



European Network of Public Employment Services

Benchlearning Initiative External Assessment

Iceland

2016

Summary report



Written by ICON-INSTITUT Public Sector GmbH

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1. Introduction

This report outlines the results of the Benchlearning (BL) external assessment of the Directorate of Labour (VMST - Vinnumálastofnun), which exercises the function of the Icelandic Public Employment Service (PES). The VMST is under the supervision of the Ministry of Welfare and bears responsibility for public labour exchanges. It handles day-to-day operations of the Unemployment Insurance Fund, the Maternity and Paternity Leave Fund, the Wage Guarantee Fund, and other functions related to the labour market delegated by the government (e.g. of the Labour Inspectorate, which checks illegal employment). The VMST is responsible for the disbursement of maternity and paternity leave benefits. It also tends to the registration of jobseekers and the calculation and payment of unemployment benefit. The main legal basis for the VMST is given by the Labour Market Measures Act no. 55 of 2006. However, the Minister of Welfare may decide to assign additional tasks to the VMST.

The BL external assessment was conducted between 20 and 22 June 2016. The team of five external assessors comprised two peer PES staff (Flemish and Luxembourgian PES), one PES expert from the European Commission, and two experts from ICON-Institute (the supporting contractor). The programme of the 2.5-day visit included meetings at the head office of the VMST in Reykjavik with senior management/directorates and meetings at the regional PES office in Akureyri.

The time and resources invested in preparation for the BL visit by the VMST and their internal self-assessment, as well as the additional written information provided before and during the BL visit were key to the success of the BL external assessment process. The internal self-assessment was the result of an intensive discussion and work process that started in January 2016. A working group consisting of representatives from the head office and from regional offices was set up, and met regularly in order to develop the self-assessment. This exercise was considered very helpful by the representatives of the VMST, giving them an opportunity to reflect critically on their own organisation and structure, and to uncover weaknesses and define activity fields for improvements.

The VMST has a two-level structure, with a head office and nine service offices in each of the service regions. Regional directors under the supervision of the Director of Counselling and Recruitment Services are responsible for the management of regional service offices. In the Reykjavik capital office, where the head office is located, the management of counselling and recruitment services is the responsibility of departmental managers. Regional directors under the supervision of the Director of Law and Administration are responsible for the management of The Payment Office for Benefits and The Maternity and Paternity Leave Fund Office.

Social partners have representatives on the board of the VMST, the Board of the Unemployment Insurance Fund, and the Board of the Guarantee Fund. The Board of the VMST is composed of ten members appointed by the Minister of Welfare, and represent the social partners, municipalities, and ministries. The Board of the VMST has a supervising role and approves the annual Operational and Financial Schedule. The Board of the VMST also has a role with regard to employment benefit funding and policymaking in the field of ALMP. Each regional service office has a regional employment council, which is composed of representatives from labour market organisations, local authorities and secondary schools. They have an advisory role regarding structure and choices of ALMP measures.

The main objectives of VMST are set out in the Act on Labour Market Policies and comprise the following:

- Provide individuals with appropriate assistance to enable them to become active participants in the labour market.
- Promote equilibrium between the supply of, and the demand for, labour in Iceland.

The central strategic planning document of VMST is the Annual Operational and Financial Schedule, which describes inter alia (a) challenges on the labour market, (b) strategic priorities for VMST, and (c) activities to be performed by the different divisions and regional offices.

2. Strengths

Among the strengths that have been identified by external assessors during their visit to VMST, the first relates to the very positive attitude of senior management to enhance the organisation and improve its performance. The lead is taken by the Director General, who promotes self-reflection among the staff and encourages employees to give their support for continuing the reform process that VMST is undergoing. In this context, it has to be highlighted that the self-assessment has not only been limited to describing VMST's position for each enabler, but it also clearly defines activity fields for future improvements and contains specific suggestions for concrete action to be taken, to which VMST will dedicate its engagement in the near future.

The openness of the entire organisation to reforming its structure and processes is reflected by a variety of successfully implemented (pilot) projects. To be mentioned in this context are the Big-Bang project for the labour market integration of young people, and the digital platform "Join Me" for the exchange of information and experience within VMST (see chapter 4 for details).

A further strength is the high commitment and engagement of VMST's staff. The dedication of the employees is underscored by their very supportive and socially responsible attitude towards jobseeker and employer customers.

In addition, the short and excellent functioning communication channels as well as the flat hierarchy have to be mentioned as strengths of VMST. These factors help the organisation remain very flexible: ad-hoc problems usually can be solved immediately, and new projects can be implemented rapidly. The flexibility is further increased by the fact that most employees are generalists, which allows them to perform different tasks within the organisation when needed. Flexibility is also strengthened by the high degree of freedom regional service offices have to adjust service provision and ALMP-instruments to the local needs and the local context.

3. Contextual Influences

The context in which VMST operates is influenced to a large extent by the recent economic and labour market trends as well as by its organisational setting. In detail, the following developments have to be mentioned:

Economic and Labour Market Context

Coming from a situation of full employment, the Icelandic labour market experienced an unknown increase of unemployment with the economic and financial crises of 2008, for which VMST was not prepared. According to the Labour Force Survey (LFS), the annual average of unemployed persons was 2.3% of the active population in 2007. It increased to 7.6% in 2010, before diminishing again to 4.0% in 2015. In parallel, an increasing percentage of the active population be-

came long-term unemployed until 2011. Their share was 0.4% in 2009 and 1.7% in 2011, before diminishing to 0.5% in 2015. However, during the entire period unemployment and long-term unemployment remained significantly below the EU average.

Apart from the decrease in unemployment, the most important sign for economic recovery was the positive development of annual growth and annual hiring rate: annual real GDP growth rate increased again after 2010, whereas a substantial negative trend could be observed in 2009 (-4.7%) and 2010 (-3.6%). In addition, the annual hiring rate increased by more than 20% from 2012 onward, after increase rates remained (far) below this level in previous years (2009: 17.7%; 2010: 18.0%; 2011: 19.7%).

After the shock of the economic and financial crises, the high number of persons registering as unemployed and seeking unemployment benefits in 2008, 2009, and 2010, led VMST to a focus on the calculation and payment of benefits. Little space was left at that time for active labour market policy (ALMP). As soon as the economic situation improved and unemployment decreased, VMST gradually started a reform process in order to better prepare for similar situations in the future, and focus on ALMP, especially for the most vulnerable groups among the unemployed. The strategic shift in VMST from administrating registered unemployment to a more active approach was realised through the following five steps:

Step	Date	Main activities
1	Oct. 2008- Sep. 2009	<ul style="list-style-type: none"> Registration of unemployed Payment of benefits
2	Sep. 2009- Jan. 2010	<ul style="list-style-type: none"> Focus on cooperation with free organisations Increase of budget and of VMST-staff
3	Jan. 2010- Aug. 2011	<ul style="list-style-type: none"> Increased emphasis on labour market measures Focus on activating those who were long-term unemployed, on active youth, on knowledge and experience, and on summer jobs for students
4	Aug. 2011- Sep. 2012	<ul style="list-style-type: none"> 10% of jobseekers went to school: secondary school, preliminary school, and universities Job training in companies with special payments and support to companies
5	Jan. 2013- 2014	<ul style="list-style-type: none"> Long-term unemployed get job offers: job training in companies with special payments and support to the companies

Another driving factor for reforming VMST is derived from the increasing shortage of a skilled workforce in the country. This makes it necessary for VMST to strengthen strategies for enforcing its partnerships with enterprises and social and economic partners, and to implement effective integration mechanisms for an increasing workforce coming from other countries as well as to activate those parts of the population that are not active on the labour market.

Budget and staff

The operating expenses of the VMST are met from the State Treasury under the budget legislation at any given time. Collaboration with other parties, such as pension funds, is sought regarding funding.

According to the Annual Report 2015, VMST's budget increased by 2.2% between 2014 (1,213 million ISK/approximately 8.9 million Euro) and 2015 (1,239 million ISK/approximately 9.1 million Euro). In the same period, running costs of VMST (staff of the head office, the nine regional service offices, as well as other administrative costs) went up by 6,1% (2014: 919 million ISK/approximately 6.7 mil-

lion Euro; 2015: 975 million ISK/approximately 7,2 million Euro) mainly due to a 7% collective agreements' wage increase.

There are currently 132 employees working at the VMST, of which 77 work at the head office/capital region office in Reykjavik, while the remaining 55 work in the other eight regional service offices.

4. Current and Potential Good Practices Identified During the Assessment

Starting from the strengths of VMST (see section 2 of this report), external assessors identified a series of good practices related to specific processes or to new projects.

On the procedural level, *the digital "Join me" platform* helps to significantly increase the accuracy and speed of information exchanges between employees in the head office and the regional offices. "Join me" offers the possibility to broadcast all staff meetings, also to record and publish them afterwards on VMST's intranet. "Join me" can also be used for staff trainings and the dissemination of evaluation results. It also offers great potential to advertise PES-services, trainings, counselling, etc. to jobseekers and employer customers in remote areas of the country.

Another very good example on project level is the *"Big Bang" initiative*, which has been implemented in the Akureyri region. In general, "Big Bang" is a two-year project supported by the European Union's Lifelong Learning Programme. The overall aim of the project is to explore the issues involved in building bridges between worklife and youth. As part of the "Big Bang" project, organisations from different countries – among those the regional VMST office in Akureyri – conducted a study into some of the specific aspects of these issues, to compare findings and identify effective practices. As a background to the report, "Big Bang" highlighted that there are a significant amount of young people who require support in order to become successful at school, or find apprenticeships or employment. After identifying young people with a high risk of leaving school without a diploma or who have already left school, practical training opportunities were created in private enterprises and in public administration to bring these youth back into the educational and the employment system. The result of this initiative was more than positive. Around 80% of participants found their way back into the labour market or the educational system.

Apart from these general examples, the following specific aspects are highlighted as good practice examples:

- Referring to **operational processes**, work processes in the payment office are highlighted as a good and inspiring example. The defined process standards for payments can be adapted to individual needs, in order to facilitate a prompt transfer of benefits.
- As far as **sustainable activation and management of transitions** is concerned, the broad array of criteria taken into account for profiling can be highlighted as a good practice. In addition to sociodemographic variables, work history, qualification, and informal competences, variables like stress, burn-out, and sleeping issues are taken into account for an integrated holistic profiling. In addition, differentiated ALMP-measures depending on the unemployed person's needs are available, especially in the capital area. Creative solu-

tions are currently being sought after to also offer these measures in more remote parts of the country.

- Another good practice in the field of **employer services** is the management of small-scale, direct, and personal contact with employers. This makes it relatively easy to gain the employer's trust and to intensify cooperation.
- With view to **evidence-based design**, the use of counterfactual evaluations has been identified as a good practice that allows senior management to better assess net-effects of ALMPs, thus broadening the information basis for modifying instruments or implementing new ones. In addition, evaluation results are disseminated among the entire staff of VMST by making use of the "Join me" platform.
- In relation to **partnerships and stakeholders**, an important good practice is the existence of rehabilitation centres, which are managed in a partnership between municipalities and regional VMST offices and focus on the integration of young people with a wide range of difficulties.

5. Areas Where Improvements May Further Enhance PES Operations and Outcomes

Within the self-assessment, VMST identified areas for improvement in nearly all enabler sections that relate to VMST's structure, processes and service provision chains. In general, these areas for improvement coincide with relatively low evidence in relation to the "gold standard" defined within the single performance enablers. According to the self-assessment, the most important areas for improvement relate to:

- ***Strategic performance management***
 - No clear procedures for a systematic involvement of staff in the planning process within divisions and regions
 - Missing cost estimations for implementing strategic priorities
 - Missing definition of SMART targets
 - Missing regular review of indicators related to service provision
 - Need for the definition of clear procedures for the quantification of indicators and for the setting of appropriate targets
 - Unsystematic monitoring and assessment of performance
- ***Design of operational processes***
 - Unsystematic definition of business processes along with the definition of clear process interfaces
 - No regular review of documented processes and definition of responsibilities for activities concerning process definition and standardisation
 - No regular customer satisfaction surveys, and surveys have not yet been used for measuring user friendliness of digital channels or specific aspects of other services
 - No regular communication about ICT changes and improvements according to clear responsibilities

- Insufficient knowledge and information among staff about documented processes in the Quality Manual and its revisions
- ***Sustainable activation and management of transitions***
 - Further definition, mapping and standardisation of holistic profiling needed
 - Missing standardisation of procedures to ensure that individuals within a sub-group are offered comparable services, and further sub segmentation of customers
 - Missing (digital) individual action plan form
 - Stronger link between individual needs and appropriate service bundles via holistic profiling and sub segmentation of customers
 - Systematic checks of content and quality of an individual action plans missing
 - No regular and systematic surveys on ALMP measures' effectiveness
- ***Relations with Employers***
 - Different procedures and routines among units and departments for the registration of contacts with employers do not allow systematic monitoring of results of employer services
 - Surveys for regular employer customers do not exist
 - Missing quality standards and relevant indicators and targets
 - No systematic monitor of jobseekers' activities with regard to the updating of online profiles
- ***Evidence-based design and implementation of PES services***
 - Missing strategy for transferring science-based evaluation results into clear recommendations for practical action
 - Limited budget for follow-up of change management-related activities

Most of these areas can be supported by the findings of the external assessment team. After having identified areas for improvement, the external assessment team encourages VMST to continue to elaborate suitable solutions, and to start with their implementation.

In addition, the external team of assessors highlights the following areas for further improvement:

- ***Strategic orientation of VMST:*** The current focus of VMST's strategy is to help jobseekers find a job, but it seems of at least similar importance to concentrate on employers and their need to find an adequate workforce for their increasing number of vacancies. A stronger focus on employers also offers a good opportunity for VMST to strengthen its partnership with the enterprise sector by helping enterprises in human resource development. Stronger links to enterprises should help increase VMST's reputation in this field. In turn, a closer relationship and augmented mutual trust might open doors with these employers for jobseekers who struggle with greater distances from the labour market (most of the VMST's current jobseekers fit this description).

- **Digitisation of services:** VMST has successfully started the digitisation of services, but the potential offered by strong digitisation is not yet fully exploited. A stronger digitisation of standard services could help shift resources from administrative tasks to a better, more individualised and effective matching of labour demand and labour supply.

6. Recommendations

As already pointed out, the team of external assessors would like to encourage VMST to continue its reform and modernisation process, which has been launched in recent years as a consequence of the increasing unemployment because of the financial and economic crisis. Ambition on all levels to provide excellent service, the strong dedication of senior management to transforming VMST gradually into a PES, readiness to face current and future challenges, and the motivation to do a good job throughout the whole organisation are considered key success factors by the external assessors and should be further strengthened.

As far as the overall strategy of the VMST is concerned, several factors are worth careful consideration. The unemployment rate in Iceland is one of the lowest in Europe, and a further decrease can be expected in the next years. In addition, the average duration of unemployment is below three months. Furthermore, there is little long-term unemployment, and the economy is developing positively and dynamically. There is an obvious and general lack of workforce in the country, especially affecting sectors like construction, tourism, and services. As a consequence, the strategic orientation of VMST in the next years should ensure that the lack of an adequately skilled workforce does not become a limiting factor for economic growth in Iceland.

Within VMST's mission of promoting equilibrium between the supply of, and the demand for, labour in Iceland, the team of external assessors therefore recommends paying special attention to the needs of enterprises and helping them find appropriate candidates for vacancies. This can be achieved by:

- speeding up the integration of registered unemployed and by a further reduction of longer unemployment;
- intensifying activities that allow employees a quick change into another job in order to avoid unemployment (job-to-job integration);
- activating economically inactive persons (e.g. activation lone parents with young children);
- systematically improving the preparation of the foreign workforce to cope with the demands of the Icelandic labour market and the specific requirements of enterprises in the country; and
- helping enterprises (a) identify staff and HRD needs and to (b) effectively overcome the existing and/or future workforce shortage.

The recommended strategic shift to a more employer and economy-related strategy of VMST would also entail reviewing standard processes for employers' services and their organisation, the intensification of cooperation with employers' organisations, chambers, etc. as strategic partners, as well as a revision of VMST's

objectives, indicators, and quantified targets. The general objective of VMST's modified strategy would be to place VMST as the most important partner of enterprises in human resources development. This should not be limited to the placement of jobseekers, but could also comprise elements such as the training of employees, the development of a retention strategy, the identification of staff needs, and the support for hiring workforce from other countries.

In addition, the team of external assessors recommends making more intensive use of e-services, which could help reduce the amount of administrative tasks that officers have to perform currently. The mobilised resources could then be used for new tasks, e.g. at the level of employers' services, such as outreach activities, needs forecasts, etc.

Furthermore, external assessors emphasise the following specific recommendations:

- ***Measuring performance and implementing performance dialogues:*** external assessors recommend the definition of a small set of smart and clear indicators, as well as appropriate quantified outcome and efficiency-related targets for the monitoring and the analysis of service provision. The staff should be involved in the definition of these targets, and VMST's performance should be reviewed in constant time intervals, e.g. on an annual basis. Incentives for good performance, as well as benchmarking between divisions and regional offices could help increase the effectiveness and efficiency of VMST's performance.
- ***Higher standardisation of processes:*** in order to provide all customers with high quality services throughout the country, the team of external assessors recommends a stronger standardisation and documentation of business processes, a clear ICT-concept, and an IT-system that is able to make use of already existing data on jobseekers and enterprises that are collected within other systems. The examples of Norway or Estonia could be helpful for a potential redesign of VMST's current IT-system. The quality of service provision could also be increased by the elaboration and implementation of a formal Quality Management, the creation of specific dedicated resources for Quality Management, the implementation of regular customers' surveys via the "My pages" platform, and the increased availability of information on jobseekers and enterprises in the English language.
- ***Implementation of holistic profiling:*** external assessors recommend the implementation of digitised holistic profiling, which will help to better tailor customers' services to their needs, improve the matching quality, and achieve a more accurate segmentation with less time investment from counsellors. In addition, individual and standardised action plans as well as more digitised services will contribute to a more structured and effective activation of jobseekers.
- ***Elaboration and implementation of an employer strategy:*** an important step towards the recommended shift to more comprehensive employer-focused VMST services would consist of the elaboration and implementation of an employer strategy with clear objectives, appropriate indicators, quantified targets, targeted acquisition activities for vacancies, and a clear definition of the job broker's function.
- ***Strengthening evaluation:*** in order to better understand what works and what does not work as it should, it is recommended to intensify scientific evaluation activities. These should be performed on a regular basis – e.g. as

counterfactual evaluation of ALMPs, evaluation of processes and service delivery, etc. – and according to a systematic approach of which an evaluation plan and a steering group should be important elements.

In addition, before implementing innovative projects, the objectives and the transfer potential of mainstream processes should be defined in advance.

- **Strengthening of partnerships:** apart from giving more attention to the co-operation with employers' organisations, a more systematic approach toward partnerships, with the definition of clear objectives and measurable targets for each partnership, as well as of roles and the strategic importance of the different partners – at the national and regional level – is recommended.
- ***Better allocation of resources:*** it is also recommended to improve HRD within the VMST via transferring the current practice of the payment office throughout the entire organisation, which would help clarify individual responsibilities and give a clearer frame to employee training. In addition, once quantified outcome and efficiency-related targets have been defined, budget allocation could be stronger linked to PES performance, instead of macroeconomic variables.