



# European Network of Public Employment Services

Benchlearning Initiative External Assessment

Germany

2016

Summary report



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*June 2016*



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The European Network of Public Employment Services was created following a Decision of the European Parliament and Council in June 2014<sup>1</sup>. Its objective is to reinforce PES capacity, effectiveness and efficiency. This activity has been developed within the work programme of the European PES Network. For further information: <http://ec.europa.eu/social/PESNetwork>.

This activity has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: <http://ec.europa.eu/social/easi>.

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<sup>1</sup> DECISION No 573/2014/EU

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## **PES of Germany**

### **Summary Report**

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## 1. Introduction

This report outlines the results of the Benchlearning (BL) external assessment of the PES of Germany (Bundesagentur für Arbeit – BA), conducted between May 2<sup>nd</sup> and 4<sup>th</sup>, 2016. The team of seven external assessors comprised four peer PES staff (Austrian, Danish, Estonian, and Latvian PES), one from the European Commission, and two experts from ICON-Institute (the supporting contractor). The programme of the three day visit included meetings in the BA's Head Office with senior management/directorates and a visit to a local office of the Labour Agency in Schwandorf (about 90 km from the Head Office). The time and resources invested in the preparation for the Benchlearning visit by the BA and in particular the internal self-assessment were crucial to its success. The team gratefully acknowledges those efforts.

The BA is a self-governing public law corporation endowed with its own legal status. The BA is responsible for the disbursement of unemployment benefits I and unemployment benefits II (in the realm of the co-operative Jobcenters; for more details see below). Additionally, the BA disburses child benefits through its "Family Benefits Office".

Since 2005, there have been two benefits programs replacing work income: (i) insurance-based unemployment benefits I (UB1) and (ii) tax-based unemployment benefits II (UB2). These two benefits programs are regulated by two different laws: Social Code III for UB1 and Social Code II for UB2. Local Labour Agencies of the BA are responsible for UB1-recipients (and registered jobseekers who receive no benefits at all). Persons who are not or are no longer eligible for UB1 and who cannot (or at least not fully) make a living from other sources are entitled to UB2. Hence, UB2 are strictly means-tested. Those eligible are so-called "able-to-work persons in need" and persons who live together with an "able-to-work person in need" in one household ("household in need"). Thus, in order to be eligible, the household situation is essential and for means-testing all incomes and assets of the household are considered. The definition of "able to work" is rather broad: able to work are those who can work for at least three hours a day under the usual conditions of the labour market.

Persons who receive UB2 are obliged to register with the so-called Jobcenters. Currently, 408 Jobcenters exist, of which 105 are run by the municipality alone (municipal Jobcenters), whereas 303 are run in co-operation between the county/municipality and the local Labour Agencies (co-operative Jobcenters). Thus, only the latter operate under the umbrella of the BA. Jobcenters are responsible for UB2 calculation and disbursement as well as the provision of labour market-oriented services.

The BA has a three-level structure with one Head Office, 10 Regional Directorates and 156 local Labour Agencies with approximately 600 branch offices. The 10 Regional Directorates cover the 16 Federal States with some Directorates covering only one Federal State (e.g. Bavaria), while others are responsible for two or three of them (e.g. the city State Berlin together with the territorial State of Brandenburg, which surrounds Berlin). The 156 Labour Agencies (recently re-organised and reduced in number from 176) largely correspond to the counties/municipalities on the municipality level. Hence, Labour Agencies can cover more than one county/municipality.

The Head Office is responsible for the strategic, conceptual, and contextual framework of the BA and controls the Regional Directorates. The Regional Directorates are responsible for the implementation of regional labour market policies and the co-operation with the governments of the Federal States to

coordinate labour market, structural, and economic policies. The Labour Agencies are responsible for the implementation of the duties and services of the BA at the local level.

The BA is headed by the Executive Board that consists of the Chairman and two additional members. The Executive Board is responsible for strategic decision-making and the management of the BA. All members of the Executive Board serve full-time, are appointed individually for a fixed term of five years and the tenure can be prolonged unlimited. The Regional Directorates and local Labour Agencies are also managed by three-member managing boards with each member having a particular area of responsibility.

Furthermore, and as mentioned above, the BA is engaged (via the local Labour Agencies) in the 303 co-operative Jobcenters. The geographical areas of the Jobcenters correspond largely to the counties on the municipality level. Thus, one Labour Agency can be involved in more than one co-operative Jobcenter. In each co-operative Jobcenter the Labour Agency and the respective county/municipality are represented equally in the Supervisory Board of the Jobcenter. Each co-operative Jobcenter is managed by a Director who is appointed by the Supervisory Board of the Jobcenter and who reports to this Supervisory Board.

The autonomy of the BA varies considerably between the two Social Codes. In the area of Social Code III, the BA has a high degree of discretion because the Ministry of Labour and Social Affairs has legal supervision over the BA only. By contrast, the room for manoeuvre is much more limited in the area of Social Code II for which the Ministry has both legal and technical supervision and in which the counties/municipalities are directly involved via the Supervisory Board of the Jobcenters.

However, also in the area of Social Code III the Executive Board is not entirely free to decide since the Administrative Board supervises and controls the BA (incl. approval of budget). There is an Administrative Board on the federal level (i.e. for the Head Office) and for each Agency at the local level. At both levels, the tripartite Administrative Boards comprise representatives of trade unions, employers, and public authorities. At the federal level, each group has seven representatives. The public authorities group consists of one representative from the Federal Ministry of Labour and Social Affairs, the Federal Ministry of Finance as well as the Federal Ministry of Families, together with representatives of Ministries of three Federal States and one representative of the umbrella organisation of the German counties.

## **2. STRENGTHS**

During the last 10 or more years, the German labour market and its system of public employment services underwent a fundamental restructuring process. Triggered by the so-called Hartz-reforms, the BA as an organisation also has gone through an impressive transformation process since the beginning of 2004. Starting from an opaque and very bureaucratic organisation which regularly accumulated deficits, the BA today is an efficient organisation with a high degree of transparency and regularly accumulates surpluses. This achievement was clearly driven by strong leadership following a top-down approach with a strong focus on indicator-based performance management and controlling.

As a result, the assessor team has been impressed by the very professional organisation with a high degree of transparency regarding targets and results on all levels of the organisation. This is especially remarkable given the size of the BA, which has around 100,000 employees in more than 1,000 local units. It can be attributed to the full-fledged performance management system with an

elaborate planning process, ambitious targets, and an all-encompassing monitoring system. In addition, clear management principles, a strong orientation towards cost-effectiveness, a comprehensive follow-up process with performance dialogues four times a year across all levels, and decentralised responsibility in a competitive framework support professionalism and transparency.

Furthermore, the BA stands out for its strong focus on the prevention of unemployment with various activities and services which can be considered exemplary among European public employment services. Due to the legal requirement of early registration, the BA has a unique window of opportunity to utilise the period of cancellation as a potential job-to-job phase. This is done systematically by comprehensive service provision and the results of this job-to-job phase constitute one of the BA's key performance indicators (KPI).

Moreover, the BA has a systematic approach to core processes, all of which are standardised and steered as end-to-end processes and supported on a conceptual as well as technical level. Specifically, the highly developed and continuously improved IT-system including a comprehensive data warehouse and refined measures to secure data quality, contribute to this systematic process approach.

As a major strength, the BA has implemented a consistent and sophisticated concept for individualised service provision to jobseekers (4-Phase Model) with more than 30 underlying "action strategies" which provide orientation to employment counsellors. This 4-Phase Model is complemented by a uniform and supportive "consulting concept" (BeKo) of jobseekers, which contributes to the equal provision of high-quality consulting services for clients. Its introduction was supported by a large-scale special training programme for all counsellors in the Labour Agencies as well as the Jobcenters. Furthermore, in 2013 the BA has rolled-out specialised services for hard-to-place jobseekers in the Labour Agencies. These services are bundled in the so-called INGA-teams in which certified case-managers follow a holistic approach with close and intense face-to-face contact and in which a reduced caseload of 1:65 is applied.

Due to its well-developed and consistent employer strategy, the BA has established a high reputation among employers. There is a clear focus on small and medium-sized enterprises (SMEs), which is anchored by a key performance indicator for this customer group. A two-step matching process is implemented which combines IT-driven automated matching with a further refined selection by the employment counsellors. In addition to matching, a large set of complementary services are offered to employers by their personal contact persons.

Furthermore, the BA is characterised by its dedication to continuously investigating what works (and for whom) and using this evidence to design (new) services and the processes of their provision. The BA devotes a substantial amount of resources to the evaluation of PES services using a wide range of methods including randomised controlled trials (RCTs), econometric analyses, and qualitative studies.

The BA is a very ambitious employer and has established a sophisticated and continuously developing Human Resource Management (HRM) based on a uniform and elaborate competences model which is applied throughout the entire organisation. Major elements are competence-orientated personnel development, mandatory task descriptions, diversity management, on-boarding strategies, reconcilability of family and work, the possibility of doing home office, talent management, job rotation, coaching, mentoring, a system of initial training and master degree studies.

Finally, there is a vision document (BA-2020 strategy) in which the BA describes where the organisation comes from and where it is heading. This document is based on an analysis of megatrends and provides a time-bound development plan with the aim to contribute to the solution of the challenges implied by the identified megatrends.

Hence, what the BA has achieved in the last 10 years or so commands respect. This achievement is especially remarkable given the extremely complex and cumbersome governance structure with the two social codes and the high impact of the "policy level" (in a wider sense) in the area of Social Code II. As a consequence, the BA is among the few European public employment services that are able to convincingly "make the business case" and maintain a strong reputation among stakeholders.

### 3. CONTEXTUAL INFLUENCES

#### ***Institutional Context***

As described above, the German institutional context is characterised by a very complex governance structure. Therefore, regarding the predefinition of objectives and targets, it is necessary to distinguish between both Social Codes.

#### *In the area of Social Code III (UB1)*

The tasks of the BA in the area of Social Code III comprise

- Vocational guidance and orientation
- Advice regarding the labour market in general incl. further training
- Job and apprenticeship placement
- Integration of jobseekers into employment
- Provision of income replacement benefits

For a period of 4 years (corresponding to the legislative period of the German parliament) the BA and the Federal Ministry of Labour and Social Affairs conclude a "framework objective agreement" which has to be approved by the Administrative Board of the BA. This agreement is required by law and contains a joint definition of core areas regarding the implementation of the above mentioned tasks of the BA. The current agreement contains four objectives: (i) improvement of the matching between workers and jobs, (ii) avoidance of long-term unemployment, (iii) support of structural change, and (iv) implementation of equal opportunities and gender equality.

These objectives are translated into targets and indicators. The agreement does, however, **not** contain target **values**. The BA has to report annually on the progress regarding the objectives in the agreement. It is foreseen that there are dialogues between the BA and the Ministry biannually in which progress and further developments are discussed.

Thus, within this framework the BA is free to decide on target values, the translation of targets into key performance indicators as well as the design of processes and services to achieve the targets. Furthermore, the BA is free to add additional targets and to decide whether and to which extent the targets are further broken down to the Regional Directorates as well as Labour Agencies and which format is used for this.



*In the area of Social Code II (UB2)*

The general objectives of the Social Code II are

- to ensure a decent life for benefits recipients,
- to strengthen the individual responsibility of benefits recipients,
- to contribute to the taking up and continuation of employment, and
- to ensure equal opportunities for men and women.

According to §48b Social Code II, the BA is required to conclude an **annual** target agreement with the Federal Ministry of Labour and Social Affairs (which co-operates with the Federal Ministry of Finance in this context). Based on this "federal level agreement", the BA is legally obliged to conclude target agreements with the Directors of each and every co-operative Jobcenter together with the county/municipality of the respective Jobcenter. The three objectives in these agreements are regulated by law and comprise (i) reduction of UB2-recipient, (ii) improvement of integration into work, and (iii) avoidance of long-term UB2-recipient. The targets and indicators representing these objectives are also defined by law and statutory order of the Federal Ministry of Labour and Social Affairs. For the latter two objectives, the agreements (on the federal as well as the Jobcenter level) contain specific target **values** to be reached for pre-defined indicators.

The development of the indicators reflecting the three targets (i)-(iii) together with complementary indicators are monitored on a monthly basis and published on the internet. Hence, in the area of the Social Code II the discretion of the BA regarding the definition of objectives and setting of targets as well as the translation of them into key performance indicators is rather limited. The same holds for the break-down of targets etc. to the local level due to the legal requirement of target agreements with the Jobcenters.

***Economic Context***

The economic background in which the BA operates has been characterised by strong positive GDP growth rates in 2010 and 2011, which was followed by a stagnation period of two years (2012 and 2013) and considerable growth rates of 1.6% and 1.7% in 2014 and 2015, respectively. According to Eurostat data, the unemployment rate has been steadily declining since 2009, in which it reached its peak with 7.6%. In 2014 and 2015, it amounted to 5.0% and 4.6%, respectively. This pattern is mirrored by the LTU rate and the youth unemployment rate, though on different levels. According to the forecasts of the European Commission, Germany is expected to experience positive GDP growth rates of 1.6% in 2016 and 2017, respectively. For the same period, the unemployment rate is forecasted to remain at the level of 2015.

## **4. CURRENT AND POTENTIAL GOOD PRACTICES IDENTIFIED DURING THE ASSESSMENT**

The strengths of the BA outlined above are supported by a large number of potentially transferable good practices. These include the following:

- The consistent model to define targets as a result of labour-market analyses, the translation of targets into KPI, the index structure of targets (i.e. results and result structure) and the strong focus on following-up the results using

performance dialogues. These are central elements of the highly elaborated performance management system which is clearly the backbone of the BA and ensures the professionalism and transparency of the whole organisation.

- The development of an electronic file system (eAkte) that can substantially facilitate the work within the BA together with the data quality management and the process of engineering new IT-applications (incl. the release process). These are important elements of the support structure within the BA that contribute to efficient service provision.
- The 4-Phase Model (4PM) as such, but especially the attempt to comprehensively collect non-cognitive (soft) skills according to the "general competences model" of the BA and the special services for competence diagnostics (KDL). The intensified personal support with close and intense personal contact and reduced caseloads in the INGA-teams. The "consulting concept" for jobseekers (BeKo) that contributes to a "strength-orientation" in counselling and the "action strategies" underlying 4PM that provides orientation to employment counsellors. These are the major elements of the BA's sophisticated approach of individualised service provision to jobseekers according to their proximity to the labour market.
- The well-developed employer strategy with a clear customer segmentation concept and a strong focus on SMEs. This approach contributes to the BA's solid reputation among employers.
- The impact analysis tool for evaluating the effects of active labour market policies (TrEffeR), the independent research institute (IAB) complementing the research unit in the BA, the extensive use of pilot studies (including RCTs, if plausible) before rolling out new services/processes and the Research Data Centre (FDZ) to foster research using BA-data. These are major elements of the BA's approach for evidence generation, which forms the basis for the design of (new) services and processes.
- The highly elaborated HRM-system as such, but especially the talent and competence management. These contribute to the continuous improvement of the ability and capacity of the BA's staff.

## **5. AREAS WHERE IMPROVEMENTS MAY FURTHER ENHANCE PES OPERATIONS AND OUTCOMES**

In its self-assessment, the BA as a mature and well-developed organisation has identified some areas for improvements which all deserve full support. In principle, these improvement areas refer to the closing of feedback loops – or in terms of the PDCA-cycle – to the strengthening of the "act" phase. The BA has proven to have a very strong and sophisticated planning system. Furthermore, the implementation ("do") of the plans is elaborated and accompanied by comprehensive monitoring activities ("check"). However, there is a need for a more systematic application of corrective actions in some areas of the organisation. This is especially important against the background of the increasing need to integrate marginalised groups, including refugees. Since these individuals have complex barriers towards the labour market, the BA must be able to provide innovative solutions which are targeted to the needs of each individual. In the self-assessment, the BA addressed the need for a strengthened "act" phase to adjust its plans and concepts to a complex reality.

Thus, some of the PDCA-cycles need to be closed. The introduction of lessons-learned processes, the regular and all-encompassing use of self-assessments on all organisational levels together with an intensified and more systematic transfer of

good practices across local units can support this. However, the decisive prerequisite to achieve this objective is an increased awareness of each and every employee for the achievement of the organisation as a whole. This implies that down to the level of individual counsellors in the local units the awareness has to be anchored that he/she is personally called to action if he/she perceives something as not working well enough and that this person is not just waiting until (top) management decides what to do. The systematic anchorage of this awareness can lead to an organisation with an intrinsic pursuit for better solutions and results via a continuous bottom-up driven improvement process. From the perspective of the assessor team, the achievement of such a long-term organisational development objective is the most fundamental challenge of the BA regarding the future, while at the same time a great opportunity.

As outlined above, the impressive successes of the BA during the last 10 years or so were clearly driven top-down and by a strong focus on indicator-based performance management and controlling. Currently, the organisation seems to be on the upper part of an organisational development path with decreasing returns. In other words, it is likely that further intensification and refinement of the approach followed in the past will yield considerably smaller performance returns than in the past. Thus, to still achieve substantial performance increases, there is a need for a structural break in the development path that can lift the whole path to a higher level. Such a break has already been initiated by the BA through the provision of more manoeuvre room to the local units (esp. the Labour Agencies). The assessor team believes that this approach deserves full support and should be pursued consequently.

Obviously, such an approach must be “lived” or “filled with life”. Hence, the assessor team sees a need to foster self-reliance and unleash the creativity of staff working with clients in everyday business in order to establish a model of common responsibility for the best possible results of the organisation as a whole. Ultimately, this implies a change of the organisational culture towards one of cooperation and competition at the same time as well as a greater willingness to experiment with new approaches, to accept failures/mistakes and to learn from them. Clearly, this cannot be prescribed, but it needs empowerment and trust and has to be “co-created” jointly by all actors at all levels of the organisation as well as together with the clients. The assessor team is convinced that the BA as it currently stands is a mature organisation that can certainly be self-confident enough to dare to take this next step into the future.

## **6. RECOMMENDATIONS**

Since the BA has proven to be a mature organisation, the assessor team will not provide recommendations, but rather suggestions. These suggestions are worth thinking about, especially against the background of the aforementioned long-term organisational development objective. However, before presenting our suggestions directed at the BA, the assessor team would like to emphasise that due to its – from an international perspective – stupendous complexity, the German governance structure appears to be obstructive rather than beneficial for the efficient provision of public employment services tailored to the needs of citizens in Germany. Of course, we are aware of the fact that the current institutional context with two Social Codes and scattered responsibilities in the realm of Social Code II is the result of a cumbersome political bargaining process and complex constitutional questions. Nevertheless, any attempt to reduce complexity and to foster accountability deserves full support.

For clarity, we present our main suggestions directed to the BA as a series of bullet points as follows:

- Consider putting a clearer focus on the bottom-up process in the annual target planning and devoting more degrees of freedom to change plans according to changing circumstances by making use of conditional planning and preparedness instruments to gain more agility.
- Consider strengthening internal benchlearning on the local level in the different regions (e.g. by regularly conducted self-assessments or increased inter-regional co-operation via mutual job-shadowing). This could also encourage the process of bottom-up innovation.
- Consider a more holistic approach to strengthen process management. Specifically, define which process has to be steered on which capability level. Staff engagement in process-optimising and improvement, and a little more freedom within process borders, could empower staff. Process ownership should be positioned in the regions. Anchor process management know-how on all levels of the organisation to underline the strategies. A small set of methods and instruments (e.g. methods how to conduct interface analysis easily) could help the process owners in the regions to conduct continuous process improvement.
- Consider implementing a more holistic quality management approach that is clearly confined from controlling. Specifically, quality management could be developed towards an integrated management system approach with the focus on customer and service orientation, with the following components: risk management, continuous improvement process management, interface management, and project management. Consider installing quality managers in all regional offices and quality coaches in every single local office. Communicate your quality policy and take care that the staff is aware about this. Make sure that both team leaders and individual employees are responsible for quality.
- Consider involving customer groups into the continuous improvement process (e.g. using focus groups, accompanied customer journeys, story-telling, etc.), strengthening the continuous improvement process (roles, methods/instruments, structure) and installing overall feedback processes. Lessons learnt processes and good practice transfer could be done more systematically.
- Consider a more "specialised" model of service provision to jobseekers in the area of Social Code III to avoid too many resources being invested in individuals who are not in need of them ("rather simple cases"), which may result in not enough resources being available for those who are truly in need ("complex cases"). It could be considered, for instance, to implement "job brokers" for simple cases with relatively high caseloads and extensive use of e-services for a specific time at the beginning of job search (say, the first 2 months). And "case managers" for more complex cases with lower caseloads (comparable to those of the INGA-teams) and primarily face-to-face services. As a consequence, there might no longer be a need for six different profiles. However, the underlying action strategies should be maintained in any case because they provide orientation to the counsellors.
- Consider paying more attention to the consulting of the household as a whole in the area of Social Code II. This seems to be especially important in the case of employed benefits recipients where a large unutilised potential for savings seems to be available. It is apparent here that the household needs a higher income and this might be difficult to achieve for only one single person in this household. Thus, a "systemic consulting" of

the complete household appears to be worth considering. This could be complemented by a "household profile" instead of individual profiles, and the development of "household action strategies" in 4PM instead of "individual action strategies". For systemic consulting, the BA can draw on the promising experiences of the very useful and valuable service which was recently introduced in the pilot project "Further Training Advice" (WBB) where such an approach has emerged as the consulting standard.

- Consider paying more attention to the sustainability of integration in the realm of the Jobcenters. This could enforce the strong and very reasonable focus on the prevention of unemployment, because prevention starts with ensuring that newly started jobs are not lost within a short time period. Of course, the indicator on the rate of sustainable integrations according to §48 Social Code II is not really informative. Thus, its definition should be adapted.
- Consider the development of a joint employer strategy for both Social Codes that is jointly implemented using specialised employer assistance in the Jobcenters. Consider examining the quality of the matching process further and facilitating a closer cooperation between employer service units and employees of jobseeker services on a regular basis. Furthermore, it might be useful for employment counsellors to visit employers to better understand their needs.
- Consider strengthening the feedback loop between research units, management, and regional/local offices. A more systematic feedback process could be developed from management to research units about the (potential) use of research results. The regional/local offices could benefit from understanding the evidence-base behind the guidelines more thoroughly.
- Consider the provision of a "global budget" to the Labour Agencies – or at least some discretion to shift between the budget for staff/equipment and the budget for ALMP-measures (like in the SGB II). This should be tested in a pilot project (preferably a RCT).