms use temporary labour as an instrument for personnel selection. And consequently many job seekers see temporary work as a first step to a regular job. From a legal point of view temporary work is not seen as job broking although in many cases it cannot be distinguished from it in practice. Therefore, private placement already existed before the official abolition of the state monopoly. There is no evidence of a shift in the shares of public and private placement as a result of this abolition. In Flanders mostly Dutch temporary work agencies are active which could easily 'export' their services due to the absence of a language border. Therefore, Flanders, the Netherlands and the United Kingdom are special cases.

---

<sup>25</sup> When temporary labour proved to be very successful the PES changed its attitude somewhat, at least in some countries. For instance, in the Netherlands a public TWA was founded called START which developed as a major competitor of the private TWAs. However, now START has become a private company too. Also the Belgian VDAB has started with activities such as temporary work and outplacement.

For the Netherlands no evidence was found in favour of the hypothesis that the demonopolisation which took place in 1991 improved the total output of the employment services and led to a better functioning of the labour-market (De Koning et al, 1995). Similar research has not been carried out in the other countries. However, on the basis of the available information we are inclined to think that also for the other countries the effects on the output of the employment services sector and on labour market outcomes have been very limited so far.

That does not mean that the abolition of the state monopoly in job broking did not have any effect on the Public Employment Service. In several countries we see that:

- a) the PES is adopting a more client oriented approach and is introducing tools to measure customer satisfaction;
- b) within the PES organisation budgets are allocated to the regional level on the basis of output indicators.
- c) implementation of public employment services is sometimes outsourced to private agencies.

However, these developments partly reflect the general tendency to be more critical to government agencies. On the other hand the PES realises that once private agencies have gained a solid position in the market for employment services, they may gradually push the PES out of the market when the latter does not adapt to the new developments on the labour market. And labour-market developments seem to be favourable to temporary work agencies. Flexibility is the key word in modern labour-markets. Increasingly, employers which are in demand for labour do not recruit new workers on the basis of a permanent contract, although often the intention is to keep the worker on a more permanent basis when the worker's performance is satisfactory. TWAs have benefited strongly from this development. They are also broadening their activities which now include training, outplacement and leasing of personnel. Furthermore the larger TWAs have become multinational companies with establishments in several countries<sup>26</sup>. It is a booming business. And recently TWAs and other private agencies have become involved in activities which used to be seen as typical government activities such as implementation of subsidy schemes for the long-term unemployed. Often the PES is not commissioning the latter activities but municipalities, which are increasingly involved in active labour-market policy in several of the countries in this study<sup>27</sup>.

In the Netherlands and the United Kingdom temporary labour has become an accepted and positively valued phenomenon. In the United Kingdom public and private employment services seem to evolve to a complementary relationship. It is one of the

---

<sup>26</sup> An interesting question is whether the activities of these multinational companies encourage the cross-border movements of workers. We know that private agencies are involved, in what one could call 'transnational' placement activities, but there is no data available.

<sup>27</sup> In the Netherlands three schemes for subsidised temporary work have been in operation during the second half of the 80's and the first half of the 90s. In these schemes the PES and TWAs were forced to co-operate. Looking at each other as competitors, co-operation appeared to be difficult and the measures were not very successful as a result. However, these experiences do not prove that involvement of TWAs in ALMP cannot be successful.

few countries where a high market share in vacancy fillings is not something the PES is primarily aiming at. In the Netherlands a situation has emerged in which the PES has formed a strategic alliance with two private TWAs in order to compete the large TWAs more effectively. In both countries the general expectation is that a number of labour market trends, particularly the shift from low-skilled to high-skilled labour and the growing need for flexibility, are favourable to private job placement. Flexibility is seen as one of the major success factors inducing high growth rates in employment. As far as other countries will adopt similar views a further liberalisation of job placement legislation is to be expected. It is not just a matter of government policy and legislation, but it also depends on the willingness of the social partners to create more opportunities for flexible arrangements. It is not impossible that differences in institutions in the field of labour will remain due to cultural differences between countries. And it is also possible that more practical factors will remain a bottleneck for private placement. For instance in countries such as Sweden and Finland with a relatively small population and a very low population density private job placement may simply not be possible on a commercial basis except for a few large cities.



## 8 Summary and conclusions

In eight countries (Austria, Belgium, Denmark, Finland, Germany, the Netherlands, Sweden and the United Kingdom) the European Commission launched studies about the role of private job placement. Except for the United Kingdom, which has a long tradition in private placement, the state monopoly in job broking was abolished recently in these countries. So the main question is: what happened as a result? This reports compares the results for the various countries and tries to draw general conclusions.

The results indicate that so far the impact of privatisation of placement services has been small. In the countries with a relatively high share of private placements this is not a result of a recent change in legislation. In Flanders and the Netherlands temporary work agencies are mainly responsible for private placement, but these agencies were already active in placement before the state monopoly in job broking disappeared. Temporary work with the intention of the employer to hire the worker permanently was formally not seen as job broking. In countries such as Germany where temporary work is still subject to legal restrictions the share of private placements is low, although it is gradually becoming more important. Legal restrictions with respect to temporary work agencies may not be the only reason why private placement remains relatively unimportant. Population size and density may also be relevant. Temporary work agencies may not be profitable in countries such as Sweden with a combination of a low population size and a low population density. And finally the role of the social partners is important. Even in case of a liberal legislation the social partners can decide in collective agreements to minimise the use of temporary labour and private placement. Culture then, could also explain why private placement is unimportant in some countries. Probably this is relevant for Austria and Germany, but perhaps also for Finland and Sweden.

But the share of private agencies in the market for vacancy fillings does not tell the whole story. There is evidence that the very threat exercised by demonopolisation induced the Public Employment Service (PES) to change, although this effect is difficult to separate from the effect of the general pressure on government bodies to strengthen their client orientation and improve their efficiency. Employment offices have become more sensitive to the needs of individual job seekers and employers. For instance, it is becoming increasingly common to carry out surveys among clients to measure customer satisfaction. However, there is also a drawback to this development. In trying to compete with private agencies the PES may be inclined to concentrate on placing groups with good prospects on the labour-market. This will probably have an upward effect on the total number of placements by the PES, but the chances of disadvantaged groups may be affected negatively. And it is questionable whether an increase in the total number of PES placements will result in more employment. Possibly it would induce substitution with other recruitment channels. One should bear in mind that public and private placement taken together take care of less than 30 per cent of vacancy fillings. Other recruitment channels such as advertisement are more important.

What is likely to happen in the future? Will private placement become more important? Supposing that in some countries legislation will be liberalised further the answer is: probably yes. But the extent to which will depend on the government. Will the government continue to subsidise PES activities fully as it did so far? When private agencies are serving the needs of companies and job seekers and there is a private demand for these services, why should the government then subsidise one player, the PES? As long as the government is of the opinion that a large market share is a necessary condition for the PES to help disadvantaged groups, not much will change. But when this opinion no longer prevails there is no reason why placement could not be done on a private basis.



And as far as government intervention is necessary to help disadvantaged groups, implementation could perhaps be sourced out to private agencies, at least partly. Under this assumption there are two options for the PES:

- 1) become one of the major commercial players on the employment services market which compete with each other for private and government sector contracts;
- 2) remain a (semi-)government body which concentrates on activities which are complementary to the activities of private placement companies and possibly outsource implementation to private agencies.

## References

Biffi, G., *Effects of deregulation in placement services in Austria*, 1997.

Csonka, A., E. Leisner and A Rosdahl, *Placent Services in Denmark before and after the Liberalization of 1990*, The Danish National Institute of Social Research, Copenhagen, 1997.

Denys, J., *Effects of deregulation in placement activities in Belgium*, 1997.

Ecotec (1996): *Public and Private Placement Services Working Paper*. An Analysis of Public and Private Employment Services data for EU member states collected by System correspondents (Mimeo).

European Commission (1997): *Employment in Europe 1996*, Brussels.

Fay, R.G., Enhancing the effectiveness of active labour-market policies: evidence from program evaluations in OECD countries, *Labour-Market and Social Policy Occasional Papers No. 18*, OECD, Paris, 1996.

Hasluck, C. and K. Purcell, *The market for job placements in the United Kingdom*, IER, 1997.

De Koning, J., *Deregulation in placement services: the case of the Netherlands*, Netherlands Economic Institute, Rotterdam, 1997.

De Koning, J., *Ways to work: the role of public employment services in a deregulating economy*, Netherlands Economic Institute, Rotterdam, 1996.

De Koning, J., P.A. Donker van Heel, A. Gelderblom, P.J. van Nes and C.Th. Zandvliet, *Arbeidsvoorziening in perspectief. Evaluatie Arbeidsvoorzieningswet 1991-1994, Deelonderzoek B: resultaten en kosten (The Employment Service in perspective. Evaluation of the Employment Act 1991-1994, Part B: results and costs)*, published by the Ministry of Social Affairs and Employment, The Hague, March 1995.

Mosley, H., Market Share and Market Segment of Employment Services in the EU: Evidence from Labour Force Surveys, in *MISEP Policies*, No. 57,1997, pp. 26-34

OECD (1992): „The Public Employment Service in Japan, Norway, Spain and the United Kingdom“, in *OECD Employment Outlook* (Paris), pp. 117-151.

OECD (1996): *National Accounts 1960-1995*, Paris.

OECD (1997): *Employment Outlook* (Paris) 1997. Statistical Annex.

Rossi, P. and H. Katajamäki, *Research into the effects of deregulation in placement services in Finland*, 1977.

Wadensjö, E., *Effects of deregulation in placement services. National report for Sweden*, Swedish Institute for Social Research, 1997.

Walwei, U., *Effects of deregulation in placement services. National report for Germany*, IAB, 1997.

Walwei, U., (1996a): „Placement as a Public Responsibility and as a Private Service“, in *IAB labour market research topics*, No. 17.

U.Walwei (1996b): „Performance Evaluation of Public Employment Services“ (PES). *International Labour Office, Labour Administration Branch*, Document No. 47, Geneva.

Walwei (1996c): „Improving Job-matching through Placement Services“, in Günther Schmid, Jacqueline O'Reilly, Klaus Schömann (Editors). *International Handbook of Labour Market Policy and Evaluation*, Edward Elgar, Cheltenham and Brookfield, pp. 402-430.

Walwei (1996d): „Aktive Arbeitsmarktpolitik in OECD-Ländern Entwicklungstendenzen und Effekte“, in *Mitteilungen aus der Arbeitsmarkt- und Berufsforschung*, No. 3, pp. 349-362.