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# PUBLIC-PRIVATE PARTNERSHIPS IN LABOR MARKETS

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## Abstract

The paper considers the role of the Public-Private Partnership (PPP) in labor market issues. PPP consists of the collaboration between private agent(s) and the public sector in order to achieve a specific goal. There are many examples of partnerships between public and private agents in key areas such as infrastructure, healthcare and education, but PPP has not been sufficiently developed in the context of the labor market. This paper is structured into three parts: an economic analysis of PPP, examples of the most relevant PPPs in several different countries (with in-depth descriptions of successful examples) and recommendations.

The economic analysis motivates and gives importance to PPP in labor affairs. The economic reasons for the public sector's intervention in the labor market originate from market failures and society's need for an equality that the private sector cannot afford. However, the public intervention process also generates some undesirable indirect effects. PPP is an effective instrument to solve any market and management failures deriving from the public provision of services.

The best way to understand how PPPs work in practice is by looking at the different types of PPP undertaken; and considering interesting cases in significant (developed) countries. The examples accompany the mixture of PPPs depending on the economic situation and institutional framework of the country.

The combination of a theoretical and practical economic approach allows us to present recommendations on how the human resources (HR) sector should tackle the dynamic, changing environment through the use of PPPs. Terms like "globalization," "flexicurity" and "personalization" have to be on the main agenda of policymakers and HR professionals through the successful creation process of PPPs.

**Keywords:** Labor market, Public-Private Partnership.

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# PUBLIC-PRIVATE PARTNERSHIPS IN LABOR MARKETS

## 1. Introduction

The Public-Private Partnership (PPP) is defined as any agreement between private entities and the public sector (both defined in a broad sense) to achieve an objective. The relationship between private and public agents goes beyond the classical public-private venture.

The objective and initiative of PPPs usually come from public entities; however, the private entity aim to maximize profits and objectives may not be in line with those of the public sector. Moreover, the incentives for private and public agents may change during the relationship. The reasons why public entities foster this kind of relationship are multiple;<sup>1</sup> among the most common factors are managerial practices, problem conversion, morale regeneration, risk- and power-sharing and restructuring the public service.

The PPPs are broadly used in many areas, such as healthcare, education, infrastructure and research. However, governments have not found the same need for PPPs in the labor market as they have in other matters. As with education, PPPs in labor affairs focus on offering services, so do not carry the risks derived from owning and recording assets.

The type of collaboration in labor markets depends on the nature of the policies. The OECD splits labor market policies into so-called *active* and *passive* labor market measures. The active measures comprise a wide range of policies aimed at improving unemployed workers' access to the labor market and jobs, job-related skills and the functioning of the labor market. The passive measures relate to spending on income transfers. The measures included in the Active Labor Market Policy (ALMP) are broken down into five program categories (Martin, 2000): (i) public employment services and administration; (ii) youth measures; (iii) subsidized employment focused on hiring, assistance in starting a business and direct job creation; (iv) measures for the disabled; and (v) labor market training programs. The development of the ALMP comprises the initial framework for the collaboration between public and private agents.

The promotion of the ALMP constitutes an opportunity for the human resources (HR) industry to incorporate their experiences into innovative policies or expand their influence on existing programs.

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<sup>1</sup> Linder (1999) shows six general complementary meanings of PPPs, depending on how they can solve relevant problems.

## 2. Economic Analysis

Our presentation of the economic analysis of PPPs in the labor market is organized into three sections: reasons for the increasing importance of PPP, the existence of economic failures and implementation problems with PPPs.

### The Growing Importance of PPPs in Labor Markets: Why Now?

Both public and private products and services are increasingly complex. Client demand consists of abstract and specific components for solutions; the social actors related to developing the products and services are as crucial as participants in the development.

The traditional concept of a job for (working) life has changed in today's dynamic setting. New types of contract have increased the demand for innovative employment services. Employees require job security and satisfaction of work conditions. In the context of globalization, companies demand flexible staff structures to react faster and more effectively way to market opportunities and threats from competitors.

Requirements of both parties are combined in the term "flexicurity." In terms of policy implications the application of "flexicurity" is embodied in four measures:

- Introduction of flexible and reliable contractual arrangements between agents.
- The ALMP should be transformed into useful instruments to help workers cope with rapid labor market changes, reduce periods of unemployment and ease transition to new jobs.
- Implementation of comprehensive lifelong learning strategies during professional life.
- Modernization of social security systems to offer quick, optimal solutions.

Therefore, the objective of "flexicurity" consists of reducing the gap between non-standard, sometimes precarious arrangements and permanent, full-time jobs. This idea has been proposed by European Commission (EC), which has called for a limit on the abusive use of temporary contracts.

PPPs constitute an innovative approach to achieving open, responsive labor markets and more productive workplaces, which promote "flexicurity." The route towards the ideal "flexicurity" situation depends on the initial economic situation. Four pathways are established for EU countries, and Private Employment Agencies (PrEAs) must adapt to each situation:

- Tackling contractual segmentation as a high level of flexibility coexists with a low level of labor market security. This situation of imbalance is common in southern European countries (France, Italy, Spain, Portugal and Greece). Moreover, PrEAs usually incorporate a downward slide in job quality and the preservation of the weak labor market situation.

The social perception of PrEAs fails to take into account the fact that these agents help workers find a job sooner. Several economic arguments agree with the positive effect of private agencies on job matching, related to the difficulty employers have in finding skilled workers and increasing the human capital of their staff.

Companies know the importance of skills training for their personnel. However, they potentially face two factors that prevent them from investing in human capital: the high cost of training and risk of poaching. The training cost is measured in terms of time and resources, especially for small- and medium-sized companies. The poaching risk arises after the expense has been paid, when other companies may hire the newly-skilled workers and benefit from the new human capital consolidated by the previous company.

Private employment agencies take care of personnel and arrange training courses for a competitive fee, using their structure and experience, increasing human capital and avoiding the risk of poaching.

- Developing flexibility within the business through innovative transition security programs. These measures try to overcome the rigid behavior of job contracts and high social security levels. Examples of EU countries exhibiting this stagnant structure are Germany, Austria and Belgium. The creation and promotion of new types of employment contracts and the transfer of resources from passive to ALMP foster the reduction of the unemployment rate and periods of unemployment. The EC recommends the use of agreements between employers, unions and public employment services in the change process.

In this context, PrEAs can help by facilitating employment transitions in the labor market, complementing placement services with training courses. The outplacement experience benefits all those involved: both the company and the professional can enjoy several advantages of outplacement services, in addition to generating positive effects for policy-makers. The negative influence of firing on the relationship between the rest of the employees and the company is mitigated, motivation and productivity in the organization are maintained and the firm's image improves. Workers leaving the company will receive psychological and professional help, preparing them for a new stage of their working lives. Finally, the public sector gains a reduction in costs from the working population's loss. The reduction becomes significant for older professionals because the misuse of early retirement diminishes.

- Tackling skills and opportunity gaps in the workforce. Countries like the United Kingdom, the Netherlands and Ireland show high disparity between workers' skills, which severely affect the job opportunities for low-skilled workers. Measures should be aimed at the promotion of opportunities for low-skilled and disadvantaged groups of the unemployed, making it easier for them to get a job and develop their skills in order to reach a sustainable position in the labor market.

The use of training courses also works to solve the imbalance of skills among workers. However, it is not only low-skilled workers who experience reduced employment opportunities; there are other groups of workers who need the help of Public Employment Service (PES) to take an active part in the labor market. The use of PPPs will assist the breakdown of segregation.

Until now, disadvantaged workers have been supported by PES to find job opportunities through the creation of alternative labor markets, whose economic sense was, in some cases, questionable.

The incorporation of PrEAs through PPPs can affect this distortion by identifying jobs with skills, in spite of their belonging to special groups. In this case, PPPs contribute to modifying employers' and PES' way of thinking and these groups become included in the normal structure of the labor market.

There are other initiatives that PrEAs can propose to PES, such as employment contract flexibility and working hours for those who potentially do not belong to the working population because they do not fit into the standard job structure. These measures allow such workers to be in contact with the labor market and mitigate barriers to their full incorporation in the future.

- Improving opportunities for benefit recipients and informally employed workers. This solution is associated with the new EU member states from Eastern Europe, which have deficient social security systems and a high level of "hidden economies."

## The Existence of Economic Failures in the Labor Market

The existence of market failures constitutes one of the most important reasons that justify the intervention of the public sector in economic affairs. However, public intervention does not manage to solve all failures and can lead to other types of inefficiencies. PPPs may be understood as an intermediate solution between supporters of public provision and private initiative, and market and management failures would be mitigated by the implementation of the partnerships.

With respect to market failures, high search costs and asymmetric information prevent an optimal provision of labor market services by private agents from a social point of view. Additionally, society requires a minimum equity standard that only the public sector is able to provide. Training and job search programs for very disadvantaged groups of workers constitute an example of this.

However, the concept of budget limits fosters an appropriate use of public resources and avoids high initial costs from draining the government's budget, derived from the full implementation of decentralized ALMP. The EU illustrated this emerging reality by putting in place the Stability and Growth Pact in 1997, which included a requirement for governments to get their deficit below the limit of 3 percent of GDP.

The private sector is considered to be creative and dynamic, bringing "access to finance, knowledge of technologies, managerial efficiency, and entrepreneurial spirit" (United Nations, 1997). Private entities work in terms of efficiency and effectiveness, introducing flexibility and delivering goods and services. This is increasingly being explored as a way for public managers to satisfy society's demands. Their competencies are emerging, as is the demand for knowledge. Under such circumstances (innovation) networks and partnerships are increasingly viewed as a solution.

Previous versions of PPP in labor markets are associated with recruitment and outplacement of professionals. The future influence of PPP will derive from the provision of innovative services and their extension to special groups of workers on behalf of policy-makers. For example, younger workers have significant problems getting a job, and are therefore included in most target-group policies. PPPs' focus on socially disadvantaged groups prevents sending bad

signals to employers and mismatches between the job applicant's practical knowledge and the recruiters' requirements (school-to-work transitions).<sup>2</sup>

Regarding management failures, the use of PPPs mitigates/lessens several indirect effects of the implementation of the ALMP on labor market outcomes:

- **Deadweight loss:** PES tend to choose workers whose probability of successful transition into employment is expected to be higher, because the effectiveness of the ALMP is evaluated in terms of labor integration. The behavior is similar for private initiatives, because outsourcing placement services per se do not eliminate these incentives. However, the combination of outsourcing and the payment of placement fees solves the problem. If the contract between the PES and the PrEAs establishes different tariffs depending on the degree of labor insertion of unemployed workers, PrEAs are able to develop their activity specializing in particular groups of workers. However, very disadvantaged groups would be unable to receive any kind of placement service. Another alternative is the use of "no cure, no pay" contracts: the private providers bid for (heterogeneous) sets of workers who need to be reintegrated. Fees are only paid if the successful reintegration of all workers is guaranteed (see Dutch case in the next section for further information.)
- **Substitution effect:** Some ALMP expenditure is allocated to specifically target groups of workers, using equity arguments for intervention. The selective implementation of policies creates distortion in companies' selection and hiring processes. Employers tend not to hire more workers but rather substitute existing workers chosen for their productivity with ALMP targeted workers. PrEAs are aware of employers' skill demand. PPPs can help achieve compatibility between helping disadvantaged workers and satisfying firms' demands as well as mitigating substitution effects.
- **Searching effect:** The implementation of ALMP must follow an integrating process. If training programs are not complemented with job search measures, unemployed workers who receive training courses are simply delaying their job search. PrEAs are able to adapt training courses to the skill demand of firms, so PPPs eliminate the effect through private efficiency.

## Implementation Problems of PPPs in Labor Affairs

Social assessment of private employment agencies differs across countries. The social perception of PPPs by society affects decisions of policy-makers as well as creation and development of partnerships. PrEAs face restrictive institutional frameworks in some countries. They should seek the collaboration of all agents to improve the development of PPPs:

- PPPs must contribute to the new decentralization processes developed by PES through detailed agreements that can be used as examples of good common practices.
- Foster agreements among those social agents involved in the application of ALMP aside from PES, such as unions and employer's organizations.

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<sup>2</sup> Further information about school-to-work transitions appears in Adecco Institute (2007).

- In the case of training, the use of PPPs allows other institutions to be included in the integrated training system fostered by the EU.
- The incorporation of universities and research centers covers the needs for monitoring and evaluating PPPs in an appropriate way.
- The multinational and multilateral structure of private employment agencies should give incentives to share successful habits, advice and experiences from other countries and economic environments.

### 3. Evidence of Public-Private Partnerships

Considering the methodology that Barbier et al. (2003) draw from the International Labor Organization (ILO) Convention No. 181 on Private Employment Agencies in 1997, the public sector aims to improve recruitment, ensuring the transparency of the placement process and providing free services to all job seekers. The instrument to achieve these objectives is the Public Employment Service (PES).

The complexity of labor market evolution derived from globalization, the accelerated development of information and communication technologies, the changing requirements (of skills) by employers, difficulties in getting appropriate employment conditions by workers, and budgetary limits of governments have created an opportunity for private services, embodied by the Private Employment Agencies (PrEAs). These agencies provide efficient, flexible and quick solutions to labor market puzzles. Collaboration between PES and PrEA is usually needed to face new and changing difficulties in the labor market.

Taking into account the regulatory role of governments over PrEAs in the provision of labor market services, the European Commission has established three classes of PPP: cooperation, complementarity and competition.

Cooperation is usually associated with the fields of information, basic matching services, active brokerage and adjustment. The lack of information means that private agents can behave extremely cautiously in undertaking reasonable projects, and increases matching costs for employers and employees. Exchanging information improves the job matching process for private agencies so they are more likely to participate in a relationship which increases revenues. The public sector helps other agents deliver labor market services more efficiently and reduces public costs. Better matching increases productivity and benefits companies and workers.

Training can be also conceived and promoted as a cooperative effort in which public and private institutions must participate and share responsibilities. Moreover, the partners concerned are being called upon to contribute to the overall training effort and to articulate their inputs, making the best possible use of their respective strengths and comparative advantages.

Public employment agencies can decide to hire the services of PrEAs to perform labor market activities. Complementary involves the so-called "outsourcing" process. Public policy goals and resources are combined with private service delivery, and the PES retains the dominant role as planner and overall manager of the program. In this case, PrEAs complement services directly provided by the public sector.

Finally, competition requires PES and PrEAs to face each other on equal terms and there is no reserved service delivery role for the public sector. As in any competitive market, each agency concentrates its own resources on what it does best. Potential regulation and control of the activity is done by an institution which does not depend on the PES to guarantee neutrality.

The rest of this section describes experiences of PPPs in labor markets across a set of developed countries. These cases show how relationships between PES and PrEAs can work. In general, countries usually present different PPP types depending on the nature of ALMP, institutional framework and economic situation.

#### *UK case: Job recruitment*

Private employment agencies have been more significant in the United Kingdom than in most other European countries. The need for private employment agencies arose from information imperfections in labor markets, leading to high transaction costs and difficulties in matching demand and supply. Agencies derive their income from three main sources: the mark-up on salaries paid to temporary workers, fees paid for placement of permanent staff and fees for managing contracts. Private agencies may typically have more experience in placing highly skilled and professional workers.

The Employment Service and the Benefits Agency were combined as Jobcentre Plus (JCP), a one-stop-shop for employment services and income support for both inactive and unemployed clients of working age. Contracting out has become an important feature of PES services (Tergeist and Grubb, 2006):

- JCP contracts with private and voluntary organizations that deliver a variety of specialized services, such as résumé preparation or interview training.
- New Deal program options are outsourced to private and voluntary sector organizations determined through regional-level tendering.
- Employment Zones, which were introduced to a number of generally very deprived areas with high levels of long-term unemployment, are the most radical component of the outsourcing strategy.

With respect to the Employment Zones, eligible unemployed workers are assigned for 18 months to private providers contracted with the Department for Work and Pensions, who have a high degree of flexibility as to their choice of reintegration measures (Hasluck et al., 2003); in some areas, private providers can also work with lone parents, although for them participation remains voluntary.

According to one account of contractual arrangements with private, voluntary and public sector providers, JCP in 2002 had contracts with over 1,000 organizations to deliver employment programs, and a market worth £1 billion, which implies a quarter of total spending on active labor market programs.<sup>3</sup>

The Recruitment and Employment Confederation (REC) is the trade association for the recruitment industry in the United Kingdom. In this context, the collaboration between both REC and JCP has produced several initiatives, such as online job search assistance (the use of

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<sup>3</sup> Karagiannaki (2007) includes a description of the JCP and analyses the effects in United Kingdom.

the Internet<sup>4</sup> provides assistance to locate recruitment agencies to find a job) and the Diversity Pledge and Toolkit in 2005, which helps both private and public sector recruiters reduce discrimination. This instrument tries to expand recruitment to other workers and facilitates diversity of employers' workforce policy.

### *Germany*

In January 2003, Germany implemented the first two so-called Hartz reforms, followed by the third and fourth packages of Hartz reforms in January 2004 and January 2005, respectively.<sup>5</sup> The aim of these reforms was to improve the performance of placement services and policy programs, mainly by introducing market mechanisms to the realm of placement services and streamlining public employment services. Through measures such as Personnel Service Agencies (PSA), Job Centers and the mini-job model (mini-jobs involve small-scale employment with maximum monthly income of €400) it was possible to:

- Accelerate labor market flows.
- Reduce unemployment duration.
- Create new employment opportunities.

With respect to the PSA, the partnership between PES and PrEAs is based on a contracting-out process.<sup>6</sup> The public employment service can choose to outsource services fully or partially. Public tendering became compulsory for external contracts. One example is the placement via temporary work: Since 2003, every local employment office sets up a PSA that acts as a temporary work agency for the unemployed. To this end, the local employment office may either contract a private temporary work agency or, if no provider is available, may run a PSA by itself. The local employment office may delegate hard-to-place clients to the PSA, which in turn receives a lump sum fee for each worker. The PSA may lend the worker temporarily to other companies or provide a permanent placement. During periods of inactivity, the PSA should provide training measures to the worker. Therefore, PSAs encompass aspects of both training measures and job search assistance.

For the long-term unemployed, defined as people who have been out of work for one year and more, the Federal Government set up a special program entitled "Work for the Long-term Unemployed." The "Act of Part-time Work and Fixed-term Employment Contracts" is a tool to enhance the flexibility of employees and companies. By enabling employers to respond flexibly to new trends and demands in the labor market, it is contributing towards job security and boosting employment.

Germany dedicated more than one percent of GDP to ALMP in the period 2002-2004 (OECD, 2006). A great part of the expenditure on ALMP (more than 30 percent) was allocated to training. Training under the dual system, which combines training in companies and instruction in part-time vocational schools, provides the basis for entering professional life for the majority of young people. However, this subsequently decreased due to a reduction of institutional training expenditures. In June 2004 the Federal Government, together with the leading national industry associations, launched the "National Pact for Training and Young

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<sup>4</sup> An example of the online recruitment channel is the website <http://www.jobseekers-uk.com/>

<sup>5</sup> Fertig and Kluge (2004) present an overview of the Hartz reforms.

<sup>6</sup> For further details about the process of outsourcing employment services, see Jahn and Ochel (2007).

Skilled Staff in Germany.” The pact aims to provide a traineeship position to every young person capable and willing to train professionally.

The balance for the year 2006 shows that the “Pact for Training” works. In the period between October 2005 and September 2006, around 580,000 new training contracts were created. After the unfavorable trend at the conclusion of new training contracts in 2005, the positive trend witnessed in 2004 was continued in 2006. In May 2007, the Federal Government has extended the Training Campaign for three more years.

The Federal Government has vigorously continued numerous measures and activities of the Training Campaign in 2006, like the “JOBSTARTER - Training for the Future” program and the “EQJ-Program”:

- The Federal Ministry of Education and Research has provided funds for innovation and structural development in vocational education and training through the “JOBSTARTER - Training for the Future” program. The objective of the program is to encourage companies to provide training for supporting regional industry in an intelligent way.
- The Federal Government has also launched a special program to enable young people with limited opportunities to successfully enter professional life. In the framework of the EQJ-Program, companies that offer to equip young people who have completed preparatory courses with the qualifications needed to successfully apply for a traineeship program can finance part of the costs of these courses through government funding.

### *Japan*

The Japanese labor market has shown a peculiar dichotomy between large corporations and small businesses. While large corporations are associated with life-long employment, and recruitment is more heavily concentrated on new graduates (although the process of concentration among companies has also created a mid-career market), small companies represent flexibility and operate more like the European type of labor market.

Given this labor market framework, Japan suffered a decade of economic stagnation. In 2002, the unemployment rate reached a record high of 5.4 percent (OECD, 2007). These facts foster labor market flexibility to give rapid solutions to new demands through ALMPs.

The Public Employment Security Offices (PESO also known as “Hello Work”) provide general services throughout the country.<sup>7</sup> As the Japan Institute for Labor Policy and Training points out, there are about 600 public offices jointly run with the Human Resource Bank, which handles personnel skilled in professional fields. The public offices handle all job placements and have large pools of employers and job seekers. Agency offices are interconnected by a computer network, allowing them to exchange available job information and reach job seekers nationwide. Some agency offices in major cities provide job placement information on the Internet. Although the activity of the PESO in ALMPs has increased as a response to labor market difficulties, the weight of ALMPs in Japan remains negligible, representing only 0.30 percent of the GDP in 2005 (OECD, 2006).

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<sup>7</sup> Information on institutional framework and labor market measures is shown on the website of the Ministry of Health, Labor and Welfare (<http://www.mhlw.go.jp/english/index.html>).

PESO concentrates on placement and vocational counseling.<sup>8</sup> The relationship between public sector and PrEAs in these activities is improving after a period of tight regulation over private employment agencies. Private employment agencies are allowed to handle all types of jobs with the exception of construction and longshoring work. There were 5,322 private agencies operating as of August 2001, a number that has been increasing in recent years.

Japan promotes computerization of public employment services. There are two examples of the combination of the Internet and PPP: The "Shigoto Joho (job information) Net" and the "Job Café." The "Shigoto Joho (job information) Net" is the system which any worker can access via internet using a PC or a mobile phone to view and search information on job openings registered at various private employment agencies and the PESO. When job seekers look for a job, they can access to the "Shigoto Joho Net" and search for information according to certain search keys, such as place of work, type of job and wages. The "Shigoto Joho Net," which launched in August 2001, provides approximately 750,000 job openings, and receives about 1.23 million accesses a day on average (about half of these from mobile phones connected to the Internet.)

The second example is the "Job Cafe" service center. Job Cafe is a youth employment service commissioned by the government and managed by private agents. Job Cafe was established to promote employment among young people as a solution for new social problems faced by youths: high unemployment, high rotation and the increasing part-time worker population.

The Job Cafe project started in June 2003 and was initiated as a joint project of four government bodies: Ministry of Education, Culture, Sports, Science and Technology; Ministry of Health, Labor and Welfare; Ministry of the Economy, Trade and Industry and The Cabinet Office. Job Cafe had been established in all 43 prefectures by local governments by the end of July 2004. At the request of 35 prefectural governments, a regular job placement office was established in conjunction with Job Cafe.

Job Cafe provides a wide range of employment services for youths. Local Government provides the following services in a cooperative alliance with local companies and schools:

- Job information service for young job seekers.
- Opportunities to gain workplace experience.
- Job placement services.

These services are augmented by using the professional skills and experience of the private sector and carrying out projects in cooperation with local industries, local schools and the local communities. The services of Job Cafe include employment information, career consulting, business knowledge, business skills, internships and job placements.

Both the PrEAs and PESO compete in the job placement market, and agency selection depends on worker status. For a clerical worker, employers usually select PESO. In the case of highly qualified professionals, a head-hunting company or PrEA is used.

In addition to placement and vocational counseling, training has become a complementary instrument to solve labor market problems. Community vocational training centers are one of

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<sup>8</sup> For further information about the structure of the job-broking market, the role of PESO and its functioning in Japan, see Raisanen (2005).

the measures adopted by the government to provide vocational training facilities to smaller enterprises that experience difficulties in obtaining their own training facilities. It is the first program that explicitly promotes PPPs in vocational training.

The Employment Promotion Corporation, with the collaboration of the Ministry of Labor, constructs facilities including classrooms, training workshops, libraries and offices, and provides the necessary training equipment. Private sector representatives organize vocational training associations and are entrusted with the management and operation of community vocational training centers in the respective communities. The centers are mainly used for vocational training of workers employed by enterprises that are members of the association, as well as for the provision of cooperative vocational training facilities.

Finally, a new PPP focused on younger workers has been implemented. Using the German dual system as model, the objective of the PPP is to promote young worker development through close collaboration between schools – from elementary to college – and industry and local governments. The Japanese version of dual system introduces a “real-work” vocational education system to develop mature workers by offering education at training institutions jointly with practical training in companies. Close to 7,000 apprentices had participated in the scheme in 47 prefectures by the end of June 2004.

### *Australia*

Until 1998, Australia’s public employment services were provided by the Commonwealth Employment Service (or CES). In 1997, “Centrelink” was established as a first-stop shop – incorporating the income support facilities of the Department of Social Security and the job seeker registration, assessment and referral functions of the CES.

In 1998, the Government began a significant reform process to shift from provider to purchaser of employment services, dismantling the CES and cashing out all of the labor market programs. The majority of the funds were used to create the Job Network – Australia’s outsourced public employment service. Centrelink became the gateway for job seekers to access the Job Network.

Centrelink processes claims and payments for benefits and co-ordinates the referral of job seekers to appropriate job-search agencies. Job matching and employment assistance tasks are devolved to the Australian Job Network, involving some 200 private or non-profit organizations.

Centrelink offices provide a range of customer services including education, training and youth affairs; employment; health and family services; primary industries and energy; and social security. Centrelink offices also provide many services including advice and information regarding the government’s Jobs, Education and Training program; registration and acceptance of new applicants for income support and employment assistance; self-help job facilities, including computer access to a national job vacancies database; and specialist labor market assistance services for disadvantaged groups.

Job Network is a national network of private and community organizations dedicated to finding jobs for unemployed people, particularly the long-term unemployed. These services are provided under contracts awarded through a competitive bidding process, and monitored for service standards and outcomes. Private employment agencies, which abound in all major cities and towns in Australia, are big business. Private agencies find work for almost 100,000 people annually, although nearly two-thirds of them are hired in casual work. Many large companies

hire agents and consultants to recruit employees, particularly executives, managers, professionals and temporary staff.

There are four main types of private agency in Australia: personnel consultants, labor hire contractors, student employment services and employment agencies. Personnel consultants (headhunters) handle mostly executive, managerial and professional positions, although there is some overlap with general employment agencies. Labor hire contractors handle jobs for skilled, semi-skilled and unskilled manual workers, and tend to be located in industrial areas rather than the main streets of major cities.

The largest number of agencies simply come under the generic term "employment agencies." Some specialize in particular fields or industries; others deal with a range of industries and professions. Some agencies deal exclusively with temporary workers in a variety of occupations. Care, nanny and nursing agencies are common, and usually cover the whole range of nursing services. Many agencies handle both permanent and temporary positions.

Agencies are usually prohibited from charging a fee to job applicants, as they receive their fees from clients, although they may charge a registration fee in some states. For permanent staff, the fee paid by the employer is a percentage of the annual salary; for temporary staff, agencies take a percentage of the hourly rate paid by employers.

Job Network has improved through the implementation of a new version called Active Participation Model (APM) since 2003. APM constitutes the final step of a process of the government transforming its role as provider of job brokerage services into purchaser of these services. The objective of AMP is oriented to simplify access for job seekers and streamline services which are not only associated to job brokerage, but also other high performance services like training, professional services, employer incentives and relocation assistance.

As the Ministry for Workforce Participation shows, the results of this initiative do not allow any room for doubt: Job Network has found jobs for some 3.7 million Australians since 1998. In 2005, Job Network members placed more than 640,000 people into jobs; 30 percent of these were long-term positions for disadvantaged job seekers.

### *Spain*

The evolution of the Private Employment Agencies (PrEAs) in Spain has been short and full of difficulties and disappointments, as Rodríguez-Piñero (2001) points out.

The Spanish labor market has been traditionally subject to rather strict rules, including the prohibition of any kind of private employment agency. The Public Sector was solely responsible for the functioning of the labor market, embodied by the National Employment Institute (INEM). INEM was created in 1978 as the unique nationwide Public Employment Service (PES) that could manage all activities related to unemployment, such as the unemployment benefit system and the matching between unemployed workers and employers, who were obligated to use INEM's services.

The 1994 labor market reform abolished the public monopoly of placement formerly existing, and allowed the incorporation of two types of PrEAs to the labor market: non-profit private employment agencies and temporary employment agencies. In addition to the authorization from public employment services, private agents must cooperate and coordinate their activities

with INEM. The aim of the reform focused on improving of public employment services and the use of part-time employment.

The creation of the new PrEAs tried to solve rigidity problems of the two parties of the labor market. From the workers' point of view, the agencies:

- Helped to experiment with alternative jobs combined with high flexibility, so workers could discover which option was the most suitable for their own circumstances.
- Provided work and professional experience to new workers, especially recent graduates.
- Constituted a new instrument to get job stability.

In the case of employers, the PrEAs could offer flexible labor resources motivated by production needs or sick leave, and they could be also used as instrument in personnel selection processes.

Although the 1994 reform was intended as a response to the economic downturn during the first half of the 1990s, temporary employment rose to 35 percent in 1995 and slightly diminished to 33 percent in 1997. The percentages became the highest in the European Union (EU) and the experience has been a matter of great concern to economists (Jimeno and Toharia, 1996; Bentolila and Dolado, 1994). Unemployment also increased to 24 percent in 1994, initiating a slowly decreasing trend. It still stood at 21 percent after three years, affected by the evolution of participation rate.

After the 1994 reform, a high level of flexibility has coexisted with low level of job security in Spain. This imbalanced situation has been common in other southern European countries (France, Italy, Portugal and Greece) and PrEAs usually embody downward slide of job quality and preservation of the weak labor market situation.

Although the impossibility of making profits reduced the range of institutions interested in placement services, the evolution of the two types of PrEAs has been distinct. Temporary employment agencies spread all over the country, and their impact overcame the small influence of non-profit private employment agencies. The incorporation of these agents did not solve the structural difficulties of the labor market, due to the prohibition of acting for profit, the high regulation of their activities and the strict authorization system. Finally, society attributed the high level of temporary employment to the new agencies.

The influence of the international legislation was very limited. The ratification of the Private Employment Agencies Convention No. 181 of the International Labor Organization in 1999 constituted the culmination of a successful process of incorporation of PrEAs in the labor market intermediation, but there were no particular measures by the government to encourage the creation and expansion of PrEAs.

However, the economic globalization and the EU strategy of policy coordination obliged the government to establish quantifiable objectives for its actions targeted at the unemployed: since the EU links the distribution of European funds to the meeting of these objectives, mechanisms have to be established to ensure their achievement. Among the measures aimed to improve the efficiency of the labor market and increase the opportunities for finding jobs was the restructuring of the PES in 2003. The new structure also considered the crucial step in the distribution of powers between central government and the autonomous regions.

The new public employment agency is embodied by the National Employment System. The National Employment System is composed of the INEM (also defined as the National PES) and the public employment services of the autonomous regions. While INEM focuses on management of unemployment benefits and general budgetary decisions (European funds included), elaboration, control and management of active labor market policies belong to both agencies, showing a relationship based on collaboration.

The reform of PES did not change the relationship between PrEAs and PES. Despite the immobility of policy-makers on this topic, temporary employment agencies have demanded from the government the possibility of transforming into profit-oriented private employment agencies which can provide training and aid in selection processes for permanent employment, as happens in other OECD countries.

Aside from temporary employment agencies, a new group of PrEAs has promoted changes in job placement – the outplacement sector. Outplacement companies have been permitted thanks to a loophole in the Spanish Constitution, although the legislation is not explicit enough. They are defined as “services sector companies,” since legislation forbids the existence of profit-making outplacement agencies. In the so-called Workers’ Statute of 1995, there is a generic mention of using outplacement services in labor force adjustment plans. However, general agreements do not exist between employers’ organizations and trade unions about these services.

The most important outplacement consultant companies in Spain – Create, Lee Hecht Harrison, MOA Groupe BIS, Right Management Consultants and Uniconsult – helped find jobs for almost 7,000 professionals from more than 800 companies in 2003. This process grew in the following years, and 15 percent of the 38,000 workers who were affected by a labor force adjustment plan in 2006 took part in an outplacement process. Outplacement companies also provide other services following the demands of the market, such as career management, coaching and transition consultancy. Consultants specialized in this service came from multinational companies in the mid-1980s, although their methodology was not widespread among Spanish companies until recent years.

The new PPPs between outplacement companies and PES must accept the strict rules of placement services in the labor market established in 1994. The outplacement company Create has collaborated with regional governments in the placement process of highly disadvantaged workers in Seville between 2003 and 2005; Oviedo and Gijón (Asturias) between 2004 and 2006, La Coruña between 2002 and 2004; and Barcelona in 2005. All of these measures were financed by the PES of the autonomous regions and the foundation.

In Asturias, the company collaborated with the Asturian government between June 2004 and March 2005 to help 170 unemployed graduate women with job search difficulties registered in the PES of Asturias.<sup>9</sup> More than 70 percent of them got jobs, satisfying the prospects of the Asturian government. The experience was repeated between April 2005 and March 2006 with a group of 230 women.

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<sup>9</sup> Information extracted from the web page of *Expansion & Empleo* on May 28, 2005, available on [http://www.expansionyempleo.com/edicion/expansionyempleo/empleo/mercado\\_laboral/es/desarrollo/976016.html](http://www.expansionyempleo.com/edicion/expansionyempleo/empleo/mercado_laboral/es/desarrollo/976016.html) (only Spanish).

### *The Netherlands*

Flexibility is a condition required by Dutch companies, which are affected by the combination of globalization and European integration in terms of both workers and vacancies.

In order to respond to these issues, the government, in close cooperation with employer associations and labor unions, has taken measures to merge workers' requirements of security in job conditions and firms' demands of flexibility in labor costs (known as "flexicurity.") The initial monopolistic position of PES in the job placement sector was transformed into a highly decentralized non-governmental organization competing with private agencies in 1990. Aside from services provided by the PES, employers could pay for complementary services like training, recruitment and outplacement to private agents. This system of co-existence ended in 1997, as the Netherlands ratified ILO Convention No. 181, which opened the way to organizing employment services without need for a licensing system.<sup>10</sup>

Since the 2002 reform, the delivery structure for public employment services is still not completely privatized; PES still exists. The Ministry of Social Affairs and Employment retains a supervisory role, in particular through the Centre for Work and Income (CWI) and the social insurance agency (UWV).

CWI is the remnant of the PES. It provides placement services and information on the labor market, and training opportunities for employers and job seekers. The center also offers services in the field of occupational choice and career guidance, issues dismissal and employment permits, and provides information relating to labor law. CWI does not provide vocational training and is not engaged in the implementation of subsidy schemes. CWI is not allowed to provide intensive job counseling services or training for clients who cannot be directly placed in the labor market.

UWV and municipalities are in charge of granting benefits and transferring unemployed workers to private providers. Placement and reintegration services for workers who are not expected to find work within six months are contracted out by UWV to private providers, while municipalities rely to a larger extent on "preferred providers," partly from the public sector (Tergeist and Grubb, 2006.)

The private and non-profit providers bid on a set of workers who have to be reintegrated. In their bids, they describe the reintegration services they will deliver to reintegrate the workers and the price for these services. UWV defines criteria on the basis of which the bids must be judged, using a structure of "no cure, no pay" contracts (Bruttel, 2004.)

### *United States*

The particular structure of the U.S. labor market and public sector determines the limited use of PPPs in this context. The main public agent regarding labor matters is the Department of Labor (DOL). DOL is in charge of "the welfare of the job seekers, wage earners, and retirees by improving their working conditions, advancing their opportunities for profitable employment, protecting their retirement and health care benefits, helping employers find workers, strengthening free collective bargaining, and tracking changes in employment, prices, and other national economic measurements."

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<sup>10</sup> Sol (2001) describes the evolution of employment services in the Netherlands.

The sharing of information among agents constitutes a classic example of PPP. DOL uses non-profit, third-party membership organizations to communicate important educational messages to the public. Members of DOL's Partnerships for Compliance Assistance Program (PCAP) further help the department's dedication to protecting the wages, health benefits, retirement security, safety and health of the workforce. PCAP members help DOL educate business owners and workers about available compliance-assistance tools and resources. Among other activities, partners distribute DOL educational materials and invite DOL agencies to participate in workshops and other compliance-assistance training opportunities.

Another source of collaboration comes from online recruitment. Using the Internet, DOL sponsors an integrated suite of national websites that help businesses, job seekers, students, and workforce professionals find employment and career resources called "CareerOneStop." CareerOneStop includes three instruments:

- "America's Career InfoNet" ([www.CareerInfoNet.org](http://www.CareerInfoNet.org)) provides career information and labor market data using web-based tools. Private Websites may be linked to the Career InfoNet, and the approval process is overseen by Career InfoNet project management. Career InfoNet does not enter into partnerships with private agencies where some market advantage would accrue to that company as a result of that partnership, except as a result of an open competition.
- "America's Service Locator" ([www.ServiceLocator.org](http://www.ServiceLocator.org)) maps a range of local services including workforce centers, unemployment benefits, job training, education opportunities, and other workforce services.
- "America's Job Bank" is a virtual job market. Job seekers can post their résumés, search for job openings and find their job. Employers can post job listings at the online labor exchange, create customized job orders, and automatically search résumés to find the right people. However, the bank ceased operations on July 1, 2007. This has not impacted the availability of the previous websites alternative (state and private) job banks substituted it.<sup>11</sup>

The expenditure of the U.S. Government in ALMP is one of the smallest of the OECD countries, which represents less than 0.2 percent of GDP. Despite the poor labor market expenditure, training represents more than a third of the total resources. In terms of this branch of ALMP, there are several organizations that foster the collaboration between local public agents, schools, colleges and employers to increase labor market skills of workers.

The League for Innovation in the Community College (<http://www.league.org/>) constitutes a good reference for training programs oriented to younger workers (school to career programs) and unemployed (Federal Employment and Training programs). Nielsen et al. (2003) focus on partnerships between community colleges, companies and local, state and federal government agencies to create educational programs for workforce development. Several successful cases of long-term partnership are presented and discussed.

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<sup>11</sup> Information about state job banks and private job banks and sector portals can be found on <http://careeronestop.org/ajbprsbl>.

## 4. Overview of the Most Successful Approaches - New Ideas

Literature dealing with PPPs shows several common success factors that those involved in labor markets should also share:

- Availability of resources: Quantity, quality and duration of any kind of resources should be guaranteed for all members of the partnership to undertake the project.
- Advertisement effort: In addition to guaranteed resources, clear public support of labor market projects by leading politicians is recommended, obtaining significant commitment in favor of these activities.
- Full confidence among the members of the partnership: The objectives of the partnership must be perfectly defined, as well as reporting and monitoring instruments. When the interests of the public and private agents are aligned and they share objectives, the evolution of the partnership goes more smoothly than when the opposite is true. Furthermore, both risk and uncertainty interfere with the optimal performance of PPPs. The identification and sharing of risks of the partnership lead to responsible participation of private agents in the project.
- Progress is monitored: As Rosenau (1999) suggests, the PPP "must be accountable." Monitoring of PPPs is twofold. First, the accountability of partners to perform their responsibilities is undertaken through internal control. Second, new processes of partnerships should be fostered to find the best response to new demands for society. The use of experiments produces valuable databases to analyze the evolution of the project and improve a partnership's performance.

Taking into account the criteria for a successful implementation of PPPs, this section focuses on innovative PPPs with special features due to of the target workers, the objectives or the partnership process. Moreover, all these PPPs share the previous characteristics for success.

Focus on special groups of workers, finding new target groups of workers who demand labor market services:

- Case of care assistants in United Kingdom.
- Migration in Austria.
- Women – Creation of companies in the Basque Country: Focus on medium and small companies which represent a great part of employment created in the economies.
- U.K. and Leitch Review of Skills:

Aside from job recruitment mentioned in the previous section, new PPPs in United Kingdom are also focusing on education and skills. The government commissioned Sandy Leitch in 2004 to undertake an independent review of the United Kingdom's long-term skills needs. The final Leitch report (2006) sets out a compelling vision for the United Kingdom. Taking into account the lingering decline in competitiveness, Leitch suggests that the United Kingdom must urgently raise achievements at all levels of skills by 2020 so that:

- Ninety-five percent of working age adults have basic skills in both functional literacy and numeracy – rising from 85 percent and 79 percent respectively in 2005.

- More than 90 percent of adults are skilled to GCSE level or to vocational equivalents – rising from 69 percent in 2005.
- The number of apprentices in the United Kingdom is boosted to 500,000 each year, with improved quantity, quality and esteem for intermediate skills.
- More than 40 percent of adults are skilled to graduate level and above – up from 29 percent in 2005.

Multiple training program initiatives have been implemented in several ways. An exclusive public sector measure is the so-called “Train to Gain” service. The government, through the Learning and Skills Council, has launched “Train to Gain,” a development from the highly successful Employer Training Pilots.<sup>12</sup> It can help businesses improve their productivity and competitiveness by ensuring that staff have the right skills.

An example of the importance of leading politicians’ public support for potential PPPs in the labor market is the so-called “Skills Pledge.” The Skills Pledge is a voluntary, public commitment by the leadership of a company or organization to support all its employees to develop their basic skills, including literacy and numeracy, and work towards relevant, valuable qualifications. The Leitch report suggests collaboration between government, employers and individuals in order to make the United Kingdom a world leader in skills. The government was joined by private and public sector employers on June 14, 2007 to mark the official launch of Skills Pledge and announce the chair of a new U.K. Commission for Employment & Skills, Sir Michael Rake.

The initiative of Prime Minister Gordon Brown is designed to encourage companies to make voluntary commitments to support their staff in upgrading their skills. More than 150 employers have made the Skills Pledge, covering more than 1.7 million employees.

In line with the suggestions presented by Adecco Institute (2007), the Department of Education and Skills has analyzed how the skills improvement process should be implemented for younger workers, providing them with the right skills to meet the demands of the U.K. economy. Moreover, the department developed an improved qualification structure to support reforms for 14-19 year olds and adults. The objective is reflected in three key targets:

- *Increasing attainment by age 19.*
- Increasing the number of young people completing *apprenticeships*.
- Increasing the number of young people *participating* in education and reducing the proportion of young people not in education, employment or training programs.

A particular example of the efforts of the Department of Education and Skills to improve work experience of younger people is the collaboration with “S-cool”. S-cool is a company that supports educational strategy, learning, recruitment and marketing. The objective of this relationship is to “raise participation and attainment through high-quality education and training which puts learners first.” Through the web page of S-cool (<http://www.s-cool.co.uk>), students can get e-learning or advice and guidance. The website “advertises work experience

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<sup>12</sup> Further information and successful examples about the Skills Pledge are available on the web page <http://www.traintogain.gov.uk/Success+Stories/>

placements and allows students to apply on line.” This process leads to a more motivated and better informed pool of potential employees and employers.<sup>13</sup>

## 5. Future Recommendations

The cases covered in the paper reflect the beneficial results of PPPs in the context of labor markets. Intervention in the matching process between workers and employers through placement constitutes a significant case in the collaboration process between the HR industry and the public sector. However, this relationship can be extended to any potential branch of ALMPs: training, youth measures, disabled workers, assistance to foster new business and job creation. In order to achieve innovative ways to overcome changing labor market situations derived from globalization, the HR industry should perform the following specific recommendations based on the term “flexicurity:”

- The work context of the HR industry consists of solving labor market problems of organizations seeking professional workers through the match between labor demand and supply. However, both sides of the labor market are evolving quickly, and the HR industry has to modify its philosophy, matching demand and supply of skills instead of matching workers with jobs. The most representative case of this perspective on specific sector requirements is labor market training. Experience shows that the most effective labor market training is planned and carried out in close cooperation with companies.
- An important part of ALMP spending goes to encourage alternatives to classical permanent contracts. More emphasis should be given to these contracts in the process of job brokerage, labor market information placement and labor market training, bearing in mind that the objective should be to improve opportunities for job-seekers to find work, but not to create alternatives to this market.
- The HR industry has to evolve simultaneously with changing labor market conditions as a result of increasing global connectivity, integration and interdependence among agents. In a globalized world, where competition has intensified, labor markets work best when there is an institutional environment that allows adjustment flexibility for companies while ensuring income, social- and employability-protection for workers. Big companies demonstrate readiness to face globalization and require rapid and innovative processes. The HR industry has offered flexible and efficient solutions to these companies. However, medium and small companies will also begin to incorporate in this process, and will constitute one of the most promising clients of these kinds of services. The HR industry will have to adapt resources to solve new challenges demanded by these agents.
- Aside from encouraging and revitalizing the activity of small and medium businesses, the relationship between the HR industry and these companies can be oriented to counseling services to promote corporate social responsibility activities, help to raise the companies’ profile in the community, and establish good working

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<sup>13</sup> An example (Bristol International Airport case) of the use of the services and performance of S-cool appears in CBI (2007).

relationships with the local councils. For example, these companies can play an important role in preparing young people for the adult world through the work experience scheme.

- Personalization – the provision of services in a way in which users want to receive them, as opposed to the way service providers want to deliver them – must be a *leit motiv* of any service provided by the HR industry. The HR industry should propose initiatives for target groups of workers to the public sector. Some minorities, the unskilled and unqualified, or those who work in sectors where the HR industry has little penetration, are going to present a good opportunity to improve transitions into employment. The experience of non-governmental organizations can be a reference to find feasible solutions to these potential clients.
- The role of placement services with regard to (future) relevant groups of workers trying to enter the labor market deserves particular attention. The HR industry can be transformed as an instrument to prevent early retirement for older workers (since the workforce in developed countries is aging) and increase labor force participation of women and younger people (with chronic levels of unemployment.)
- Flexibility in services should also be applied to employers. The methodology of getting optimal results to solve labor requirements of special groups of workers requires companies to learn about the benefits of a diverse workforce, affecting all areas of ALMPs, not only recruitment.

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