SUMMARY REPORT

PERFORMANCE MANAGEMENT IN PES: AN INSIGHT INTO GERMANY
The European Network of Public Employment Services was created following a Decision of the European Parliament and Council in June 2014 (DECISION No 573/2014/EU). Its objective is to reinforce PES capacity, effectiveness and efficiency. This activity has been developed within the work programme of the European PES Network. For further information: http://ec.europa.eu/social/PESNetwork.

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SUMMARY REPORT

PERFORMANCE MANAGEMENT IN PES: AN INSIGHT INTO GERMANY

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1. Introduction

The Thematic Workshop on ‘Performance Management’ which took place in Tallinn, Estonia, on 8-10 October 2015 focused on key considerations when developing objectives, targets and indicators for performance management systems and operationalising these systems with robust data and monitoring procedures. Following this meeting, several European public employment services (PES) expressed an interest in meeting again with the German PES (Bundesagentur für Arbeit, BA) to gain further knowledge and practical insight into the German performance management system. This visit took place in Nuremberg on 17 December 2015, and focused on:

- Target setting, performance management dialogues across the PES and methods to compare performance,
- The data warehouse and data collection Measuring sustainability of outcomes, such as the effectiveness of ALMP programmes.

Moreover, the German PES presented how they absorb the increasing number of migrants into their system, whilst monitoring and measuring performance of their service. PES representatives from PES in Austria, Cyprus, Finland, Lithuania and Romania attended this follow-up visit.

2. Overview and the PES reform process

The German PES (Bundesagentur für Arbeit, BA) is a self-governing body with a national head office, ten regional directorates, 156 local employment agencies and 604 branch offices. In terms of decision making and target setting, the BA is relatively autonomous vis-à-vis the Ministry of Labour and Social Affairs. In the labour market:

- Local employment agencies are responsible for the unemployment insurance regulated under the social code III (SGB III). Support under this regulation includes the administration of benefits and guidance on ALMP measures.
- Jobcentres, often institutions of the BA and the municipalities, are responsible for people that fall under the welfare benefit regulated under social code II (SGB II), for example if they are long term unemployed.

In line with the German labour market reforms in the 2000s, the federal employment agency was restructured on the following basis:

- Decentralised responsibility with management by objectives as a key principle
- Efficiency and effectiveness (this includes having an overview of inputs and outcomes and using operational performance indicators)
- Transparency of performance through robust data collection and benchmarking

In line with these principles, the BA underwent several reforms, taking the PES from improving leadership to the operationalisation of performance (for instance by introducing benchmarking clusters to compare regions), through to innovation and customised solutions (for instance by targeting employers who are likely to face staff shortages).

Contextually, employment rates have improved significantly over the last years in Germany, which has led to a diminishing customer turnover. Some would argue that the BA no longer needs the same resources as during the economic crisis. However, the BA faces other challenges today, such as structural, long-term unemployment, and the challenge to respond to increasing numbers of refugees with less financial reserves (as these were used to see the PES through in the financial and economic crisis in 2008-10).

3. Target setting

Politically determined objectives are set by the Ministry of Labour and Social Affairs. These are then complemented by operational objectives that are determined by the BA, which together address:

- the improvement of counselling and labour market integration,
- effective and efficient operating,
- the motivation of employees, and
- high customer satisfaction.

These overall objectives determine the objectives that are then set for individual business units of the BA. For example, the unit responsible for SGB III, the unemployment insurance, has the objective to prevent unemployment and to reduce the duration of unemployment. In Germany, the
Further discussion points

Some PES expressed the difficulty to determine indicators that measure performance and also raised the question of balancing quantitative and quality related indicators in order to measure performance.

4. Establishing performance dialogues

Across the BA, performance dialogues take place at all levels of governance, i.e. between the local employment agencies and regional directorate as well as between the regional directorate and the head office. The main objectives of these dialogues are to:

- Reach concrete agreements on targets
- Frequently monitor progress against targets

If we focus on local employment agencies, their annual target agreements contain several targets and form the basis for performance reviews with the manager, the deputy manager and team managers of counselling teams in an individual agency. For unemployment insurance targets, performance is measured by the performance index mentioned before. In addition, managers of local employment agencies can (but do not have to) include/negotiate an additional target (called the “free target”) with their regional directorate in order to address local strategies. The target agreement also includes targets in the sphere of social code II (welfare benefits) and targets for resources and staff.

In contrast to other European PES, job counselors do not have target agreements. They may, however, receive a bonus on the basis of outstanding personal performance. The managers of employment agencies can receive financial rewards on the basis of their target agreements.
How are target levels set?

In order to set annual targets, managers of local agencies and their team managers develop annual business plans that contain:

- An analysis of the labour market
- The performance potential of the individual agency
- The situation of personnel and financial resources
- Actual performance

On that basis, the agency develops targets and strategies to meet those. Regional directorates then review the business plans and determine whether targets are ambitious enough. Once target levels are agreed, these form the basis of performance reports by local agencies, which include action plans for the year ahead.

Target setting is therefore largely bottom-up for employment agencies of the BA. On that basis, the BA head office aggregates this information and uses it for the yearly planning exercise with the Board of Directors. Throughout the year, the frequency of performance dialogues between the employment agencies and the regional directorate is determined by the regional directorate – some have frequent dialogues with all the agencies and some focus on lowest performers. Regular meetings between the regional directorates and the Executive Board help to identify risks or opportunities at early stages.

The BA pointed out that the style of performance dialogues changed in recent years, moving away from a more “reporting back style” underpinned by a top-down approach to target setting to a bottom-up approach that focuses on change, support and improvement. This is supported by the BA’s performance management and data reporting systems, like the Data Warehouse (see further below) and the management information system.

5. Comparing performance to support performance dialogues: regional clustering and the opportunity model

The BA has developed two main instruments in order to increase the objectivity in target setting during performance dialogues and to enhance the comparability and learning across its regions.

Clustering

An established tool at the BA, regional clusters categorise the BA’s 156 local employment agencies into 12 clusters on the basis of local economic and social circumstances. The clustering system was developed by IAB (Institute of Employment Research of the Federal Employment Agency) and based on an advanced statistical modelling of the regional labour market situation.

The clusters are frequently updated in order to take into account changing conditions. Variables that determine these clusters are:

- Unemployment rate
- Seasonal changes
- Inflow and outflow to/from the region
- Percentage of service industry to the integration rate

Further discussion points

Participants discussed how other PES measure performance of individuals on a fair and comparable basis, and how they evaluate and improve newly established performance management systems.

Some PES raised the question of transparency of individual performance, which is often linked to financial or non-financial incentives. Other European PES make information on personal performance transparent in order to incentivise employees. For example, the Lithuanian PES can share the number of labour market integrations per employee.

However, PES face the difficulty to measure performance objectively. For example, the number of labour market integrations does not give information on the types of customers.

The Austrian PES has arrangements for fair procedures. For example, managers decide if the bonus is paid to a team or an individual, or he/she makes arrangements in cases of conflict.
Further discussion points

PES were particularly interested in discussing how the PES can compare performance of its regions on a fair basis.

While the clustering system described by the Austrian PES shares similarities with the German model, other counties have no such clusters and performance monitoring does not take regional differences into account.

Besides opportunity points, the agencies also get relevance points that take into account the importance of each regional variable. For example, two agencies may receive the same opportunity points for market dynamics, but the relevance of the market dynamics is different because one agency might be more rural.

### 6. Collecting and validating information: the German Data Warehouse

The German Data Warehouse was developed at the end of the 1990s and is used for performance management by controllers and managers in the BA. Controllers analyse data from the Warehouse for the performance management procedures, and managers mostly use the management information system that contains data from the Data Warehouse.

Data sources for the data warehouse come from the operational systems in local offices. Data is gathered and processed by purpose, so not all the data that the BA produces is loaded onto the Warehouse. The functions that drive the data loading process are the unemployment statistics, labour market policies, employment statistics and controlling.

The Data Warehouse processes data in three layers:

- **Loading stage**: In the first layer of the Data Warehouse, data from the operational systems is loaded and first selections are undertaken (no functional additions take place).
- **Core Data Warehouse layer (cleansing of data)**: On the second layer entities and relations between entities are built. An entity can be a customer, a benefit or a process. There is a historisation of data, so that all changes are recorded. There are always two timestamps for every function so that the data warehouse is able to reproduce the same result at another point of time. In this stage, data is also anonymised and classified. For performance reasons time periods of special interests are created to consider processes that start at a certain time, such as the duration of a benefit or the duration of a jobseeking period.
- **DataMart**: In the third layer, key figures and attributes are counted and turned into figures, which are then exported into the reporting tools.
**Data validation** happens in different ways, either using the stock and flow analysis, time series analysis, relying on knowledge of the operational processes, instinct or external validation, such as correspondence with other statistical information. The most important (used) data validation process is the stock and flow analysis, which compares stock (for example, people in ALMP measures) with certain inflows and outflows into/from this stock.

**Robust data is crucial to monitor performance of the BA.** There are currently discussions on up-to-date data and transparency of data. The BA aims to speed up data analysis because there are demands for weekly and daily evaluations now. However, no data validation is possible for daily evaluations (despite automatic validation) and cumulative errors need to be traced to retain validity of information over a monthly reporting period.

**Further discussion points**

Germany has high standards of **data protection**. Even though there is a demand for occupational data from the social insurance system, data cannot be used because of data protection reasons. However, other countries are able to use this data.

In Germany, the Data Warehouse for performance management and the **financial system for budgets** are not connected. However, in the Austrian PES, these two systems are connected.

### 7. Using information: measuring sustainability

In data and performance reporting, the German PES places an emphasis on the **sustainability of employment**, which includes an indicator on **long-term integrations** into the labour market in the BA’s overall performance index (see earlier section). Moreover, the BA measures long-term integrations into the labour market after three, six, 12, and 18 month of job placement.

A method for sustainable labour market integration is the BA’s **project INGA** (Internal holistic integration in SGB III), which provides tailored services and support to individual needs of jobseekers who need additional support. However, across the BA, there is still a **discussion on the qualitative and quantitative indicators** to use, because the results of quality related indicators might show performance at a different point in time than quantitative indicators do.

**The TrEffeR (Treatment Effects and Prediction) method**

Most notably, the PES uses the TrEffeR method **to compare participants of ALMP measures to non-participants**, in order to see if measures are effective. The TrEffeR model aims to evaluate the effectiveness of ALMP measures on a **micro level**.

The method uses **statistical matching** to compare groups of individuals in order to see if a measure improved the job prospects of participants. TrEffeR creates **statistical twins** who have a comparable social-demographic and labour market history and are identical in a spatio-temporal context, which means that participants should be unemployed in the same region at the same time (the only difference being participation in an ALMP measure).
By comparing participants of ALMP with the statistical twins that did not take part in ALMP, the BA can estimate if an ALMP measure has caused an effect (e.g. sustainable placement in work) and tracks participants up to four years after treatment. The results of the method are available in aggregated form in the Data Warehouse and thus help managers to make strategic decisions. For example:

- The method showed that ‘firm-related’ ALMP measures like wage subsidies, start-up subsidies and short-term training (with a practical focus) increase employment prospects. Job creation schemes did not improve employment prospects. One reason for this might be that legislation forbids that job creation schemes replace regular jobs, therefore, jobs created were mostly far from the primary labour market.
- There is also mixed evidence over measures of private counselling or placement services. Therefore, this method gives PES managers guidance on the outcomes of individual providers with whom they contract. However, the information derived from the TrEffeR application cannot be used in a procurement process until now because the selection process is mainly based on price. Quality aspects only can be considered at the first stage of a call for tenders by ruling out bidders, who cannot meet certain requirements to guarantee their aptitude. Currently, legal reforms are under discussion to allow the consideration of performance results in future times. Nevertheless, agencies have the possibility to use the statistical data in discussions with providers. As a result of mixed evidence over charging external providers with counselling and placement services, the BA provides more ‘in-house’ measures, in particular for people furthest away from the labour market.

In addition, to increase the external transparency on ALMP effectivity the BA plans to augment its open online education provider platform, KURSNET\(^1\), with an open rating of providers. Ratings will be based on customer satisfaction data and the TrEffeR data – one can look at it as a ‘TripAdvisor for qualification programmes’ on the BA’s website.

Further discussion points

On the basis of this model, the development of cost-benefit analysis was raised by the Finnish PES. The German PES faces difficulties to create cost-benefit analysis because, even though they can break down the benefits to an individual person, programme costs are hard to break down to an individual level. At the moment, the proxy is the group information on programme costs.

Moreover, there was a discussion on how to use data on external providers. Although methods like TrEffeR provide information on the effectiveness of providers, the circumstances of providers might change, such as staff changes or a change in customer groups. Methods like the TrEffeR model are used to examine the effect of measures, however, for policy recommendations also other factors should be taken into account. Windfall gains, substitution effects and implementation effects might also influence the effectiveness of measures, but these are generally hard to measure.

8. Modern challenges for the BA

Adjusting ambitions with the PM system

Challenges outlined by the BA include enhancing ambitions in planning, action oriented reporting and measuring performance. Within the planning process it is generally important to find the right balance between ambitious, but also realistic targets. Moreover, for action-oriented reporting, there is also a risk that targets are set but the strategies to meet these targets are not outlined clearly enough (or actions carried out influence the indicator, but they do lead to a positive outcome for the jobseeker).

Although German regional directorates work with local agencies on performance, it is sometimes hard for controllers and managers to measure performance and to determine causality of an activity and an outcome. Local agencies work relatively independently and can sometimes understate why they under-or over-performed, and other external factors make it difficult to identify the effect of a specific measure.

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\(^1\) [http://kursnet-finden.arbeitsagentur.de/kurs/](http://kursnet-finden.arbeitsagentur.de/kurs/)
Therefore, some developments in targets need to be seen in the wider labour market perspective. For example, the German PES measures the length of employment once a person is integrated in the labour market; however, short-term employment can also sometimes be a measure to prevent unemployment.

**Migration**

The increasing numbers of refugees in Germany will impact labour market statistics and therefore data for performance management and action planning is required (e.g. contracting for providers of language courses or training). It has been difficult for the BA and other public agencies to get an exact overview of refugee registrations and their status. For the moment, the migrant status is not covered in the statistics of the Federal Employment Agency, as it has not been necessary for operational reasons in the past. A common definition regards migration as a changing place of residence (within the country or internationally). The unemployment insurance law does not historically foresee collection of data on migration from another country or the status of an asylum application as there is no operative need for these data. Since 2011 SGB III allows collecting data concerning migration background, but for statistical use only.

In November 2015, 356,000 asylum applications were pending, which makes performance management and the opportunity to plan services for refugees more difficult. At the moment, only municipal foreign offices record the status of a foreigner and there is no data exchange between them and the BA. New legislation in 2016 will allow data sharing between the municipal foreigner offices, the jobcentres and the employment agencies up to a certain amount. Moreover, it probably will allow the recording of migrant status as data in the BA system.

To that effect, the BA plans to pursue the following questions upon registration:

- Have you applied for asylum and is your application pending?
- Have you had a decision on your application, and if so, what is it? (rejections still need to be considered, as people under that status may still have partial access to the labour market and be entitled to some benefits).

With this data, the BA plans to model the process from i) registration with the German Office for Foreigners and Migrants to ii) labour market integration with the BA. The BA seeks to map out data from the German Office for Foreigners and Migrants into the regional structures of the BA and develop simulation models. The simulation models create scenarios for the entire asylum seeking process, from situations prior to entry in the country, to registration and application for asylum, via an application decision, towards labour market integration (or emigration and court decisions on rejected applications).

Within the simulation model, data can be visualised for specific target groups, for example by registration at different agencies (e.g. with the federal police, the registration system of the German Office for Foreigners and Migrants) or by status of asylum applications. Moreover, it will be possible to see the status of asylum applications and access to welfare benefits SGB II or unemployment insurance SGB III. On this basis, the BA will develop a new interface with relevant information and flexible analysis options for operational staff.

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**Further discussion points**

The German PES, like other PES, faces the issue that data needs to be collected for a specific purpose, and that purpose might change (and render data redundant). In addition, this is also a question of data protection, which is stricter in Germany. For example, in Austria, the PES uses the nationality data from social insurance data (which is not allowed in Germany). However, they still needed to prove that they use the data for job placement purposes.

Other participating PES have only experienced a small percentage of refugees except for Cyprus, where the PES registers and differentiates by status of refugees. The Ministry of Labour is currently working on a law on work incentives. Another issue raised by German and Austrian participants was the age group of refugees who are often young. It is important that measures such as the Youth Guarantee Scheme are connected to that issue.
9. Conclusions

In general, the German PES has a comprehensive performance management system that is operationalised through annual target agreements and performance dialogues between the local, regional and national level. The Data Warehouse provides robust data that is used for performance dialogues, regional clustering of agencies and other statistical methods. In recent years, the performance management system of the BA has further developed the following features:

- Regional clusters: in order to make target setting more objective by increasing comparability between the regions.
- Measuring sustainability: in order to fulfil the goals of preventing unemployment and decreasing the duration of unemployment, introducing the statistical method TreFFeR to see if certain measures are effective in longer-term labour market integration.
- Bottom-up target setting: in order to engage the employment agencies more closely in target setting and to orientate leadership towards a supportive and learning culture. In addition, local contexts and local expertise are brought into the process, and local employees are involved in developing targets.

BA’s performance management system is well established, there are still areas for development such as enhancing ambitions in planning, action-oriented reporting, measuring performance and the efficiency of programmes. Moreover, the performance management system is currently challenged by factors such as data protection issues or the increasing number of refugees whose asylum application status are not yet known to the BA. 2015 made clear that external factors call for legislative changes that will make better and more useful data collection possible.
Regional disparities: Taking into account labour market environment

Type I (5): metropolitan with favourable labour market
Type IIa (6): metropolitan above average unemployment
Type IIb (11): metropolitan with high unemployment
Type IIc (8): urbanised with slightly above average unemployment
Type IIIa (25): urban with below average unemployment
Type IIIb (14): rural with average unemployment
Type IVa (21): urban with a large manufacturing sector and favourable labour market
Type IVb (22): rural with favourable labour market and strong seasonal dynamics
Type IVc (7): rural with very strong seasonal dynamics and low unemployment
Type Va (7): metropolitan with high unemployment
Type Vb (11): rural with high unemployment
Type Vc (17): rural with severe labour market conditions

() Number of districts in each type.
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