LOCAL GERMAN PES OFFICES ARE ARRANGED INTO CLUSTERS BASED ON JOB MARKET CONDITIONS

Local PES office clusters

GERMANY

The performance of the German Federal Employment Agency's 156 local German PES offices is assessed by considering local job market conditions. The agency groups together offices with similar labour market conditions into 12 clusters with between 5 and 22 offices in each. Offices in each cluster share similar conditions for meeting their targets so that they can benchmark performance.

The clusters are established based on empirical evidence variables, which account for 81 % of local differences in job placements. An open dialogue between local and central German PES offices about the method helps to generate acceptance to the use of clusters in performance dialogues. The clusters are updated regularly to incorporate changes in the job market and other external factors.

Name of the PES	Federal Employment Agency (Bundesagentur für Arbeit)
When was the practice implemented?	2003–ongoing.
Which organisation was involved in its implementation?	Several departments within the Federal Employment Agency (Bundesagentur für Arbeit) are involved. The method was developed by the Institute of Employment Research of the Federal Employment Agency (IAB). The practice is implemented directly by the PES controllers and managers. There are controllers working in controlling and finance departments at every regional German PES, with one regional controller working at every local PES office as part of a national Controlling and Finance Department that reports directly to the executive board. Controllers on every level support the performance dialogue process between the local, regional and national offices and analyse if targets are met. In addition, the national department improves measures for cost or quality management and evaluates projects or programmes.
Which groups were targeted by the practice?	▸ Clusters are used internally by controllers and managers for planning and monitoring the performance of local German PES offices. ▸ Team leaders from local PES offices also use the data to exchange good practice with other offices in their cluster.
What were the practice's main objectives?	The practice aims to provide a more objective method to assess the performance of local PES offices and to set their targets in consideration of local job market conditions.

What activities were carried out?	Local PES success significantly depends on economic and social conditions. To take into account external factors when setting targets, and for the monitoring and assessing of performance, the statistical method developed by IAB groups together each of the 156 local PES offices into 12 clusters with similar employment and social contexts. The method of grouping offices is based on a two-step process:
	
	1. A regression analysis is done to identify which variables influence the job market integration rate (the proportion of customers eligible for unemployment insurance who found employment or became self- employed over one year). The 2018 regression analysis singles out eight influential variables:
	   ▶ unemployment rate,
	   ▶ seasonal changes,
	   ▶ region inflow and outflow,
	   ▶ percentage of service industry to the integration rate,
	   ▶ share of jobs and population,
	   ▶ share of people without vocational training,
	   ▶ share of businesses with under 100 employees,
	   ▶ share of unemployed persons from the eight* most important non-European asylum home countries. (*Afghanistan, Eritrea, Iran, Nigeria, Pakistan, Somalia, Syria) (new in 2018)
	
	2. These variables are then included in a cluster analysis that sorts the 156 office districts into groups that are most similar in terms of the variables. The more impact a variable has on the integration rate, the more it is considered in the cluster analysis.

What resources and other relevant organisational aspects were involved?	A team of researchers from the IAB developed the method and is in charge of updating the clusters. Updates occur based on need (for example, at the request of the administrative board or if job market conditions change dramatically). The researchers use data from the internal statistics department and social insurance institutions.
What were the source(s) of funding?	National.
What were the outputs of the practice: people reached and products?	The main output is the development of clusters that include local German PES offices sharing similar employment and social conditions within their territories. The variables taken into consideration for grouping the offices account for around 81% of local differences in the integration rate. PES controllers and managers analyse data by cluster in the internal management information system. All job market indicators (such as the integration rate, percentage of unemployment prevention[1], or the duration of unemployment) can be investigated by cluster. Next to the data for each individual office, indicators are shown by average value, average projected value, average value from the previous year and a comparison by projected value and actual value in one cluster (for example, local offices can monitor their projected integration rate compared with the actual rate and plan measures to reach the target if necessary). The data for each indicator is analysed on a monthly basis. In addition, high and low performing offices are identified within each cluster. After each update every two to three years, depending on the need for an update (e.g. economic, demographic or administrative changes), the IAB publishes a public report with the latest findings. These reports contain a short overview of the methodology and a description of the new clusters. The reports are mainly targeted at controllers and managers at all governance levels.

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1   *In Germany, the PES has to be informed of every redundancy, so that they have a small time window to prevent unemployment. The percentage of unemployment prevention is the integration rate of people facing redundancy divided by the total number of redundancies.*

What outcomes have been identified?	The main outcome of the introduction of clusters was to incorporate employment and social contexts into the planning of PES targets. The statistical model enables local PES to set targets because they can compare themselves to other similar local PES offices. Clusters also provide an overview of how local offices perform in a variety of aspects compared to other offices. Therefore, the clusters are used in performance dialogues between the regional and local offices to monitor the targets. The Federal Employment Agency uses a performance index to monitor the performance of each local PES office. All key performance indicators of the index (such as the percentage of unemployment prevention, job market integration rate, length of unemployment) can be analysed by the clusters. As a consequence, the monitoring of PES performance is now more accurate because it takes into account the specific context in which each local PES office operates.
	Moreover, the practice has enhanced learning across local PES offices facing similar conditions. Local PES offices in the same cluster have shared good practices on how to better address the needs of their potential beneficiaries.
What are the lessons learnt and success factors?	Several lessons learnt and success factors have been identified from the implementation of the practice:

- A good way to create common acceptance of the clusters from the local PES agencies is to base the clusters on an empirical model. Benchmarking to measure the performance of local PES offices is easier to justify.
- A lesson learnt from the model is to communicate the model and its outcomes openly and to be open to criticism. Although the model is developed based on research and can be considered fairly sophisticated, both local and practical knowledge can also help to refine the model.
- Regular updates are necessary to adapt to changing conditions. Clusters are updated every two to three years depending on need. Clusters were updated in 2013 to take into account a reduction of the number of local PES offices. Their districts were restructured to correlate with cities and county borders and to adapt to a declining number of customers per office. The method was also updated in 2014 to remove the variable 'differences between east and west', as requested by the administrative board. The clusters were updated in 2018 to take into account growing numbers of refugees. There was also an investigation to determine if current immigration has a significant impact on the regional differences in the integration outcomes and should therefore be included in the classification procedure.
- There is a trade-off between a frequent update of the clusters and their continuity. Too much focus on differences could result in clusters with less than five local offices. Moreover, a frequent change of offices within clusters can limit the creation of effective working relations. Therefore, it is important to maintain a balanced approach.
- The Federal Employment Agency changed the process of target setting in the performance dialogue from a top-down to a bottom-up approach where local PES offices suggest their targets themselves. Regional directorates support local PES in order to set realistic and ambitious targets. After the regional performance dialogue, local targets are communicated to the national PES office. In that way, local expertise and context are considered and staff in local offices identify more with their targets. This bottom-up approach has shown an improvement in the target setting process. In the last years, local PES reached an advanced level in key performance indicators. In 2018, local PES agreed to keep the targets in a near range to the previous year's targets. However, since performance depends on a variety of factors, the effect of the bottom-up planning process cannot be measured separately.

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