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# **Marketization and varieties of accountability relationships in employment services: comparing Denmark, Germany and Great Britain**

Jantz, B. Klenk, T. Larsen, F. & Wiggan, J.

## **Introduction**

In the past decade European countries have reformed their welfare states to encourage labor market 'activation' of working age benefit clients (Jantz & Jann, 2013). This has transformed the governance of public employment services (PES). Traditional bureaucratic instruments based upon norms of standardized treatment have been supplemented or replaced by output targets and performance management, decentralization, entrepreneurial action or case management (Considine, Lewis & O'Sullivan, 2011). A striking feature of reforms to PES has been the growth of quasi-markets. Our focus is the accountability of employment services under conditions of this quasi-market expansion. It has been argued that marketized employment services significantly increase the scope and complexity of accountability challenges (Benish, 2014). Contracting out makes accountability chains much longer, and thus more difficult to allocate and coordinate responsibility and to secure the transparency needed for public accountability. Even though accountability concerns are not new in the context of public administration (Bovens, Goodin & Schillemans, 2014) and in the context of welfare administration (Lægreid & Mattei, 2013), we still know relatively little about the consequences for the democratic control of social services provided by a mix of public and private providers (van Berkel & Borghi, 2008).

How do instruments of market accountability - such as financial incentives through contracts and price competition – supersede and shape democratic and administrative forms of accountability, and vice versa? While public service provision has undergone a significant shift towards market based governance in Western democracies, the core government institutions still have the function to ensure fairly traditional political and administrative authority, emphasizing values, such as due process, procedural fairness, and equal treatment. Thus, institutional change in public service provision encounters a considerable degree of institutional stability, an argument put forward by Pierre (2012). Next to the role public bureaucracy plays in market accountability arrangements there is a lack of knowledge about how market accountability forms relate to the particularity of the economic and welfare institutions of a state. Only a limited number of publications take a systematic international comparative approach to analyzing such developments (van Berkel & Borghi, 2008). Consequently, additional research on activation accountability regimes and their dynamics by comparing public-private mixes in different countries has been requested (Benish, 2014).

This article contributes to this through an empirical comparative examination of how marketization in employment services is transforming accountability in three European states; Great Britain, Germany and Denmark. We ask:

- Is the governance shift towards markets followed by a shift towards mechanisms of market accountability?
- How does the use of market accountability relate to other accountability forms?
- What are the democratic implications of market accountability in the governance of employment services?

### **Research design and methods**

With Denmark, Germany and the UK, three countries have been selected that are representative of different 'welfare regime' ideal types and systems of labour administration.

The distinct configurations of institutions in conservative (Germany), social democratic (Denmark) and liberal (Great Britain) welfare regimes has affected the pace and form of both the turn to activation policies and the nature of employment service modernization (van Berkel, Sager & Ehrler, 2012; Bonoli, 2013). Denmark adopted activation reforms in the early 1990s, followed by Great Britain in the mid to late 1990s, whereas in Germany these developed a decade later, something Bonoli (2013) attributes to the constraints imposed by the German social insurance system. Different preferences for particular policy interventions, meanwhile, has given rise to both qualitatively different systems of employment service provision (work first or human capital orientated mixes) and distinct patterns of spending (high in social democratic, middle in continental and low in liberal countries) (Bonoli, 2013). From a continental Rechtsstaat perspective like Germany (and to a lesser degree Denmark), the state is a central integrating force within society with the actions of individual public servants and individual citizens being set in a context of rule-following and legal control. Administrative practice is strongly influenced by Weber's rational bureaucracy model with its emphasis on clear lines of accountability within a strongly hierarchical system. The Rechtsstaat perspective, however, meets the equally strong tradition of involving the social partners into labor market policy. Hence, corporatist network governance is added to hierarchical governance, in particular when it comes to the delivery of services. Corporatist network governance systems can rely in part on trust and fear of reputation loss as important accountability mechanisms and such mechanisms may imply less need for market instruments or greater obstacles to their introduction as noted above. In Great Britain, in contrast, public administration is guided by 'public interest' principles rooted in the Common Law tradition in which no divide between state and

society or between public and private law is recognized. In addition, Great Britain abandoned its limited experiment with corporatist governance in employment provision in the late 1980s. Hence, the concepts of marketization have had a much easier acceptance in these traditions. The rather hierarchical governance by the centre has been transformed by a growing reliance on market instruments such as contracting out with competitive tendering. We expected that across all three states the growing use of quasi-markets increased the salience of contractual relationships as a leading accountability instrument. We also expected that market instruments are accompanied by country specific hybridized modes of accountability, shaped by political context and by characteristics of institutions (Mahoney & Thelen, 2010, p. 15), in particular by their institutional flexibility (Pierre, 2012). Great Britain as a liberal welfare regime and 'committed marketizer' of employment services (van Berkel, de Graaf & Sirovátka 2012) for example, could be expected to have gone furthest in embedding market instruments as the dominant form of accountability, but as we discuss this does not translate into the replacement of all alternative accountability instruments.

The time line for the three case studies covers a ten year period, starting in the early 2000s and ending in the early 2010s. The exact period of examination in the three countries varies slightly, depending on the particular reform trajectories of the three countries under consideration. In Germany, the period of study starts with the implementation of the Hartz reforms (starting in 2003), in Denmark the 2002 labor market reform ("More people into jobs") has been selected as a starting point, in UK the study considers the reform trajectory initiated under New Labour (2008-10) and continued by the Conservative-Liberal Coalition Government (2010-15).

In methodological respects, the paper is based on a qualitative approach combining an extensive document analysis with the analysis of expert interviews. The document analysis included policy documents, audit reports, evaluations as well as academic literature. The document analysis was complemented by a number of semi-structured qualitative expert interviews with politicians, senior bureaucrats and providers of employment services (23 interviews in total). The interviews lasted an hour on average and were (partly) transcribed before the analysis. Qualitative thematic analysis (Boyatzis, 1998) was used to grasp the following dimensions of the accountability settings in the three countries:

- the accountability relations in marketized service provision according to the ideal types of political, administrative, market and network accountability
- the interplay between different accountability mechanisms

- the democratic anchorage of the changing modes of service provision

The article proceeds as follows: we outline our model of four distinct 'ideal types' (democratic, administrative, network and market) which we use to categorize accountability relationships and elaborate upon the relationship between marketization and accountability. This is followed by the three case studies. The results section examines shifts in accountability in the case studies and critically reflects on how marketization changes the mix of instruments used in each case to create new hybrid models of accountability.

### **Accountability in public policy: ideal types**

A variety of different conceptual approaches to accountability and classifications of accountability exist in the literature (Willems & Van Dooren, 2012, pp. 1020–1022). We start from the assumption that accountability is an interaction between two or more actors. Accountability can be conceptualized (1) as a system of knowing and evaluating someone's behaviour according to some standards and (2) a system of rewards or sanctions that are depending on these evaluations. Accountability as a social relationship suggests that formal rules, structures and roles of the relationship are dynamic arrangements subject to negotiation, interpretation, change and transformation. Accountability relationships can thus be defined as an institutional setting in the sense that they encompass a system of rules that structure the courses of actions that a set of actors may choose. If these rules are violated, the actors have to face consequences *ex post*. Actors will, however, anticipate these consequences and act accordingly if they want to prevent the sanctions. Accountability relationships guide behavior and stabilize expectations. They allocate resources (i.e. sanctioning powers), constitute events and debating space (i.e. annual meetings), empower and constrain actors and make them more or less capable of acting according to prescribed rules.

If we perceive accountability as a social relationship, the main distinction between different accountability regimes should be drawn according to their dominant mode of coordination and control, i.e. their mode of governance. Social sciences have long recognized three distinct modes of governance organized around hierarchy, competition or market and network or community (Newman, 2007). Each mode is associated with an accountability template (Scott, 2000) with distinctive features that are integral to their capacity to operate as mode of coordination and control. In the public realm, accountability normally applies to the hierarchical relationships of public sector organizations to render account to elected politicians, superiors or externally to audit institutions or courts. However we differentiate the public domain of accountability into democratic

and administrative. Democratic accountability operates through electoral processes and administrative accountability operates through hierarchical control of subordinates. We distinguish four different accountability types which are relevant for the understanding of Public Employment Services: democratic, administrative, market and network accountability (table 1).

*Insert table 1.*

Democratic accountability is responsiveness to citizens and political constituents. In a democracy, accountability is thought to form a closed chain of delegation and answerability for the fulfillment of the delegated tasks that starts and ends with the sovereign people, the parliament, the government, the ministers and the public administration acting as intermediates (Strøm, 2000).

Administrative accountability is closely related to the question of democratic accountability. It is important to distinguish between the democratic and the administrative realm. Politicians and bureaucrats have different roles in political decision making and implementation; but furthermore the norms and values by which their conducts are judged differ widely. Administrative accountability aims first and foremost at compliance with the political and programmatic provisions adopted by the government and at conformity with the legally established rules and norms, the obedience to organizational policies and deference to professional expertise (Koliba, Mills & Zia, 2011).

Market accountability coordinates exchange through competition and contracts. In contrast to democratic accountability that (in theory) affords equal weight to all citizens' right to call a public organization to account, in private markets accountability is more limited to the relationships between owners of the organization and particular groups of individuals, such as clients or employees (Mulgan, 2006). Consumers of services (or the public purchaser) and owners/shareholders in the delivery organization judge the actions of the provider according to the criteria of price, quality and return on financial investments. Managers give account about their strategies and decisions whilst customers judge the performance of the organization and hold it to account with their decision to buy or not to buy. Network accountability: Whereas prices and contracts constitute the principal means of coordination in market relationships, social relationships based on trust serve a similar function in networks. Network accountability is mainly characterized by horizontal lines of accountability in contrast to democratic and administrative accountability, where vertical lines are dominant. Individuals/organizations are first and foremost accountable to their peer group, thus the content of accountability relations, as well as the instruments and mechanisms of account giving, are not externally imposed but defined by members within the

network themselves. It is the fear of a loss of reputation amongst peers and the 'shadow of the future' which ensures appropriate behavior.

### **Marketization and accountability – exploring the linkages**

The increased use of market mechanisms in the reform of the PES has involved creation of quasi-markets where a purchaser-provider-split is introduced (LeGrand, 1991) and the PES starts to contract-out provision to third parties. However, as van Berkel, Sager and Ehrler (2012) have pointed out, the notion of a monopolistic public agency becoming a purchaser should not be taken too strictly: many countries have a long tradition of involving third parties in employment services provision. What's more, even after the introduction of quasi-markets public organizations can continue to provide services themselves. Thus, the governance of employment services shifts from one hybrid arrangement to another hybrid arrangement, with the former being more close to the public provision ideal type and the latter more close to the market ideal type. The expectation of recent labor market reforms is that the creation of quasi-markets, competitive tendering as well as price and performance orientation, will result in services delivered more efficiently and effectively (Larsen & Wright, 2014). The impact of governance reforms - especially of marketization – on accountability is still disputed. In particular there are two questions critically discussed: first, whether reforms lead to less, more, or even too much accountability; second whether the new accountability arrangements are appropriate.

With regard to the degree of accountability, proponents of marketization argue that marketization inevitably involves some reduction of traditional mechanisms of accountability (Mulgan, 2006) as private sector actors are not subject to the same accountability requirements as public officials. Seen from the perspective of the citizens as the ultimate accountees, however, this is not problematic because public agencies, even when purchasing services, remain accountable for the services they buy (Mulgan, 2006, p. 48). The public still has the right to blame public agencies or ministers for bad public services when they are provided by private contractors. Furthermore, with marketization of public services new accountability mechanisms come into play. Competition makes private agencies providing public services aware that deficient provision may drive them out of the market.

Moreover, new accountability tools which emphasize the performance function are introduced by layers of interaction among officials, contractors, and citizens or clients, making - all else equal - accountability more complex. However, this increased complexity of accountability arrangements is why marketization is also criticized in the accountability literature. The pluralization of governance actors not only creates competing, but very often conflicting accountability relations (Romzek,

2000). Accountability is challenged because the accountor becomes diffused and it is not clear anymore who is called to account for what; the Minister, public officials, private firms or all of them? It is possible that ministers or public officials are held accountable by public opinion, although they de facto lack the necessary instruments to control the delivery of public services by private providers and may not be able to sanction them effectively. The final result may not be improved accountability, but multi accountability disorder (Koppell, 2005). Last but not least, markets deepen the conflict of interest between profit maximization and public value creation (Benish, 2014) which is not solved by increased complexity of accountability. The new structure makes the accountability of elected officials more remote and might encourage officials to shift blame to the contractors. Thus instead of being maintained, the responsibility of public officials for service provision might get weaker. Hence, how to uphold democratic accountability in private service provision seems to be a crucial challenge of marketized service delivery.

The effect of marketization for accountability is still disputed (Mulgan, 2006) and dominated by assertions instead of examination of empirical evidence. It seems fruitless to continue the debate about less or more accountability through marketization. We assume there are trade-offs between different modes of accountability. Drawing on the work of Romzek (2000) we argue there is a close interrelation between the governance of service provision and accountability. When principles of delegation and service provision are changed towards marketization, accountability arrangements also change. Hence, when public service provision is marketized, accountability mechanisms may be reconfigured from political and administrative mechanisms characteristic of democratic accountability to market mechanisms, such as contracts between the public agency and the private service provider, performance criteria and reporting requirements. However, the counter assumption might be that marketization in service delivery is only loosely coupled to changes in accountability modes (Johnston & Romzek, 1999). Although new modes of accountability evolve, older interpretations will not necessarily disappear. Rather, new arrangements are layered on the accountability relationships already in place (Mahoney & Thelen, 2010, pp. 15-18). The concept of layering explains gradual institutional transformation through a process in which new elements are attached to existing institutions and so gradually change their status and structure (Van der Heijden, 2011). Layering points us to the importance of focusing on national histories and characteristic patterns of institutions as the way institutional reforms work out depends on the interaction between the different institutional arrangements a certain



system is built on. Institutional change, such as the introduction of quasi-markets as well as the corresponding accountability mechanisms, most often happens incrementally. Different actors try to change an institutional structure, while others aim to protect the status quo. The persistence of accountability modes may thus result from institutional inertia due to administrative practices like rule-orientation (Romzek, 2000), blame-avoidance (Hood, 2010) and close supervision of delegated action (Romzek & Ingraham, 2000). Marketization and competition might impact on accountability, but ministerial accountability is a highly pervasive medium of accountability and bureaucracies are embedded in hierarchies, where rules and accepted procedure give firm shape to the accountability process (Page, 2010). We expect the co-existence of different and partly contradictory interpretations of accountability, i.e. an emergent hybridity. Turning to our cases, the following country studies map out the changing mix of accountability across different European states as marketization evolves.

## **Case Studies**

### **Denmark**

The major marketization process in Denmark started in 2002. Due to thorough going criticisms of the public employment services as being too bureaucratic, expensive and ineffective the centre-right government proposed partial marketization of the employment services. Thus, the quasi-market in employment services was created in Denmark between 2002 and 2005. The regional PES was given free rein to organize contracting out, deciding what types of service and target groups of insured unemployed to contract out. The regional PES was able to decide upon forms of contracts and pay models. Their only obligation was that at least 10 percent of the unemployed should be in services fully or partly provided by non-public providers. This first wave of marketization of employment services was almost unregulated by the national authorities as regional public purchasers were provided with cash and freedom to contract out all services and target groups to create a market. The market for contracted services grew significantly after its initial creation, invigorated by the mandatory obligation to contract out services for unemployed. In 2005 around 46 percent of the insured unemployed were transferred to non-public providers (Bredgaard & Larsen, 2008). The project of creating a "market" succeeded, however the national audit office and other evaluations (Rambøll, 2004) criticized the lack of transparency and proper price competition.

A second wave of marketization occurred following discovery that it was difficult to establish accountability relations (in relation to how the regional authorities engaged with non-public providers) at the same time as documenting cost savings (price competition) and innovation

(Rambøll, 2004). As a response to criticism by the national audit office a reform was launched in 2005. This introduced a strong central (national) regulation of the market and national tendering with a focus on strong price competition and 75 percent performance related payment compulsory. Accountability was enforced through more market incentives, but more procedural and corporate governance was also put back in place to re-regulate the deregulated market (Bredgaard & Larsen, 2008). Democratic, administrative and market accountability was strengthened, while partnership or network based relation was reduced. The reform nearly halved the number of insured unemployed being transferred to non-public providers. The national tendering and the performance related payment model were mandatory up until 2011. However, the results of the model were disappointing. The combination of high-price competition, high risks for providers (waiting up to six months for full payment), and the drive to create short-term employment outcomes led to poor services by many of the private providers. The market competed on provider costs for service rather than innovative solutions. Although there were variations among the providers, media-reported “scandals” revealed examples of inferior services for the unemployed. This gave for-profit service providers a bad reputation and faith in market solutions among political and administrative decision makers declined. The third wave of marketization took place from around 2010 and was affiliated with another reform that dissolved the PES and handed employment services to the municipalities. Until then the municipalities had few experiences with employment service marketization. At first the national tendering system some mandatory requirement to refer certain target groups to non-public providers were kept in place to make the municipalities keep with marketization. However, with the problems with low quality services delivered by non-public providers, the Social Democrat led government decided to dissolve the national tendering system and let the municipalities decide on using non-public providers.

### **Implication of the marketization process on accountability relations**

The problem of finding the “right” balance between the various accountability forms has been an important “driver” for the development of the Danish marketization of employment services. Furthermore it is important to notice that the question of accountability has been a political issue. As labor market policy issues became more politicized and subject to criticism, the labor minister was - due to continuing strong ministerial accountability - constantly blamed (or held accountable) for problems with the PES. The political answer to this was decentralization through municipalization and marketization, making local actors more responsible for services. Other types of accountability combining marketized and administrative forms (e.g. performance management, prescribed procedures for services, economic incentives) were also launched from the national level creating a

kind of decentralized centralization. Hence, a partial replacement of democratic accountability was sought by adding an additional layer of administrative accountability. Regarding the balancing of accountability types the Danish process of marketization illustrates the potential tension between using market mechanisms to improve effectiveness and efficiency versus fulfilling traditional political objectives of equity and responsiveness (Pierre, 2012). On the one hand democratic and administrative accountability is part of securing the fulfillment of the traditional political objectives, while market accountability is based upon competition as guarantee for effectiveness and efficiency. However, there are some contradictions between these two types of accountability in the process of marketization. The market accountability is in principle based upon the relation between the service provider and the client, where the clients' choice of provider on the market is to make sure that only the best providers (with the highest quality of services) survive as service deliverers. However, as employment policies normally encompass an element of regulatory requirements or disciplining elements, which can be in opposition to the perceived preferences of the individual client (Larsen & Wright, 2014), the "market" in this context is not a conventional market, but a quasi-market, which among other things means that unemployed clients are represented by a public purchaser. To maintain a kind of market accountability, instead of user-choice two other control mechanisms are then applied: Price and results (measured by employment outcomes). In Denmark high price competition, high outcome based payment and the ability to generate short-term employment outcomes without much effort led to low quality services. The attempt to balance these dilemmas through a combination of administrative and market accountability turned out to be very difficult and involved high transaction costs. This has led to a withdrawal of national responsibility for services provided by non-public providers in the third wave of marketization, making this a matter solely for the municipalities. The municipalities attempt to balance the different layers of the accountability regime, but interestingly a movement towards more partnership or network based relations between the municipal purchasers and the providers seems to become more common. Tendering becomes more frequently replaced with discussing the terms of contracts in existing networks. Questions arise though as to whether this way to overcome dilemmas of balancing administrative and market accountability will create criticism for a lack of democratic and administrative accountability, based on the risk of nepotism and lack of transparency over awarding of contracts. In sum, in Denmark different accountability mechanisms are interrelated. While municipalization and marketization have weakened democratic accountability in the form of ministerial responsibility, the new market accountability mechanisms are not displacing other types of accountability. This process of layering, however, creates the need to balance market accountability with administrative and network accountability.

## Germany

The growth of marketization of the German PES took place in the early 2000s. In Germany, like in Denmark, the major aim was to increase the efficiency and flexibility of the PES. Hence, a comprehensive reform package – called the ‘Hartz reforms’ - was implemented which changed the internal structure of the Federal Employment Agency (FEA) and its interplay with private for- and non-profit providers. It also merged the (majority of the) former local agencies responsible for social assistance with the local agencies of the PES (Kemmerling & Bruttel, 2006). However, institutional adaptation to increase efficiency and flexibility has already taken place before. To adapt public bureaucracy to new management and governance roles deregulation has been a widespread strategy (Pierre, 2012, p. 192). In 1994, the provision of placement services has been deregulated allowing private actors to participate in this market which had been monopolized by the PES. This trend has intensified with the implementation of the Hartz legislation which introduced vouchers for placement and training services and competitive tendering. With the placement voucher, a jobseeker can mandate a placement agency to find them a job. The new market for placement services was highly deregulated when the ‘Hartz reforms’ were introduced with no barriers for companies to register as private placement agency. Payment was strictly performance oriented (no cure-no pay). Only after criticism from trade unions (Deutscher Gewerkschaftsbund, 2010) and the Federal Court of Auditors (Bundesrechnungshof, 2006) about misuses by companies and ‘creaming and parking’ effects, a certification and accreditation processes for placement agencies was introduced. The Hartz legislation also changed the governance of training and education programs considerably. These services were never delivered by the PES itself, but were contracted to providers mainly belonging to the social partners which were treated as preferred providers.

The introduction of vouchers, certification and accreditation, planning, quality control and competitive tendering turned the cartel-like corporatist network into a heavily regulated quasi-market with a considerable share of private for-profit providers. All active labor market measures conducted by private providers and not funded by vouchers (such as assessment measures, short-term trainings and specialized courses for persons with disabilities) are now purchased in a competitive tendering process by five regional purchasing centers. The tendency of reducing the corporatist involvement can also be seen in the steering structures of the PES. The social partners have lost influence on operational policies as the day-to-day business has been transferred to a full-time management board (Jantz & Jann, 2013).

### **Implication of the marketization process on accountability relations**

The introduction of market elements into service provision has changed the accountability relations by introducing competition of providers, consumer choice and contract management through performance indicators. In the old system competition as a disciplinary force was hardly ever applied. In placement services the public monopoly prohibited competition until 1994; in the field of training and education programs the contracting-out system awarded contracts to an exclusive corporatist network. The voucher system should increase competition as private providers have to attract voucher holders. The accountability mechanism expected is that competition for potential clients will lead to a positive selection of efficient and effective providers. Competition in the tendering process is mainly achieved through price competition as the purchasing of employment services is primarily dependent on the price offered instead of service quality (Steinke et al., 2012). An impediment to including quality aspects was that, according to public procurement law, the use of previous information about the quality of service delivery was restricted (Bundesagentur für Arbeit, 2011; Steinke et al., 2012). Changes made at the end of 2013 now facilitate the inclusion of quality into the contracting decision (Der Paritätische Gesamtverband, 2013).

The second mechanism is user choice. Instead of using placement services of the FEA or being assigned to training courses by caseworkers, jobseekers receive vouchers and can choose their own providers. In the case of placement services for unemployment benefit I, the user, have a right to vouchers but can also decide to rely on public services. The last mechanism is intensified contract management through performance control by the FEA. The local employment offices carry-out participants surveys after a measure is completed, and an internal audit service has been introduced that is conducting inspections on a regular basis and a standardized procurement and contract management process has been implemented with quality control systems for the purchased measures (Bundesagentur für Arbeit, 2011). Furthermore, for all active labor market measures, an integration rate is calculated that indicates the integration into the labor market after the end of a measure allowing for a more targeted assignment to the different measures.

Competition and user choice depend, however, on the transparency of the market. But transparency in the “employment market” is hardly given in Germany. Staff in the local employment agencies are not allowed to make recommendations to the jobseekers about the use of the training voucher, they only provide a list of approved courses. Yet the lists do not include vital information about the reintegration rates. A survey among 2.500 employees of

the FEA has shown that only 30% of respondents saw transparency in the training sector as warranted (Doerr & Kruppe, 2012). The same has been stated for the private placement market (Bernhard & Kruppe, 2010). As a consequence, the possibility of informed consumers in the activation 'market' remains limited and the voucher system excludes those most in need of support, reinforcing social inequalities (Bernhard & Kruppe, 2010; Heyer, Koch, Stephan & Wolff, 2012). Thus, market mechanisms of accountability are combined with administrative mechanisms of accountability. Private providers as well as most of their services have to be certified according to input criteria such as capacity, personnel etc. In the first years after the 'Hartz reforms' only providers of training measures had to be certified, but since 2012 providers of placement services also need certification. Likewise certification companies themselves must be certified by the national accreditation body, Deutsche Akkreditierungsstelle (DAkkS).

In terms of coherence of the accountability regime problems occur as each of the involved organizations considers different aspects as important. Accreditation and certification are mainly based on input and process related criteria and have a proximity to the international ISO norms. The local employment agencies are more focused on implementation quality whereas the internal audit unit is looking at impact of the measures and regional purchasing centers focus mainly on price (Sauter, 2009). This accountability disorder becomes even more striking when it comes to the sanction mechanisms. Neither the local employment agencies nor the internal audit unit are legally allowed to impose direct sanctions on the provider. So the audit unit or local employment agency may find shortcomings, but nonetheless no sanctions will be imposed by the certification agency due to different assessment criteria. Finally, what can be observed is increasing government activity in regulating service delivery, thus adding another accountability layer to the system. The government's attempts to create a competitive market and to ensure quality standards has led to detailed regulation of the certification process, the procurement procedures as well as audits and inspections. This case illustrates the complex balance between market competition, regulation, and consumer choice as well as between efficiency and equality.

### **Great Britain**

The introduction of Training and Enterprise Councils (TECs) and the reform of the PES (then the Employment Service and now Jobcentre Plus) in the early 1990s under the Conservatives heralded the definitive shift to employment service quasi-markets and performance based management and accountability in Britain (Gash, Panchamia, Sims &

Hotson, 2013). The subsequent growth of contestability and performance outcome accountability has sharpened the focus on, and improved transparency over achievement of job outcomes. Yet, from the beginning creaming and parking of clients by providers and erosion of transparency to public and parliament associated with 'commercial sensitivity' of contractual relations, has weakened democratic accountability (Jones, 1997; Hart, Haughton, & Peck, 1996; Shutes & Taylor, 2014). Concerns regarding performance and evidence of fraudulent practice led to some public re-regulation and recentralization of training provision under Labour, with the TECs abolished in 2001 (Jones, 1997). A broader commitment to contracting out persisted, however, with the PES contracting directly with hundreds of providers to deliver 'New Deal' employment schemes and various pilot programs (Convery, 2009; DWP, 2007). By the mid- 2000s Labour was convinced that revisions to contracting out and outcome based payment could raise employment levels (Convery, 2009) resulting in a strengthening of market rationalization and greater provider discretion over delivery under Labour (2008-2010) (DWP, 2008) and the Coalition Government following the 2010 general election (Gash, Panchamia, Sims & Hotson, 2013). We concentrate here on the quasi-market reforms accompanying the Coalition's introduction of the Work Programme in 2011. The Work Programme is premised upon market rationalization and consolidation, provider discretion, price competition, outcome based payments and limited reallocation of market share between providers based on their performance in securing client job outcomes. To encourage provider investment in infrastructure, promote market stability and reduce transaction costs the Ministry now only contracts directly with 18 large 'Prime Providers', for regionally based 'Contract Package Areas' (CPA), each with two to three 'Prime Providers' to facilitate intra contract area competition (House of Commons, 2014; DWP, 2013). A feature of most contracted out schemes prior to the Work Programme was the prescription of service provider activity by the Ministry. The shift to a payment by results model in the Work Programme has given providers greater control and discretion in the types of services they offer, who they provide them to and how often. Rather than the state setting common program standards each provider decides what its minimum service offer for clients is and agrees this with the Ministry which monitors this. The Work Programme differential payment model is weighted towards rewarding providers for securing sustained job outcomes for clients with varying levels of job readiness (e.g. young and older unemployed and economically inactive). The contract model, for example, includes different levels of payment for nine different categories of clients and makes payments primarily on the basis of sustained job outcomes (from year four of the contract outcome payments are 100% of total amount payable) (House of Commons, 2014). The premise is that a more sophisticated pricing model with stronger

financial incentives is the best means to promote equity in service provision and achieve employment outcomes.

### **Implication of the marketization process on accountability relations**

An already hybrid model of accountability, involving extensive contracting out has been remixed under the Coalition so that market accountability is more pre-eminent. Administrative and democratic oversight and control have been affected in terms of capacity to monitor program process and equity of provision, but market accountability has opened up new routes to public accountability. The accountability of the providers largely rests on whether market financial signals drive provider behavior as expected and here some evidence of the ineffectiveness of market mechanisms is emerging. There is growing evidence that economically inactive clients and the least job ready are parked by providers due to a contracting process that encouraged providers to underbid and a payment model that provides opportunities to invest mainly in the job ready (Comptroller and Auditor General, 2012; 2014; Shutes and Taylor, 2014). So far no public re-regulation has occurred as policymakers' are content to allow market accountability instruments to operate and this has taken a variety of forms. First, following consistent poor performance, in 2014 the Ministry required the lowest performing quarter of providers to develop a six month improvement plan (DWP, 2014a). Second, in August 2013, the lowest performing providers in ten CPAs received notification of a five percentage point reduction of future client referrals. These referrals were redirected to the higher performing provider within the CPA (DWP, 2013). Third, a break clause in provider contracts enabled the Ministry to announce in 2014 that the contract of the weakest performing provider was being terminated and retendered (DWP, 2014b). Unlike in a normal market there is little opportunity for service users to influence or punish providers for poor provision. The performance accountability relationship is really between each provider and the Ministry. Clients have no choice of provider, nor is there a possibility to exit for mandated participants. Voice is limited to a complaints process where service users complain first to their provider and then potentially to the Independent Case Examiner. Yet there is no program minimum service guarantee. Instead each provider agrees a separate minimum service standard, ostensibly to encourage innovation, with the Ministry. This variability however obfuscates the monitoring of contractual compliance by outside bodies, potentially impeding democratic accountability (Work and Pensions Committee, 2013). With private companies and charities not subject to the same parliamentary oversight and accountability as the public sector the line of democratic accountability is weakened (Finn, 2011). The Chair of the Public Accounts Committee for example has indicated that requests to the Ministry for information concerning Work Programme provision have been



rejected on the ground of 'commercial sensitivity' (Public Accounts Committee, 2014). Aspects of administrative and democratic accountability have been eroded, but increased production, collation and release of performance outcome data can 'activate' administrative and democratic accountability. Performance accountability data is a crucial part of public debates and information dissemination by media, parliamentarians, policymakers and citizen or service user groups. Performance information has been used to support broad anti-marketization campaigns and to draw attention to inequities in provision and name and shame providers. The depoliticizing 'distance' of black box contracting is disrupted by such occurrences and public accountability, at least temporarily, is re-imposed. This brings in to play other market (contract compliance), democratic (Ministry controls) and administrative (audit and inspection) instruments as Ministers respond to pressure. In 2012 the former Head of Internal Audit of a major provider of employment services submitted evidence to the Public Accounts Committee alleging systematic improper practice amongst some providers of the preceding Labour Government's 'New Deals'. With the accused provider involved in delivering the Work Programme the scandal led to investigations by the police, the Ministry and audit bodies (Mason & Peacock, 2012; Gentleman, 2012). An internal audit by the Ministry uncovered localized examples of inadequate compliance with expected service standards and 'erroneous' claims for job outcomes. As a consequence the provider's contract to deliver services in a separate pre- Work Programme employment scheme was terminated (DWP, 2012). The accountability of employment services in Britain has long been a hybrid model, involving extensive contracting out alongside administrative and democratic accountability relationships. The weight given to particular accountability relationships shifted as Labour and then the Coalition Government expanded and intensified market governance of employment services (Finn, 2011). Accountability for process and inputs (administrative control and democratic oversight of equity in provision) has been eased in favor of market accountability for employment results (job outcomes and sustainability). Yet, perverse incentives, outcomes and lack of equity stemming from marketization remain (Shutes & Taylor, 2014).

### **Discussion and conclusions**

Three questions were asked in the introduction of this article: Is the governance shift towards markets followed by a shift towards mechanisms of market accountability? How does the use of market accountability relate to other accountability forms? What are the democratic implications of market accountability in the governance of employment services? Regarding whether market solutions are followed by a shift towards mechanism of market accountability the case studies show that quasi-market accountability relationships are dynamic over time and between countries.

Deregulation and re-regulation occur as policymakers seek to balance competition, client choice, risks to desired outcomes, and protection of service standards. In keeping with the broader movement of NPM-inspired reform processes (van Berkel, Sager & Ehrler, 2012), we see indeed a greater emphasis on price and competition, hence typical mechanisms of market accountability. Market accountability often rests on choosing the cheapest providers, at the same time as the performance related payment seeks to impose economic incentives to deliver high employment outcomes placing providers under cost pressure. However, the market accountability regime is not fully implemented, which becomes clear when studying the role of clients in the system. Consumer choice as a mechanism of market accountability has only been strengthened in Germany; but here, as in the other cases, mechanisms of voice and exit to hold service providers directly to account are also still fairly underdeveloped.

Regarding how market accountability relate to other accountability forms we see both continuity and change. Market accountability is not, per se, a displacement of other accountability forms, rather it seems to co-exist and intersect with administrative and democratic accountability as policymakers oscillate between encouraging competition and freedom in delivery with control to cope with the unwanted consequences of market mechanisms. Network accountability seem however to be weakened. In Great Britain, social partners are not an institutionalized feature of employment service governance, but in both Germany and Denmark (corporatist) network governance has been weakened with reforms reducing or abolishing previous corporatist structures. These general trends in the development of other related accountability forms entails a considerable complexity as different instruments weave together a web of accountability relations and the patterning and reform trajectories for each state are not uni-directional. As we outline earlier we should expect the utilization of market instruments to reflect a balance of political and economic pressures, preferences, and institutional environments. The 'liberal' GB has responded to problems with successive marketization reforms by seeking a more perfect market system and better alignment of market incentives with government objectives. In contrast, Germany has tightened up the certification process as a means to re-regulate the market, and in Denmark a substantial process of public re-regulation and market shrinkage occurred.

Finally, the democratic implications of market accountability in the governance of employment services are to be assessed. New market accountability instruments re-orientate the focus from hierarchy and control to price competition and outcome related financial incentives - they are additional instruments, not necessarily displacements (Mahoney & Thelen 2010, p. 16). Their

effectiveness is open to question, but they do shape accountability processes. For example, the presence of multiple service providers and extended chains of contracts and subcontracts make the transparency of provider obligations and performance hard to discern. This makes it difficult for democratic accountees (service users, public bodies, media) to challenge the accountor (providers). In the German voucher system, the public employment service loses direct influence over providers. Providers are accountable mainly to the private certification companies, which themselves are indirectly accountable through the accreditation body. Such developments erode public support for reform and democratic forms of accountability, especially where contracting out is part of a strategy to distance ministers from service delivery and reduce democratic accountability, as in Denmark. Yet improvements in transparency through performance reporting can mean that elements of marketization complement democratic accountability by offering new routes for media, parliament, audit bodies and citizens to apply pressure. Service user experience and monitoring of providers can lead to naming and shaming, which, as in Great Britain, can feed into administrative and market sanctions that may hold providers accountable. In Denmark and Germany, the National Audit Office used such information to conclude private providers are less efficient compared to public employment services. To sum up, balancing accountability forms when employment services are marketized is a dynamic process in all three countries and we identify that specific hybridized modes of accountability have emerged in the different political institutional contexts of our three cases (Pierre 2012; Mahoney & Thelen 2010).

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**Table 1. Four ideal typical accountability relationships**

	<b>Democratic</b>	<b>Administrative</b>	<b>Market</b>	<b>Network</b>
<b>Source of control</b>	Party competition	Hierarchy	Competition	Interdependence
<b>Dominant control mechanism</b>	Election	Regulations	Price and performance	Reputation/ Long-term relationships
<b>Who is accountable</b>	Elected officials/ Ministries	Agencies/ Public officials	Firms	Network members
<b>Internal accountability</b>	Political Superior	Superior (political/ administrative)/ Peers	Owners	Network members
<b>External accountability</b>	Voters/ media/ interest groups	Courts/ Ombudsmen/ Interest Groups/ Citizen	Client or 'proxy' public purchasers	Citizen/ Media/ Interest groups
<b>Consequences</b>	Political criticism or recognition. Recognition or dismissal/ voting out.	Revision of the administrative act/ Sanction or recognition of the official involved	Exit	Loss of reputation/Exclusion from network