

*Christa Larsen, Sigrid Rand, Alfons Schmid, Tilman Nagel, Heike Hoess (Eds.):*

## **The Importance of Governance in Regional Labour Market Monitoring for Evidence-based Policy-making**

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Information resulting from the monitoring of labour markets is an important source for evidence-based policy-making. However, local and regional labour market observatories often find it difficult to impart their information and knowledge to decision-makers so that it can be incorporated into the policy-making process. This anthology explores the mechanisms, which ensure the relevance of labour market information for policy-makers on the regional and local level. It presents cases of regional and local labour market observatories that have been successful in transferring their monitoring information into policy-making. In the descriptions of the cases, concepts from governance research are used to analyse how the successful connections between data provision and evidence-based policy-making are implemented.

**Key words:** governance, evidence-based policy-making, regional and local labour markets, labour market monitoring, applied labour market research



Christa Larsen, Sigrid Rand, Alfons Schmid,  
Tilman Nagel\*, Heike Hoess\* (Eds.)

# The Importance of Governance in Regional Labour Market Monitoring for Evidence-based Policy-making

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## FOREWORD

It is clear that the labour market world is dramatically changing and that we are facing a real revolution pushed in particular by the digitalisation. This is and will be for the next future our main priority as Workers' Group of the Economic and Social Committee, in particular from the perspective of the governance of this new process. Digitalisation transforms all segments of society and the economy and thus logically affects work and employment as well. Our duty is to protect the quality, the skills and competences of this generation of workers. We really need a deep analysis on the impact of these developments on skills, life-long training and we have to avoid any negative effect of these dramatic changes on jobs and workers. Local and regional examples are fundamental to understand obstacles and/or best solutions; but no solution can be realistic at local or regional level. In many opinions, the EESC has underlined the importance to have a European employment strategy, a European vision for the future of work. In our opinion on the European Pillar of Social Rights (G. Bischoff – EESC SOC), we underline that “Social partners have a specific role to play in the elaboration and implementation of policies directly or indirectly affecting employment and labour markets”. Pro-active policy-makers at the EU and national levels can and must ensure that the evident potentials of digitalisation can be unlocked while its pitfalls are avoided. With its Digital Agenda for Europe and the Digital Single Market initiative, the EU is an active player in the field of digital policy. However, most of the employment effects of digitalisation remain unacknowledged and thus are poorly addressed by relevant policies. As we say in the opinion on “Effects of digitalisation on service industries and employment” (W. Greif – EESC CCMI), the employment effects of digitalisation warrant political attention and management. We would like for these reasons to thank all actors involved in this extremely interesting work – institutes, universities, regional and local social partners that have contributed to such a valid result.

### **Gabriele Bischoff**

President of the Workers' Group  
European Economic and Social Committee (EESC)

Brussels, 4 September 2017



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## INTRODUCTION

*Christa Larsen and Sigrid Rand*

### 1. Point of departure

Information on regional and local labour markets is an essential precondition for evidence-based policy decisions in the field of labour markets. In Europe, there are over 560 regional and local labour market observatories (RLMO), which provide reliable and targeted information of the current and future developments of the labour markets in their region or locality. If this information is made available to policy-makers, it finds its way into the processes of decision-making, strategy development, policy-making and policy implementation on the regional and local level (Dean et al. 2015, Martini et al. 2016).

For several years, the members of the European Network on Regional Labour Market Monitoring (EN RLMM) have been discussing how to address political decision-makers more effectively. Supply-oriented information provided on websites or disseminated through printed reports often does not reach the desired impact, thus demonstrating the limits of the information function of the monitoring approach. We assume that further impact can be reached by applying the communication and decision-making functions of the monitoring approach (Larsen et al. 2013). As a result, increasing the demand-orientation of information will facilitate its incorporation into the regional or local policy context and create a solid basis for adequate interpretation and decision-making processes. The configuration of these processes depends to a large extent on regional and local (and sometimes national) conditions.

From an analytical perspective, the decision-making structures and processes constitute elements of governance. So far, however the members of the EN RLMM have not discussed thoroughly, which modes of governance in the provision and use of labour market information are particularly functional for evidence-based labour market politics. Also, the issue of formats most suitable for presenting the information needs to be re-addressed. Therefore, it would be important to start such a conceptually oriented reflection of (successful) strategies at the regional and local level in order to understand better why certain regional/local strategies work well and others do not. First and foremost, these

insights could help the observatories to enhance their own strategies. Moreover, other data providers who aim to close the gap between their data and the political process could profit from this work as well.

To begin with, our understanding of governance is based on the definition of Lynn (2010: 67) as the “directing, guiding or regulating individuals, organizations, or nations in conduct or actions”. Therefore, the study of governance is concerned with the structure of decision-making and policy implementation in a distinct system (Greer et al. 2016: 3). Over the past years, several typologies of governance modes have been developed, exploring the rationalities, most common mechanisms of control and the focus of policy development characteristic for every mode. Based on the approach of Considine and Lewis (2003), we adopt a threefold typology of governance modes and elaborate them based on Meulemann (2008):

- **Hierarchy:** The government designs and implements policies on the basis of a system of fixed rules and statutes, which are applied by bureaucratic organisations. This renders the legislation the primary source of rationality, which is applied in a centralised and top-down manner. The functionality of this mode is based on authority, legality and accountability.
- **Market:** The role of the government is seen as providing a framework for competition efficiency and performance-based rewards. Here, the private sector is commonly assigned a major role.
- **Network:** Interests between different actors (stakeholders) are negotiated within collaborative structures. This is based on mutual trust, empathy, acceptance of interdependency and consensus. This can allow stakeholders to be involved in the development of policies.

Since these governance modes are implemented in combinations (Meuleman 2008, Saltman et al. 2011, Tuohy 2012, Newman 2005, Kuhlmann et al. 2016), this year’s Anthology focuses on exploring specific connections between these modes through presenting examples from eleven countries. The case examples selected for the Anthology illustrate not only the different combinations of governance modes, but also demonstrate that there are different degrees of connections between the modes. The contributions show how information, i.e. evidence, can be placed in different constellations and processes and describe the challenges occurring in this process.

## 2. Which structural combinations of and connections between governance modes exist?

In all case examples, it becomes clear that labour markets and the VET system are in the first place governed through a strongly top-down hierarchical structure, in which the relevant ministries and subordinate entities are located. In federalist states, this mode is applied also at the regional level in combination with the governance modes of market and network.

### 2.1 Combination of hierarchy and market as governance modes

In several case examples presented in the Anthology, regional labour markets are considered to be liberalised. The balancing of interests between employers and employees is described to take place through deliberation and negotiation between social partners. Consequently, this renders the hierarchic governance of the state as a co-ordination mechanism not effective. Rather, the state actors are involved merely as intermediaries, facilitators or mediators in the market mechanism responsible for balancing the interests of the social partners. Here, competition and performance are essential elements. The case example of Switzerland in this Anthology shows how the governments of the cantons established the framework for the functioning of the market mechanism that led to concurrently functional, practice-oriented and efficient results. Along the same lines, also the two case examples from Russia show how the co-operation of market actors sets impulses for the modernisation of the Russian labour market. In contrast, the hierarchical state governance is considered not very conducive of information and susceptible of corruption.

In all examples it becomes clear that the exchange between market actors needs to be incorporated into regional and local processes by feeding existing data and studies into that dialogue. These can be interpreted, as far as necessary, with the help of experts and connected to new information from the praxis, so that the evidence can be produced even better. Experts from universities and research institutes or from regional observatories can assume this function. In order to use the evidence created through market mechanism for the process of policy-making, it needs to be connected to the hierarchical structure. This can take place through so-called hybrid organisations, which are created on the boundary of market and hierarchy. These can, considering the example of Switzerland, be

observatories, through which the governments of the cantons feed data and information into the exchange of social partners. The results of the discourse are then fed through the hierarchical line of public administration to the policy-makers in the cantonal government. The self-governance of market partners in hybrid institutions can also be supported through the use of IT. Whether the labour administration is a suitable location for such hybrid institutions or can fulfil their functions, is only implied in the case studies as there seems to be no implementation yet. It becomes clear, however, that especially in countries with strong social partners no hybrid organisations are considered desirable and the dialogues of social partners do not always follow the balancing of interests in the sense of competition as shown in the case examples from Italy.

Reconnecting to policy-making seems to be considerably easier within a structure, which does not necessitate the combining of two separate system logics with each other. This is demonstrated through further case examples.

## 2.2 Connections of Hierarchy and Network

For networks connected to a hierarchical public structure we can observe two different patterns. In the first case, the network is constituted through the public labour administration representing the government or the relevant ministry. It involves representatives of different stakeholders such as representatives of trade unions, sectoral associations, chambers and employers from the corporate sector as well as representatives from the public VET area, universities and to some extent also the civil society. To a greater or lesser extent, the public labour administration defines the rules of the game in the networks and feeds partly also the data and information into the cooperative exchange within the network. In the next step, the results produced in the network move in a bottom-up process along the hierarchical structure back into the policy-making. Thereby, the networks assume not only the function of impulse givers in the policy process, but also the role of the evaluators in the newly implemented policies as well as labour market and VET programmes. Also, the scientifically produced evaluation results are often interpreted and validated in networks. Moreover, in the case example from the Basque Country it is shown, that the network can work as the multiplier for the information that is provided by the public labour administration. Through that, a higher level of transparency can be reached locally so that

the regional and local labour market can function more efficiently. Also in Bosnia and Herzegovina the installation of such a network is promoted.

The second pattern for establishing a connection between hierarchy and network is presented in the case examples from Albania and the Federal State of Rhineland-Palatinate in Germany. The starting point in both cases is the political will in the relevant ministries for developing innovative labour market programmes as well as initiating innovations in the labour market or the VET politics. For reaching this goal, project funds are made available for a longer period of time and a network affiliated with the project is established. Similarly to the examples mentioned above, the network is chaired by a ministry or its representatives, who also have decision-making powers, and brings together stakeholders from many different areas. The functions within the network and the project are clearly defined: the data experts bring in the necessary information and moderate the process and the representatives of the ministries accompany the discourses, where necessary steering them hierarchically. In the project, data for creating transparency are first collected and then completed and interpreted within the network. Based on that, cooperative concepts, drafts or suggestions for the policy process are developed. After the development and implementation of the programme or the initiatives, the network assumes the function of monitoring and evaluation and develops suggestions for readjustments. The stakeholders in the network bring in their interests, which are voiced in a cooperative manner. Also here, the stakeholders in the network partially work as multipliers concerning the produced data and can so contribute to the transparency in the regional and local labour market as well as support the process of matching.

### 2.3 Network with Hierarchy or Market

Analysing the case examples from Morocco and Egypt and comparing them to the patterns sketched above, it becomes clear that a regional network that is connected to hierarchical, participative as well as market-based structures can be set up as a centrepiece of planned activities. However, it seems to be considerably more difficult to influence the political decision-making process than in the examples where a network is built and steered along a hierarchical structure.

The three patterns of connecting different modes of governance show that they are responsible for the different preconditions for the processes of information generation and dissemination and their engagement in the policy process.

### 3. Which configuration of networks is conducive of evidence-based policy-making?

In most case examples included in this Anthology, the central role of networks is underlined. However, it also becomes clear that the existence of a network does not automatically lead to an enhanced state of information and a better connection to the policy process. To a greater degree, it is important how the network is set up. Different criteria can be identified, which support the co-operative deliberation processes within the network. The criterion of **transparency** seems to be central. This means, for example, that all network members know with which purpose and goal the network has been installed and which expectations are directed towards the members. As a second principle **accountability** needs to be listed. This involves clarity about the roles of single members, the rules for collaboration and the forms of decision-making. Furthermore, **participation** is of importance, to make sure that all those who are affected by the policy process are included in the network. This way, they can bring their needs and reservations into the process or can make suggestions for the suitable implementation. In most case examples, this criterion proves very difficult to implement, because institutionalised interest representation through associations, for example, can follow other interests and can have little connection to the praxis. Closely connected to this bloc is **integrity**. Here, it should be ensured that the process is organised in a manner that rules out corruption. This is particularly difficult in countries, where corruption is widespread. But also the corporatist structures in the Western European democracies can produce a similar effect. Furthermore, networks can function well if those involved have enough **capacities** in the sense of possessing the necessary expertise, understanding the structures and processes, being able to communicate as well as understanding different rationalities of businesses, politics, public administration, etc. Depending on the network, necessary competencies can also include the ability to formulate policies or to accompany implementation processes and evaluations.



Two more aspects can be crucial for successful governance in networks: the moderator needs the right skills in order to facilitate the process as neutrally as possible as well as to build up trust and reliability. Moderators from politics or the labour administration often have to manifest the credibility of their “neutral” role first, before they are fully accepted by the network members. Representatives of research organisations or professional supporters of such processes like coaches can eventually build up trust easier. Several case examples in the Anthology show that it is beneficial if networks are subjected to an internal differentiation. This includes the installation of a steering group at the strategic and decision-making level. This group receives its thematic input from content-oriented working groups, in which operative actors collaborate. In this constellation it is important that the translation from the operative to the strategic level can be ensured and that the function of the strategic group and the tasks and responsibilities of single members are unequivocally stated and adhered to.

#### 4. In which forms are data and information embedded into governance structures?

Data and information, which constitute the basis for evidence-based politics, are embedded into governance structures and processes in a different manner. Several case examples show that specific data are generated as a starting point of all activities. After that, they are validated within the governance processes, fine-tuned and specified in a way that creates the foundation for policy-making. In this case, the validation and the policy-making often blend into each other. Depending on the combinations of and connections between governance modes, the information can constitute an important engine in the whole process. Nevertheless, the precondition is that at the beginning there is a clear political will for generating data and bringing public data from labour administration, the statistical offices and other sources into the exchange of social partners or networks. This creates the basis for an improved information situation through the interpretation and supplementation of original data. In these cases, the dialogue of the partners or the exchange in the network are prominently placed so that the information function is easily marginalised. If there is a clear connection to the hierarchical structure, the ascertained information can be brought into the policy-making. If the connections are weak, the chances of this happening are considerably worse, especially if the political decision-makers have not issued a

declaration of will for the producing this evidence. Judging from the submitted case examples, the ensuring of the feedback of information, which is created in the market-based constellations of social partners, proves even more difficult. They demonstrate that if this structure is rather weakly connected to the hierarchy, conveying information into the policy-making process can be difficult.

#### 5. How can the sustainability of evidence-based policy-making be reached?

Situations of high modernisation and innovation pressures constitute a favourable precondition for evidence-based policy-making, as they initiate high motivation levels of those involved in the process: there is awareness that the regional economy cannot grow any more, young people leave the region and the regions decline. Alternatively, changes are tied to the payment of subsidies or project funds. Furthermore, it becomes clear in the case examples that the EU-accession or the membership in a regional entity can be an important incentive. Furthermore, in many European and non-European countries decentralisation and regionalisation processes take effect, where competences and tasks are decentralised and need constituting. Hereby, the example from England shows that the configuration can be complex if the decision-making power is not systematically delegated and implemented de-centrally. In some case examples several of the listed factors cumulate and reinforce each other.

The chances of a sustainable anchoring of an evidence-based policy process appear better in the case examples when the communication processes are systematically and professionally initiated and the missing competencies are conveyed to those involved. The exact specification of the different functions and tasks seems to be important. Furthermore, the functional connection of the governance modes of network and market with hierarchy are essential for transferring evidence into the policy process. Institutionalisation and standardisation can help, but remain ambivalent, since it is possible that the participants get caught up in routines or engage themselves in interest politics.

Furthermore, constituting an evidence-based policy-making needs time. For example, if after the implementation of an evidence-base labour market programme for the stakeholders and politicians tangible and measurable successes take place, then it is highly probable that this process can be continued as the

readiness can be activated more easily. The long-term examples in this Anthology also show that over the time a specific communication culture is established and those who are involved go through learning processes. Sincerity and appreciation are also important parameters for keeping up the motivation of the participants.

Finally, planning towards end results or products, meaning that processes are anchored in long-term structures, stabilise the whole process. Especially in the areas of information generation and communication significant facilitation through the involvement of information technology can be reached. Furthermore, data generation starting with monitoring and ending with evaluation can be implemented in a continuous cyclical process, so that transparency and evidence can be created continuously.

## 6. How is the Anthology structured?

The structure of the Anthology is oriented towards the three structural patterns of connections between the governance modes. The first three chapters of the Anthology are concerned with the identified patterns, while the fourth chapter summarises the perspectives that can be derived from the changes in the governance structures depicted in the case examples.

In Chapter 1, the focus is on case examples, in which the governance mode of hierarchy is combined with the market. In the first example, Moreno Baruffini und Luzius Stricker describe the governance process into which the labour market observatories of the Swiss cantons are embedded. This process is clearly defined and structured. In contrast, structurally similar processes in Russia are far more open. This is shown by the case example provided by Nina Oding, describing the hierarchical public governance and arguing that the involvement of business actors in the policy process is necessary for achieving innovative impulses for the modernisation of the Russian labour market and economy. Along a similar line, Vyacheslav Bobkov, Vadim Kvachev and Irina Novikova focus on the area of precarious employment and the necessary labour market reforms. Also they see essential impulses for this process in the exchange with market actors, whereby in their opinion essential inputs for the discourses of experts should come from research. Ciprian Pânzaru and Claudiu Brândaş show in their contribution how the discourses of market actors can be tied in with the hierarchical

structure of public administration. They develop a model by creating a connection through a hybrid structure, which can essentially support the governance process. Furthermore, they refer to the usefulness of IT in these processes.

The three following articles are concerned with the challenges to the governance structure and processes as a result of change processes. Andrew Dean addresses the important aspect of decentralisation and regionalisation, which in many countries is the starting point for changes in governance and can lead to the establishment of regional networks and dialogues of social partners. Following the example of England he shows that the transfer of competences to regional entities is not enough. Rather, a new governance structure needs to be set up, which among other things is endowed with central decision-making powers. The steering through hierarchies quickly reaches its limits in such processes. Renato Fontana, Vera D'Antonio, Martina Ferrucci and Carmine Piscopo describe by the example of the introduction of the Jobs Act in Italy that next to hierarchy the dialogue of social partners is installed as a second mode. However, this is not filled with life in the sense of an actual participation. They show clearly that decentral governance is no guarantee for participation and bottom-up processes. Patrizio Di Nicola, Alessandra Fasano, Piera Rella and Ludovica Rossotti consider a case where the hierarchical and market-based modes run parallel and analyse the dysfunctionality of their coexistence. Along the example of job centres of the public labour administration and private labour agencies the complementary advantages are revealed. They plead for connecting both organisation structures, in order to meet the real needs of the clients who are to be consulted and placed.

In Chapter 2, case examples are presented in which the connection of hierarchy and networks is described. The first contributions are concerned with networks, which are connected to the hierarchically organised public labour administrations and as a result are close to policy-making. Javier Ramos Salazar describes in great detail for Lanbide - The Basque Employment Service how a highly specialised and well-functioning network is installed. Željko Tepavčević, Siniša Veselinović and Zvezdana Jelić describe the case of Bosnia and Herzegovina. They also show how the public labour administration can install corresponding network structures. The three following articles are concerned with relevant ministries, which already have the readiness for evidence-based politics and start a project with a concrete need for information. They initiate projects, where information is de-centrally validated and supplemented and fed into the

policy-making process. Lisa Schäfer, Oliver Lauxen and Melanie Castello show for the health and elderly care sector in the Federal State of Rhineland-Palatinate in Germany how such a process is set up and implemented. They demonstrate how learning processes are established, which contribute to the continuation and stabilisation of the initiative. Neshat Zeneli describes for Albania the starting point for a process, which is thematically oriented towards the improvement of matching between qualification and the needs of businesses. The same case example is presented from a different perspective also in the last article in this section. In his contribution, Ronald McQuaid describes and analyses the complex governance system in Scotland, which integrates various stakeholders through different modes of governance. Following the example of skills he demonstrates how data are created, interpreted and used for action in the sophisticated system involving bottom-up processes.

In Chapter 3, there are three case examples, which are concerned with the central factors influencing governance processes in the developing and emerging countries. Sara Ennya, Heike Hoess, Uwe Kühnert, Pierre Lucante, Laura Schmid and Etleva Vertopi show in their examples very clearly that the basic topics, which have been addressed in the previous chapters, are highly relevant also for the starting points in the developing and emerging countries. Especially interesting are the case examples for Morocco and Egypt showing how regional, i.e. decentral networks are established. Their loose coupling with the hierarchical development structures as well as market-based fields enables the feeding of data and information into the policy-making process on regional level.

The case examples of this Anthology will constitute the basis for the discussions at the Annual Meeting of the EN RLMM in Tirana, Albania on 5-6 October 2017. There, the structures presented in this introduction will be specified and the concepts developed further in the process of mutual learning. Recommendations can be derived also from the Chapter 4 of the Anthology. There, Marco Ricceri shows that the further development of governance can lead to the improvement of the performance of labour market services.

We are very glad that so many of the Network members approached the topic that so far has hardly been discussed in the EN RLMM and would like to thank the authors for their interesting contributions. We hope, that our analysis has contributed to the localisation of the issues.

We would also like to mention that this year we received a comprehensive contribution from a publication group of the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ). There are several very interesting examples of good practice as well as interesting analyses concerning the preconditions, challenges and success factors. This analysis makes an important contribution to the further development of our concepts and approaches within the Network. It also shows that there are many commonalities between the countries and regions in the EU and outside, also in the developing and emerging countries. The exchange is extremely rewarding for all parties and should take place systematically at this year's Annual Meeting. Against this background, we would like to thank the GIZ for their involvement in the Network and their readiness to act as hosts and co-organisers of this year's Annual Meeting of the EN RLMM. And last, but not least, we would like to thank Jason Taaffe for his careful and diligent proofreading of this year's contributions.

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## 1. HIERARCHY AND MARKET AS DOMINANT GOVERNANCE MODES

### The Governance Process in the Swiss Regional Labour Market Observatories

*Moreno Baruffini and Luzius Stricker*

The objective of this paper is to present an analysis of the level of governance in the different regions of Switzerland and its evolution. We will conclude the paper with an investigation of its impact on the labour market policies.

We follow a conceptual framework which considers three pillars: hierarchy (the government designs and implements policies on the basis of a system of fixed rules and statutes, which are applied by bureaucratic organisations), market (the role of the government is seen as steering on the basis of competition and performance-based rewards) and network (the government negotiates and brokers interests between different actors whilst sharing the leadership internally and externally within collaborative structures of joint action, co-production or co-operation). This framework measures the level of involvement of stakeholders in the development and implementation of policies or programmes. Moreover, these pillars are analysed following the “TAPIC framework” and its five major dimensions.

#### 1. Introduction

This paper provides a brief description regarding the governance of the Swiss economy and of its labour market observatories, which were mainly constituted during the last ten years.

The second section, therefore, gives a brief overview of the economic path that has led the Swiss environment to become the most competitive in the World (WEF 2015).

The current organisation of the Swiss labour market observatories is described in the third section, which discusses their organisation according to “a governance” approach.

The fourth section describes the level of governance in the Swiss labour market, following a conceptual framework developed by Considine and Lewis (2003), which considers three main governance typologies (Table 1). We first explain and analyse the level of governance in the labour market according to this model and we then look at to a more specific level, introducing the five major dimensions constituting the “TAPIC framework” (Greer et al. 2016).

**Table 1      The operating logics of different modes of governance**

<b>Hierarchy</b>	<b>Market</b>	<b>Network</b>
Authority	Competition	Mutual trust
Legality	Efficiency	Empathy
Accountability	Performance monitor	Acceptance of interdependency
		Consensus

Source: EN RLMM elaboration based on Meuleman (2008).

The last part of this paper sums up the results and presents the new challenges, such as the improvement of the labour market analysis due to the technological advances, to be faced in future.

**2. The Swiss economy and labour market<sup>1</sup>**

**The economic environment**

Switzerland has been a federal state since 1848. Authority is shared between the Confederation (central state), the 26 cantons (federal states) and the 2324 communes (in the year 2015). Each of these three levels has legislative powers (to draw up laws and regulations) and executive powers (to implement them). The Confederation, the cantons and regional entities also have judiciary powers (courts), to ensure that the laws are enforced.

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<sup>1</sup> For a better description refer to Baruffini (2013), on which this and the following chapter are based.

The Confederation's authority is restricted to the powers expressly conferred on it by the Federal Constitution. All other tasks, for example education, healthcare and public safety, are the responsibility of the cantons, which thus enjoy considerable autonomy (Federal Chancellery 2014).

The communes embrace tasks that are explicitly assigned to them by the Confederation or by the canton to which they belong, but they can also legislate when the cantonal law does not specifically refer to issues that affect them directly.

Switzerland has therefore a liberal and competitive labour market, which reflects a long reform period that started in the beginning of the 20<sup>th</sup> century and followed a slow but steady adjustment in the build-up of the state up since World War II. This has led to the Swiss economic environment becoming the most competitive one in the last few years (WEF 2015).

- In fact, according to Berclaz and Füglistner (2003), who studied the Swiss labour market before the great economic downturn in 2008, the main characteristics of the Swiss system are: The **liberal and flexible labour market**, especially involving a high degree of flexibility and low taxes on wages for low-skilled employment.
- A **dual labour market**: the financial sector, insurances and the pharmaceutical industry constitute highly competitive branches, which are oriented towards international markets, while agriculture, construction and artworks are still strictly protected markets.
- A **low unionisation rate**: according to the so-called labour peace, concluded in 1937 between workers' organisation and trade union, strikes and lockouts are prohibited during the period when collective conventions are in force. Moreover, working conditions and wages are negotiated between the social partners without state intervention, except for some basic regulations.

While the employment rate in the service sector rose substantially (from 24% in the sixties to 73% in the twenties), Switzerland still has a high employment rate in different sectors and a high level of employment in manufacturing branches. The Swiss Confederation had a high employment rate of 79.8% among economically active persons aged between 15 and 64 in 2016.

Moreover, for many decades, Switzerland has nearly been in a situation of full employment but since the Euro crisis that affected the European Union in 2011,

the economic downturn in Europe has also affected the labour market in Switzerland. In effect, even if the unemployment rate (4.3%, according to ILO unemployment rate) in 2016 is still very low compared to other European countries, the rate is higher, for example, than in the neighbouring regions of Germany.

Nowadays, the key factor of the Swiss labour market is its relationship with the European Union and the European labour market (Segretariato di Stato dell'economia 2013). Switzerland<sup>2</sup>, which is not a member of the European Union<sup>3</sup>, nevertheless has “[...] *close relations with the European Union on the political, economic and cultural levels. These relations are governed by a whole structure of bilateral agreements concluded over the years between Switzerland and the EC/EU*” (Switzerland European policy – Bilateral agreements). The main recent stages were the so-called *Bilateral Agreements II of 2004*, which cover many economic interests, such as agricultural policy and cooperation in the field of statistics, pensions and professional training and allowed Switzerland to join the Schengen/Dublin Agreement, concerning immigration policy.

Above all, one of the first seven bilateral agreements between Switzerland and the European Union gradually introduced the free movement of persons throughout the EU and Switzerland. Swiss citizens and EU citizens are thus granted the right to freely choose their place of work and residence on the territory of the contracting parties. These agreements have been extended to the EFTA Member States (Liechtenstein, Norway, Iceland).

### **The Swiss welfare system**

“The development of the welfare system took place later in Switzerland” (Berclaz and Füglistler 2003) with respect to other European countries, namely in the sixties, with the creation of the national social security institutions. As an example, the concept for an “unemployment insurance” was only included in the constitution in 1975, and not until 1982 did proper legislation come into force. A change, which slightly modified the insurance schema, was introduced in the nineties, when the unemployment rate started to rise.

Switzerland now has an advanced and somewhat polarised system of labour welfare policies, comparable to the type of Nordic welfare of Europe, with strong liberal traits. As a matter of fact, the flexible system with a scheme of compulsory

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<sup>2</sup> <http://www.europa.admin.ch/themen/00500/>.

<sup>3</sup> In 1992 Swiss voters narrowly turned down joining the European Economic Area (EEA) or single market.

pension insurance, mandatory health care, and unemployment insurance are comparable to the welfare system in Northern Europe, while the health care system and the pension insurance, which are based on three different “pillars”, are characterised by a strong liberal sentiment. The management of these institutions has a stronger market orientation, compared to many public services in the rest of Europe.

The municipal offices of the welfare state, as well as the cantonal labour offices, devise their own measures, in many cases implementing measures of job creation, while all the federal institutions pursue other vocational training methods and the prevention of social exclusion. The federal authorities of the labour market are therefore responsible for the implementation of the “Law on the Placement and Unemployment Insurance”, and despite the federal system, there is a tendency in Switzerland for the federal state to be considered an organiser of welfare due to historic reasons.

In any case, the cantons are responsible for the application of federal law on their territory by setting their employment policies and allocating funds for their unemployment benefits (Berclaz and Füglistler 2003). With the introduction of regional employment offices and active measures of the labour market in 1995, a more integrated system has progressively come into existence.

Table 2 provides a brief overview of the main actors in the field of employment policy.

**Table 2 Switzerland: actors in labour market employment policy**

Level	Entity	Office/ Commission	Stakeholders
Federal		Swiss Federal Social Insurance Office	Employers' organisations (economiesuisse, Swiss Employers' Union, Swiss Union of Arts and Crafts)
	State Secretariat for Economic Affairs (SECO)	Commission for supervising the compensation funds of unemployment insurance	Trade Unions (Union of Swiss Trade Unions, travail.suisse)
		Parliamentary Committee for Economic Affairs and Taxation	Political parties (Socialist Party, Swiss People's Party, Free Democratic Party, Christian-Democratic Party, Ecology Party)
Inter-Cantonal		Swiss Social Action Institutions Conferences Association of Organisers of Active Labour Market Measures (AOMAS)	
		Association of Swiss Employment Offices (AOST)	
Canton/Local Communes	Cantonal Department of Economic Affairs/ Employment Offices	Regional Job Placement Offices	Organisations of the Unemployed
	Cantonal Department of Social Affairs	Active Labour Market Measures' Organisations	
	Tripartite Commissions		
		Public Unemployment Insurance Fund	

Source: Authors' elaboration based on Berclaz and Füglistler (2003).