

# LIBERALISING EMPLOYMENT SERVICES AT THE REGIONAL LEVEL: IMPLEMENTATION LESSONS FROM AN ITALIAN CASE

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## ABSTRACT

*This paper explores the functioning of a public-private networked system for employment services' provision implemented by Italy's Lombardy region, and inspired by the principle of horizontal subsidiarity. Analysis of its implementation shows a considerable effort to apply the principles of quasi-markets and horizontal subsidiarity, and the related conditions for effectiveness and efficiency. Horizontal subsidiarity is meant to provide better responsiveness to users' needs compared to other systems, and emphasises users' freedom of choice. However, features of the analysed system such as the dominant market position of certain service providers, the enticement of users towards certain programmes, and weaknesses within the evaluation structure show that these same dimensions deserve closer scrutiny, together with medium-term examination of the overall system's impact on equity.*

**Keywords** - active labour market policy (ALMP), public services, quasi-market, subsidiarity.

## INTRODUCTION

In 2001 the principle of horizontal subsidiarity was incorporated in the Italian Constitution, together with increased regional autonomy, stating that public administrations at different levels of government should favour initiatives by individuals and civil society organizations aimed at addressing public needs. Strongly supporting this principle and the related implications for the provision of public services, the Lombardy regional government devised an employment services system centred on a series of instruments which are meant to empower individuals and to build a services path tailored to their needs and characteristics. The focus on users' freedom of choice is shown by the instrument which was developed to coordinate and finance this system, the 'dote' (literally 'endowment'): individuals are provided with a financial endowment, which they can use to acquire labour market services supplied by public or accredited private agencies.

The effort carried out by Lombardy's government in the realm of active labour market policies is not unique: based on a similar approach, many OECD countries have implemented reforms aimed at increasing competition between private and public pro-

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viders as instruments of active policies. This is, for instance, what happened in Australia in 1998, with the replacement of the previous Public Employment Services with a network of approximately 200 private and non-profit providers (“*Job Network*”) (McDonald and Marston, 2008), and in the Netherlands in 2000, where the reform has been similar to the Australian case (Struyven and Steurs, 2005). A few years later, the British, Danish, and German governments introduced the possibility for private and non-profit providers to offer employment services target at disadvantaged individuals (Bredgaard et al., 2005; Jahn and Ochel, 2007).

While the extant theoretical and empirical literature does provide indication of the design principles that need to be followed when planning such systems of public-private services provision, unexpected consequences may occur during the implementation phase, thereby providing appropriate lessons and insights both for theory and practice. This article therefore analyses the functioning of Lombardy’s system with a specific focus on the following design and implementation issues:

- Which governance solutions were adopted to ensure the efficiency and effectiveness of this system?
- Do such solutions comply with the conditions set by the quasi-markets and horizontal subsidiarity theories? Which problems come into view from this experience?

The research focuses on a single case study: the employment services system implemented by the Lombardy government. Two main sources of data were used: (i) the dataset related to a project carried out by the Interuniversity Research Centre on Public Services (CRISP) at the University of Milano-Bicocca in collaboration with the research institute IReR (Istituto Regionale di Ricerca della Lombardia) and the Lombardy regional government; (ii) information and details on the institutional dimensions and characteristics, which are provided by the Lombardy regional government and are publicly available. The results of the analysis show that the benefits of horizontal subsidiarity in terms of better responsiveness to users’ needs and freedom of choice are not easily reached. Features of the analysed system such as the dominant market position of certain service providers, the enticement of users towards certain programs, the relatively high socio-economic status of actual beneficiaries, and weaknesses within the evaluation structure show that these same dimensions deserve closer scrutiny and adequate corrective mechanisms during the design phase, so as to avoid a potential negative impact on equity. This is also linked to the diminishing effectiveness of one of the main aims of active labour market policies, improving the employability of disadvantaged individuals.

The paper is organized as follows. Section two describes the theoretical framework, followed by a description of the methodology and data in section three. Section four analyses the case study and presents the results, while section five illustrates some concluding considerations and suggestions for future research.

## THEORETICAL FRAMEWORK

The term ‘subsidiarity’ is shared by a number of analytical and ideological models (e.g. New Public Management, Third Way). But in the political culture of Lombardy, the term conveys a meaning of its own: «*Subsidiarity is the idea that matters should be*

*handled by the lowest, or closest possible level to where they will have their effect.»* (Colombo, 2008, p. 182). Whereas ‘vertical’ subsidiarity concerns the distribution of powers among different layers of the public sphere, ‘horizontal’ subsidiarity relates to the sharing of competences and initiatives between public and private actors. A fundamental feature of this framework – which also differentiates it from quasi-markets – is a combination of freedom and responsibility, both on the demand and the supply side (Brugnoli and Vittadini, 2008). On the demand side, users are given the freedom and responsibility to choose the services and providers who best suit their needs; on the supply side, providers are given the freedom and the responsibility to organize and manage their offering, by tailoring them on users’ needs. In other words, providers are trusted to make the right decisions for the implementation of policy goals, and users are trusted to make the right decisions for the satisfaction of their needs.

Indeed, the Lombardy model can be analysed by means of a framework which extends the theory of quasi-markets (Bartlett and Le Grand, 1993) and consists of the following (Brugnoli and Vittadini, 2008; Colombo and O’Sullivan, 2012):

1. separation between services financing and provision;
2. freedom of choice, supported by instruments such as accreditation systems and quality control and evaluation; and
3. fiscal subsidiarity, with instruments such as vouchers, endowments, tax deductions.

### **Separation between services financing and provision**

The separation between the public actor financing the services and the actor(s) providing them, usually a mix of private and public organizations, is one of the main features of the theory of quasi-markets (Bartlett and Le Grand, 1993). Both private and public actors compete by offering services to users who can choose their preferred supplier, while the price of the services is paid by a public entity (Le Grand, 2007). In this system, the public actor does not directly provide services, but maintains responsibility for the regulation and governance of the system, in addition to financing. This system resembles a ‘market’ because the individual monopolistic (public) provider is replaced by a number of competing and independent providers. On the other hand, these markets differ from conventional markets in two respects: (i) on the supply side, competing providers are not necessarily profit-maximizing, nor private; (ii) on the demand side, users’ purchasing power is not expressed in monetary terms, rather it consists of a budget or a voucher to acquire a service, or it is centralised within a single purchasing agency.

Quasi-markets require a number of conditions to be satisfied, in order to be more efficient and responsive – relative to alternative arrangements – without being less equitable (Bartlett and Le Grand, 1993). For instance, the structure of the market needs to be competitive: this requires several providers, who should be allowed entry and exit, and several purchasers. The public actor needs to ensure that the quality is adequate even when the service is privately supplied, or that some specific services (such as those for the elderly) are available also when private providers do not operate (Greve, 2003), or that private providers do not create monopolies, with the associated risks in terms of higher prices or lower quality. All this implies a higher regulatory burden concerning quality and access to (high-quality) services also for weaker or disadvantaged users. Such regulatory commitment may involve higher transaction and coordination costs relative to other solutions; this depends on the degree of internal control which already characterizes public institutions. Lastly, a competitive market requires ineffective pro-

viders to exit, but this will have a negative impact on the users which had nonetheless chosen those providers, and who will therefore have to make a different choice. Providers need to be motivated by financial considerations; otherwise they will not respond properly to market signals. Quasi-markets allow users access to services without paying for them, as long as they satisfy the requirements set by the public actor. This need-based principle of consumption ensures equity. However, this happens only if opportunities for ‘cream-skimming’, i.e. the adverse selection of the most expensive users (such as the chronically ill, or difficult children from a disadvantaged background, etc.), are minimized (Bartlett and Le Grand, 1993), as also the risk that more expensive users receive lower quality services (Propper et al., 2006).

### **Freedom of choice**

Giving freedom of choice to users implies valuing the individual with his/her own needs (Le Grand 2003). Within a competitive system, freedom of choice is not only intrinsically valuable but also instrumental, as it generates incentives for providers to offer effectively a high-quality and responsive service. In fact, whenever providers suffer the consequences of not being chosen by users (for instance they lose access to public funding), they will be encouraged to improve service quality. This beneficial effect is reached by coupling freedom of choice for users and competition among providers. In the end however, the actual choice depends on the conditions and the context where it takes place. It is therefore important that different categories of individuals are given the opportunity to choose based on the relevant information: both the purchaser and the provider need to be able to access accurate information on the quality and cost of the service, without this process becoming too expensive (Bartlett and Le Grand, 1993; Fazzi, 2000). Offering adequate information to users may be expensive for service providers, and this may push up prices (Greve, 2003). On the other hand, providers cannot be entirely relied upon for complete and transparent information on quality, which requires an independent monitoring and evaluation system (Bartlett and Le Grand, 1993). Access to information may become a problem for purchasers, pushing them towards a limited number of well know providers. Not all users are able to fully understand the information they are provided with, and service suppliers may require an additional fee for the provision of information, with negative implications for equity. Even where information is available, it may be so vast that choice becomes difficult, thereby pushing users towards a ‘default’ bundle of services that is predefined by the provider.

A related condition for freedom of choice refers to minimization of transaction costs and control of uncertainty. Transactions within quasi-markets are often multidimensional, and involve sophisticated service activities, with high uncertainty on future demand for these types of services. Transaction costs may be high both ex-ante, as they refer to preparation, negotiation and safeguard of an exchange contract, as well as ex-post, as they refer to the monitoring of results and dispute resolution (Bartlett and Le Grand, 1993). At the micro-level, transaction costs may impact on individuals’ freedom of choice as they affect dimensions such information, control, size and variety of the offering, time required to choose, and new administrative systems (Greve, 2003). Users need information on the quality and price of the services, but providers also need information on the form and measure of the payments they will receive, and the incentives they can access.

Information asymmetries can hinder the functioning of quasi-markets and limit freedom of choice, and therefore require mechanisms to address them: accreditation and

evaluation systems play a role in this respect as they provide information on the available offerings and their characteristics, while also ensuring a certain degree of quality (Scrivens, 1996), and possibly incentives for continuous quality and safety improvement (Trivellato et al., 2011). Linked to accreditation is the issue of monitoring and evaluation, ensuring that providers behave in the appropriate way, and that users can exercise choice (Brugnoli and Vittadini, 2008). Evaluation in this context requires the identification of indicators of output as well as outcome, which requires an adequate data gathering system; performance indicators may be developed and specified already at the accreditation stage, so that they can be monitored over time as part of the evaluation process. Moreover, evaluation should focus not only on quantitative measures of efficiency, but also on quality and effectiveness, and the results of the evaluation process need to be clear and accessible in order to reduce the negative impact of information asymmetries on users.

### **Fiscal subsidiarity**

Fiscal subsidiarity may be defined as the set of public resources aimed at supporting the demand and supply of services. Such resources can take the form of direct or indirect transfers (e.g. vouchers, endowments) or tax deductions, exemptions, and other fiscal benefits (Brugnoli and Vittadini, 2008; Agasisti et al. 2010). Vouchers are given by public administrations to individuals and families in order to finance the consumption of specified services. They can be given ex-post as a reimbursement for expenses which have already been borne (so called '*buoni*'), or they can be given ex-ante to finance access to services with pre-identified providers. The *endowment*, on the other hand, is a set of financial resources and services which are ascribed to individuals in order to reach a certain objective. For instance, in Lombardy this instrument is used to help the individual build and reinforce his/her human capital: there are three different endowment systems focusing on education, training, and employment services (Agasisti et al. 2010). While vouchers and endowments are used to support demand, fiscal benefits are often used to support the supply of services by private, mostly non-profit, organizations. For instance, in Italy non-profit organizations qualify for fiscal benefits due to a national law (D.Lgs. 460/1997), which in Lombardy are supplemented by exemptions on taxes which are collected at the regional level (such as the regional tax on productive activities and the regional tax on vehicles) (Agasisti et al. 2010). Thanks to these fiscal benefits, additional resources have been made available and re-invested in the production process, thereby supporting the sector's development and salary increases (IReR 2008).

### **METHOD AND DATA**

The conditions for efficient, effective and equitable functioning of quasi-markets and horizontal subsidiarity outlined in the preceding section were the basis for the analysis of the case study of the Lombardy system of employment services - whose design was inspired by the principles set by these theories - so as to explore the extent of actual compliance and possible implementation problems which may have occurred. In addition to publicly available information on the institutional dimensions and characteristics provided by the Lombardy regional government, the article relies on empirical data from a selection of endowment programs. The data was provided by GEFO, the regional information system used to store and organize the administrative data which are gathered from various sources, with the collaboration of the DG Education, Training and

Employment of the Lombardy regional administration. The data was gathered, analysed and processed for the purpose of experimenting evaluation and ranking methods to be adopted by the *Independent evaluator*. This exercise was carried out by IReR in the years 2009-2010, with the support of three academic research teams. Details and results of this experimentation are provided in IReR (2010). The selection of the endowment programs to be analysed was carried out with the close collaboration of the DG Education, Training and Employment of the Lombardy regional administration, based on their information and evaluation needs.

Data on the beneficiaries' employment condition after the conclusion of the endowment program was obtained from the so-called 'compulsory communications' (*comunicazioni obbligatorie*) which public and private employers are required to transmit to provincial administrations. Data on endowments are as of June 1, 2010. As for compulsory communications, data gathered until August 22, 2010 was processed, so as to produce a comprehensive view of the situation as of July 31, 2010.

The data refers to the implementation of the following endowment programs published in the year 2009: Training endowment and Work endowment (program n. 291); Training endowment and Work endowment (program n. 334); Welfare support endowment (program n. 309). The main features of the beneficiaries of all five endowment programs are outlined in Table 1 below.

**Table 1: Main features of the selected endowments' beneficiaries<sup>1</sup>**

Variable		%
Gender (tot. 88,911)	Female	49.9
Age (tot. 96,163)	<= 20	6.3
	21-25	12.5
	26-30	12.5
	31-35	13.5
	36-40	13.6
	41-45	13.1
	46-50	10.2
	51-55	7.5
Education (tot. 88,042)	>= 56	10.8
	No education	0.9
	Primary education	0.3
	First-level secondary education	7.6
	Second-level secondary education (2-3 years)	9.6
	Second-level secondary education (4-5 years)	21.6
	Tertiary education (3 years) + IFTS training course	26.6
	Tertiary education (4-5 years)	4.1
Doctorate and other postgraduate qualifications	29.2	
Nationality (tot. 88,911)	Foreign	17.6

Family condition (tot. 88,911)	Single	48.2
	Married	44.9
	Divorced	2.6
	Judicially separate	3.6
	Widowed	0.8
	With children (tot. 96,163)	49.7
	Single parent	31.3

Source: IReR (2010)

### DOES LOMBARDY'S EMPLOYMENT SERVICES SYSTEM COMPLY WITH THE PRINCIPLES OF HORIZONTAL SUBSIDIARITY?

Established in 1970, Italian regions have been extremely weak in the first years of their existence because their powers were prescribed in extreme detail by national legislation, they had little financial autonomy, and their laws were to be scrutinized pre-emptively by the central government (Colombo 2008). Beginning in 1996, a series of reforms aimed at administrative simplification, introduction of managerial tools, and functional devolution to local administrations (Mele 2010); since 1999, regions have control over their own statutes, electoral systems and forms of government. Moreover, the amendment of Title V of the Italian Constitution in 2001 brought the following additional changes: abolition of the formal hierarchical superiority of the state over local authorities; explicit definition of the fields of exclusive national competence, and those of shared competence between the national and the regional authorities, with all remaining policy areas left to the regional sphere; ability for regions to establish relationships with other countries' sub-national authorities, and to give direct application to EU legislation in their field of competence; suppression of pre-emptive central government control of regional legislation; and right for the central government to invade regional competence only in order to preserve national unity and security, basic civil and social rights, and international and EU law.

Within this context of significant devolution to regional governments, the principle of horizontal subsidiarity has been crucial in driving the recent reform of the education, training and employment system in Lombardy. Moreover, this reform was made possible by a comprehensive reform of the labour market implemented a few years earlier at the national level, which gave significant autonomy to regional governments in these areas of policy. Two national laws (n. 469/1997 and 30/2003) abolished the public monopoly in the provision of employment services, thereby opening the market to private (profit and non-profit) providers, which were to coexist with the traditional Public Employment Services (*Centri per l'Impiego*) and other providers such as universities, foundations, chambers of commerce, secondary schools, business associations, and others. Finally, the Italian reform grants regions wide freedom in the choice of the specific model to be adopted for the management and provision of employment services. Public and private providers may seek accreditation at the regional level, and thus become instruments of active policy and receive public resources to perform the related activities. Regional governments are bound to create a list of all private and public accredited providers, and to define rules and norms for accreditation and for cooperation between private and public providers. Following these developments, the Lombardy regional government reformed its training and employment policies through the regional law n.

22/2006, toward the implementation of the principle of horizontal subsidiarity.

The analysis of Lombardy's employment services system shows that it was structured as a quasi-market by design as far as the following features are concerned:

- There is a clear separation between the public actor financing the services, and the public and private bodies which provide them.
- The public actor regulates the system, and relies on instruments such as the 'endowment' to transfer financial resources to the providers which are actually chosen by the users.
- Providers need to satisfy certain requirements which are verified through a process of authorization (at the national level) and accreditation (at the regional level), and compete with each other to attract users.
- Services are provided by several public, private, and non-profit organizations.
- Users can choose among providers (as long as the latter are accredited).

The regional government is also in charge of monitoring and evaluation, which is carried out through the activities of three bodies that were purposefully created by the regional law n. 22/2006 (Albonetti and Violini, 2008). The *Regional agency for education, training, and employment* provides technical support for the integration of education, training and employment policies, in order to suggest organizational models to integrate services and ensure shared responsibility of the organizations involved. The *Regional labor market observatory* is in charge of gathering and analysing data aimed at assessing policies' effectiveness. The *Independent evaluator* ensures the quality of the services offered by public and private providers: this role is to be played by an independent body for a period of four years, with a service contract specifying the minimum resources to be employed by the evaluator, the number of assessments to be performed, and the reports to be submitted. Evaluation in this context is meant as having a strategic role, as it addresses the following needs: (i) accountability of the results of the administration's activities; (ii) fine-tuning and adjustment of policy planning and programming; (iii) provision of information (for internal and external users) on the reliability of the network of service providers (IReR, 2010). However, these provisions were not fully implemented, especially as far as the crucial role of the *Independent evaluator* is concerned: no independent body was involved, as responsibility for evaluation was conferred to Eupolis Lombardia, a research and training institution which is part of the regional administration.

The analysis of the beneficiaries of the endowment programs n. 291, 309 and 334 depicts a situation where certain categories of job-seekers appear to be advantaged. The age composition of the beneficiaries is slightly biased towards young adults: approximately 40% of the beneficiaries are 40 years old or older, and the most frequent five-year age groups are those between 30 and 40. Individuals at the two extreme age groups are relatively less present, as they usually benefit from other welfare programs, such as school for the youth and pensions for the elderly. In terms of education, more than 60% hold a tertiary education degree, and almost half of this group holds a post-graduate degree, which may be explained through the following, possibly complementary, motivations. First, in Lombardy the returns to some tertiary education degrees are so low that people who hold them prefer a path through active labour policies rather than direct entrance in the labor market. Second, the links between university and labour market are so weak (at least in some disciplines) that they require additional measures to promote



the matching between jobseekers and employers. Third, it is likely that many of these post-graduate degrees have been gained through programs whose real function is income support rather than advanced training, as in the case of many EU-financed programs implemented in the past few years. As for the employment condition of the beneficiaries before their entrance in the endowment system, the ‘compulsory communications’ from employers show that approximately 43% were employed, mostly with medium-low level jobs. Less than 10% (9.2%) were employed in technical jobs, 14.7% were white collar employees, 8.8% were medium level employees in the services sector, 22.5% were artisans and qualified workers, with the rest being low qualification jobs.

Information on the employment condition of the beneficiaries was also gathered 90 and 180 days after the conclusion of the endowment program. After 90 days, 43% of the beneficiaries are employed: they are mostly male (45.2% vs 41.9% female), in the age group 26-40 (48.3%) and with tertiary education (53.6%). The employment rate of the beneficiaries with only primary education is remarkably low (8.5%): this is likely due to the fact that beneficiaries with low levels of education accessed mainly the Welfare support endowment, which appears to have been an income support measure rather than a program in support of employability and human capital building (IReR 2010).

**Actual separation between services financing and provision, but concentrated endowment distribution among providers**

The regional government is in charge of the initiation and direction of the policy process, including definition of available resources, while public and private providers are in charge of implementation, which includes the definition of the services to be offered, the establishment of a network of providers where convenient, and the actual provision of the services.

The market is characterized by multiple providers: the regional lists of accredited providers include 239 organizations for employment services, and 674 for education and vocational training services (both lists can be downloaded from the website of the Lombardy region). However, in order to ensure freedom of choice and avoid monopoly situations, the quasi-market of service providers needs to be competitive.

**Table 2: Training endowment and Work endowment**

	<b>Total progr. 291</b>	<b>Total progr. 334</b>	<b>Total progr. 309</b>
Number of awarded endowments	24,650*	14,663*	67,285*
Number of beneficiaries	24,545*	14,659*	50,021*
Average duration per endowment (days)	244.75	123.78	80.85
Number of service providers who have applied for the endowment (‘endowment-manager’)	199	178	141

\* The number of beneficiaries is lower than the number of endowments because several individuals moved from one service provider (‘endowment-manager’) to another, and this implied the assignment of a new endowment number.

Source: IReR (2010)

### Limited freedom of choice

Freedom to choose requires the ability for users to access information about who are the players in the relevant market and their characteristics. In the Lombardy system of employment services, this information need is firstly addressed through a two-tier evaluation system.

The first level refers to *ex ante* evaluation through the double system of authorization and accreditation. Accreditation is not a permanent status, as organizations may possess but subsequently lose the features that are required to obtain the status. Information to be provided for accreditation relates to: a) legal and financial requirements; b) existence of a certified system for quality management; c) adequacy of the premises as well as the technological and ICT instruments; d) economic and financial reliability; e) availability of adequate professional competences; f) relations with local organizations and stakeholders. Moreover, accreditation in this perspective is meant to be not only a tool for the selection of potential providers, but also an instrument to strive at the continuous improvement of services. The aim is to create a stable pact between the providers and the regional administration, founded on the principles of participation and responsibility, with the common objective of offering an adequate response to the diverse demand of training and employment services (Albonetti and Violini, 2008).

The second level refers to *ex post* evaluation of the providers through a rating which includes the results of the accreditation process and the providers' performance on the activities financed with public funds. This rating also allows to compare and benchmark the service providers. The rating is based on the calculation of a composite indicator, integrating the evaluation and accreditation components. The scores are calculated by accounting for differences among providers in areas such as: types of training services offered, target, and type of accreditation awarded to the provider. The information system requires the provider to insert directly the relevant data at two different points in time: yearly for structural data; quarterly for data on activities and beneficiaries. Scores are then calculated both quarterly and yearly, in order to create separate rankings based on the type of accreditation; in addition, providers can monitor their performance in a restricted-access area, where they can find the scores of the individual indicators and sub-indicators. But as mentioned above, the effectiveness of such carefully designed evaluation system is undermined by the fact that the role of the Independent evaluator was assigned to an organization which is, in fact, part of the regional administration.

To choose among the accredited providers, users need to be granted with all necessary information at a reasonable cost. To this aim, the Lombardy region website includes a large section dedicated to the DG Education, Training, and Employment, where information on policies and actors is published, including: the lists of accredited providers of employment services and of education and vocational training services; the rankings of providers based on the relevant ratings; a searching tool based on types of training courses, names or locations of providers, and free keywords; and specific information on the various endowment programs as they are published at different times.

While this information system is meant to support the users' decision-making process, several issues need to be taken into consideration. For instance, the endowments within each program are provided on first-come, first-served basis, until the available resources are used up. This creates the risk that not all targeted users are in fact granted access to the endowments. Comparing the potential beneficiaries (population within the Lombardy region with the characteristics specified by the programme) and real benefi-

ciaries (individuals who did in fact receive the endowment and the related services) of the two Training and Work endowment programs listed above indicates that not all categories of potential beneficiaries have equal access. Those who are younger, with a higher level of education, and are former employees of medium and large-sized enterprises tend to have easier access to the programs. This is likely due to the fact that jobseekers with relatively higher socio-economic status are more capable of accessing and processing the relevant information on available programs, providers, and services, and also because these categories are easier to contact on the part of the providers. In fact, it appears that in most cases the providers recruit the beneficiaries, rather than the beneficiaries choose among the providers. This was the case especially for the Welfare support endowment (programme n. 309), where the request was to be submitted by firms in crisis for the benefit of their employees: the firms were then included in a list maintained by the regional administration, which could be accessed by the service providers. These could then, in turn, contact the firm and the potential beneficiaries in order to offer their services (IReR 2010).

Moreover, collective training programs are activated only when a minimum number of participants is reached. This implies that, even if a certain course is theoretically offered by a certain provider, in practice it may not, unless a certain number of users apply for it. The user has the possibility to turn to another provider, but this option involves the time and (transaction) costs needed to gain the relevant information from other providers. Different endowment programs have different requirements, which implies possibly lengthy verification every time a potential user gets in contact with a provider.

### **Partial fiscal subsidiarity and unbalanced allocation of services**

The instrument designed to finance access to training and employment services for specified targets of users is the endowment (*dote*). It is a set of resources to be used by an individual with certain characteristics, in order to access training and other employment services in support of labour market participation. It also offers financial support to laid-off workers in order to facilitate program participation; it can be accessed only by residents of the Lombardy region. Based on labor market dynamics and policy priorities, different endowment programs with a predefined duration are announced and subsequently implemented. These are usually targeted at specific groups of individuals, such as temporary workers, or employees of firms in difficult financial conditions. The endowment was conceived as an instrument to promote and maintain individuals' human capital throughout their life. For this reason, an 'endowment system' was envisaged, which includes different types of endowments to be used at different stages of the individual's development: education, training, and work endowment (Albonetti and Violini 2008).

Individuals are provided with a financial endowment, which they can use to acquire labour market services supplied by public or accredited private agencies. These agencies, together with the individuals/customers, draft a 'Personalized Plan of Activities' (PPA) which clearly states the commitments to be fulfilled by both parties, thereby forcing the agency to supply the agreed services (or otherwise lose access to public funding), and the individual to progress along the pre-identified path (or otherwise lose the right to the endowment). On the operational side, several macro-categories of services allow the choice of those that are most needed and suitable to the individual's profile and needs. On the accounting side, limits are set on expenses for different categories of services; implemented activities and related costs have to be certified by the agency, and

will be reimbursed only at the end of each PPA. Therefore, the resources are not given directly to the individual, who is then able to use them to purchase services (as in the case of vouchers, for instance), but are given directly to the service providers once the PPA has already been concluded.

Within the three examined endowment programs, the services offered to jobseekers may be grouped under three headings: (i) introductory interviews and definition of the services path; (ii) training; (iii) internship and job placement. The most frequently provided group of services is the first one, which was accessed by more than 80% of the beneficiaries; more than 70% attended a course, whereas almost 39% accessed an internship or a job placement program. Each beneficiary attended more than one support meeting with the provider (on average more than 5 per beneficiary), while attending only one training course and only one job placement programme.

The general data referring to all selected endowment programs may be better understood when looking at the same data for the three types of programs – Training, Work, and Welfare support – as outlined in tables 3, 4 and 5.

**Table 3: Services path within the selected Training endowment programmes according to gender, age group, and education.**

	introductory inter-views and definition of the services path	training	internship and job placement	n. inter-views	n. training courses	n. inter-ships etc.
Female	3.0	99.9	24.8	0.05	1.53	0.26
Male	2.0	99.9	14.8	0.03	1.49	0.15
Aged <26	2.4	99.9	27.4	0.04	1.58	0.28
Aged 26-40	3.8	99.9	22.6	0.06	1.58	0.23
Aged >40	1.0	99.9	5.6	0.02	1.32	0.06
Primary edu.	0.0	100.0	6.9	0.00	1.45	0.07
Secondary edu.	2.9	99.9	23.9	0.05	1.53	0.25
Tertiary edu.	1.9	100.0	14.0	0.03	1.49	0.14
Total	2.5	99.9	19.8	0.04	1.51	0.20
N	10,621	10,621	10,621	10,621	10,621	10,621

Note: the first three columns report the % of beneficiaries who received at least one service; the last three columns report the average number of services received.

Source: IReR (2010)

Services provided within the Training endowment programmes are mainly related to training courses. Each beneficiary attended, on average, one course and a half, while the role of the interviews is relatively limited and only one fifth of the beneficiaries accessed an internship or a job placement service. This suggests that the relationship between the training and the opportunity of finding a job is not particularly strong.

**Table 4: Services path within the selected Work endowment programs according to gender, age group, and education.**

	<b>introductory inter-views and definition of the services path</b>	<b>training</b>	<b>internship and job placement</b>	<b>n. inter-views</b>	<b>n. training courses</b>	<b>n. inter-ships etc.</b>
Female	100.0	94.0	96.5	4.85	1.50	1.97
Male	100.0	92.7	97.9	4.90	1.55	1.88
Aged <26	100.0	94.4	97.2	4.83	1.47	1.86
Aged 26-40	100.0	93.6	96.8	4.87	1.49	1.95
Aged >40	100.0	92.2	97.3	4.92	1.62	2.00
Primary edu.	100.0	91.8	95.3	4.81	1.35	2.07
Secondary edu.	100.0	93.8	97.8	4.83	1.56	1.95
Tertiary edu.	100.0	94.4	97.6	4.98	1.63	1.79
Total	100.0	93.4	97.0	4.87	1.52	1.94
N	28,269	28,269	28,269	28,269	28,269	28,269

Note: the first three columns report the % of beneficiaries who received at least one service; the last three columns report the average number of services received.

Source: IReR (2010)

In the case of the Work endowment, on average each beneficiary was able to access all three types of services: more than four interviews, one course and a half, and two job placement services.

**Table 5: Services path within the selected Welfare support endowment programs according to gender, age group, and education.**

	<b>introductory inter-views and definition of the services path</b>	<b>training</b>	<b>internship and job placement</b>	<b>n. inter-views</b>	<b>n. training courses</b>	<b>n. inter-ships etc.</b>
Female	100.0	64.9	15.4	6.41	1.26	0.21
Male	100.0	63.1	15.8	6.33	1.15	0.21
Aged <26	100.0	59.4	12.7	6.20	1.07	0.17
Aged 26-40	100.0	63.3	15.9	6.34	1.19	0.22
Aged >40	75.5	49.6	12.2	6.42	1.24	0.22
Primary edu.	100.0	91.7	16.7	6.33	2.42	0.25
Secondary edu.	100.0	64.7	16.4	6.31	1.19	0.22
Tertiary edu.	84.9	54.1	13.1	6.37	1.20	0.21
Total	87.3	55.8	13.7	6.36	1.20	0.21
N	57,273	57,273	57,273	50,021	50,021	50,021

Note: the first three columns report the % of beneficiaries who received at least one service; the last three columns report the average number of services received.

Source: IReR (2010)

## DISCUSSION AND CONCLUSION

The implementation of the Lombardy system of employment services does show that a considerable effort was made to apply the principles of quasi-markets and horizontal subsidiarity, and the related conditions for effective functioning. But some trends and dimensions deserve closer scrutiny, as well as medium to long term examination, to better understand their implications and intervene if necessary.

The Lombardy market for employment services is characterized by multiple providers, but with a concentration of endowments with a small number of providers. It is possible that this results from market dynamics and the related higher success of these providers in reaching the desired outcomes; however, these may also be larger and more diversified firms with significant internal and external resources, which may end up benefiting from this condition at the expense of smaller and less diversified providers. Larger and for-profit organizations are able to invest more in communication, so as to raise awareness of these programs among jobseekers, for instance through advertising, and direct them towards their own services. They are also more likely to be able to reach those minimum numbers of applicants that are actually required to activate a training course, thereby reducing, from the viewpoint of the user, the uncertainty and the transaction costs that may be linked to approaching a smaller and less well known provider.

Overall, providers tend to be motivated at least partially by financial considerations: several (such as temporary work agencies) are private, for-profit firms. The employment services sector also tends to be less sensitive to this issue as may be the case with other welfare services, such as health-care or social services. As for the risk of cream-skimming, the rating system does take into account the problem of case-mixing, i.e. the fact that people entering the system may have different characteristics which may influence their outcomes. Possibly more influential is that resources are given to the provider at the end of the PPA, and not once a medium-term employment outcome has been reached. This would likely induce providers to take on difficult users and provide them with services anyway, independently from the likelihood of a successful outcome in the longer term. This illuminates an important feature and potential limitation of this system: services are indeed combined and tailored on the individual's needs, but only up to a certain amount based on the resources of the individual endowment, and not until the need is satisfied (as would be the case, for instance, in health-care services). On the other hand, information on actual beneficiaries shows that they tend to have a relatively high level of education and socio-economic status, pointing to the existence of a self-selection process which reduces the occurrence of especially difficult cases.

Data on transaction costs borne by providers and by users are not available, but some considerations may be proposed. The regional administration provides a significant amount of information, including providers' ratings and rankings; the cost of such information provision is shared, because the ranking is computed by the regional administration, but the relevant data need to be submitted quarterly and yearly by the providers. On the other hand, the calculation of quality indicators and sub-indicators benefits

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providers as a support to continuous quality improvement. The providers' actual offering is different from the theoretical offering, and moving to another provider involves transaction costs for the user. While there is an online information system on the courses offered by different providers, users need to get in contact to verify whether the course is indeed offered or not. This appears to be reasonable as it is a necessary dimension of a flexible and personalized system (in a standardized system the offering is well known at the outset as there is no variation). At the same time, this personalization cannot be taken to the extreme, as providers need to ensure their financial sustainability. On the other hand, beneficiaries are often enticed with the objective to reach the 'critical mass' that is required to initiate certain programs, even if such programs do not really constitute the best available answer to their needs.

As for the coordination of the entire system, especially important is the evaluation system, which includes ex-ante accreditation as well as ex-post evaluation. However, particularly important are also the principles of responsibility and freedom which inspire this approach (Albonetti and Violini, 2008; Brugnoli and Vittadini, 2008; Agasisti et al., 2010), whereby providers on the supply side and users on the demand side are given autonomy and are trusted in their ability to offer and to choose a solution which is adequate to the users' needs. Goal congruence (O'Toole, 2003) is meant to be ensured at the design stage by the quasi-market system, where competition pushes providers towards ever greater responsiveness to users' needs. Goal alignment at different levels is accomplished through a system where the regional government focuses on micro-level objectives such as individuals' employability and quality of services, which are usually shared by non-profit service providers. As for for-profit providers, they are assessed, rated, and indirectly rewarded by an evaluation system focusing on these same final objectives, so that the goals tend ultimately to be aligned. However, the overall evaluation system suffers from the fact that one of its pillars, the *Independent evaluator*, has seen its function conferred to Eupolis Lombardia, a research institution that is part of the regional administration, thereby raising doubts about the independence of its judgments; moreover, the results of the assessments performed by Eupolis Lombardia are not publicly available.

The results reached in terms of employment condition of the beneficiaries after the conclusion of the programmes themselves confirm that the main weakness of this approach is inadequate consideration of the equity dimension. The available data demonstrates that those who are younger, are educated at a higher level, and are former employees of medium and large-sized enterprises tend to have easier access to programs and therefore have better employment prospects. This selection bias of beneficiaries is also supported by a system which works on a first-come, first-served basis: a quota system would allow greater opportunity of access to all the categories included in the program (IReR, 2010). Beneficiaries with relatively lower socio-economic status benefit from the program in terms of income support, but this does not necessarily improve their employability, which is meant to be the one of the most important aims of active labor market policies. Moreover, the regional law n. 19/2007 which drove most the reforms mentioned here uses frequently the terms 'individual' (*persona*) as well as 'freedom' (*libertà*); terms such as 'society', 'equity', 'inequity', 'cohesion' are notably absent (Trivellato, 2008).

Overall, the outcomes of the programs analyzed here are certainly linked to a number of contextual dimensions that are specific to this regional and national environment. But the analysis points to a number of insights that may be instrumental to the develop-

ment of both theory and practice.

From a theory viewpoint, this case especially contributes to the conceptualization of ‘horizontal subsidiarity’ by suggesting that reliance on freedom and responsibility, both on the demand and the supply side (Brugnoli and Vittadini, 2008) may not be adequate to reach the desired outcomes. Providers’ behaviors as induced by market forces may not generate the right decisions for the implementation of policy goals, and not all users may be in the condition to take the right decisions for the satisfaction of their needs. Future research should explore further the elements and dynamics that drive actors’ behaviors in their relation to policy goals.

Similar considerations can be proposed from the viewpoint of practice: public officials in charge of planning of active labor market policies need to be aware of the multiple implications of different designs of incentive systems. For instance, in the case of the endowment programs analyzed here, the Personalized Plan of Activities is meant to be a tool where service provider and user build together a path that is meant to improve the user’s employability if not to ensure a job. However, the jobseeker will most likely be unaware of the skills where s/he should invest based on his/her current profile and potential. This type of knowledge is owned in theory by the service provider, but the latter will have an incentive to fill in a limited number of more general training courses rather than distribute users among more specialized courses that may be more conducive to employment for the single beneficiary, but are too expensive for the service provider.

Moreover, Bailey (2006) notes that positive or negative implications are not generated by freedom of choice, but rather by the conditions where decision-making systems operate. The distributional impact will depend on who finances the services, who decides the conditions for access, but also on the ability for citizens to choose in an informed way. It is very difficult to define clearly the impact on equity, because such impact depends on factors such as (Greve 2009): the existing context and conditions before the introduction of greater freedom of choice; the conditions for such greater freedom to take place; the results of such change; and who will pay for the additional transaction costs (if they are not balanced by corresponding efficiency gains). Empirical evidence confirms that the benefits of freedom of choice (with limited negative impact for equity) are strongly linked to factors such as the socio-economic characteristics of users and their education levels (Wilson 2009; Rummery 2009; Fenger 2009), the characteristics of the institutional context (Blank 2009), and the features and forms taken by policies and services, especially when coupled with a specific cultural or institutional context (Eichler and Pfau-Effinger 2009; Rummery 2009; Saxonberg 2009). The case of Lombardy confirms that these issues, and especially their interactions, need to be closely taken into account by public administrators involved in the design of a system for public services provision which values highly users’ freedom of choice.

In summary, the design of an appropriate incentive system for private providers appears to be a critical issue, together with mechanisms that ensure the implementation (at acceptable costs) of mechanisms that satisfy all the requirements of a comprehensive and reliable information system. These should be coupled with a specific focus on the possible negative impacts on equity.



## NOTES

- <sup>1</sup> Note 1 The total number of beneficiaries exceeds 96,000; however, data are missing for a number of variables for approximately 7,000 beneficiaries. The relevant total number of beneficiaries is referred to in the table.

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