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Ulrich Walwei\*

## Job Placement in Europe An International Comparison

*The role of private employment agencies in job placement has increased in importance in many European countries during the last decade, but in others the public employment services still exercise a monopoly. The following paper offers an assessment of the experiences to date.*

In many European countries (e.g. Belgium, France, Germany) public employment services are still the sole bodies responsible for job placement. Only in exceptional cases are private initiatives with respect to placement activities allowed. In contrast to this, in other European countries (e.g. Ireland, the United Kingdom or Switzerland) public and private (including commercial) placement services coexist. In these countries private placement services have a long tradition. Recently a tendency towards liberalization in this area could be observed: in Denmark (1990) and in the Netherlands (1991) public employment services lost their monopoly position.

It is a matter of fact that during the seventies and eighties private employment agencies which intervene in the functioning of labour markets have had increasing influence. Private employment agencies can take, for example, the form of placement agencies, self-help associations, temporary work agencies, management consultants and outplacement companies. One purpose of this paper is to measure and explain the increasing influence of those organisations.

The other purpose is to assess the effects of different regulatory regimes (placement monopoly versus coexistence of public and private services) on the functioning of the labour market. For the following questions answers are needed:

- Did the existence of private employment agencies modify or challenge the role of public employment services?
- What are the effects of private agencies on the matching process, the movements on the labour market and the structure of unemployment?
- What are the impacts of both systems with respect to the transparency on the labour market as a whole?
- Are there any dangers for worker protection connected with the existence of private employment agencies?

### Regulation of Job Placement

The degree of the exclusiveness of public placement services or the permissibility of commercial placement agencies differs greatly from one country to another (cf. Table 1). The following comparison describes the situation in the EC member states, Sweden and Switzerland.<sup>1</sup> There are public institutions in all the countries in the survey which carry out job placement free of charge and which are financed from public funds. Apart from the two extreme forms of a relatively strict monopoly for public placement services and the coexistence of public and private institutions, variations can also be found.

There is a relatively strict monopoly for placement services in *Greece, Italy* and *Spain*. In these countries

\* Institute of Employment Research, Federal Employment Services, Nuremberg, Germany. This article is a revised version of a paper presented at the Fourth Maastricht Workshop in Law and Economics at the University of Limburg, April 25-27, 1991.

<sup>1</sup> Cf. U. Walwei: Alleinvermittlungsrecht der Bundesanstalt für Arbeit im europäischen Binnenmarkt, in: Beiträge zur Arbeitsmarkt- und Berufsforschung, No.142, 1991.

commercial job placement agencies are not allowed at all. However, the illegal (placement) activities of management consultants and other agents are tolerated to a great extent. A very bureaucratic procedure can be found in Italy. All recruitment must be notified to the public employment services and may only take place in principle through their mediation. Employers thus, in principle, have no right when filling a vacancy to employ somebody they have chosen themselves. In Italy there is thus not only a job placement monopoly, but also a vacancy filling monopoly. On the basis of criteria relating to qualifications and social criteria, public employment services assign workers to fill the vacancies which have been notified. There are, however, various exceptions to this principle: if certain preconditions are fulfilled, employers may recruit persons of their own choice. For example, employers in Italy may request certain employees by name – senior staff, employees in civil service areas, skilled employees, domestic staff, relatives – without the mediation of the public employment services. According to official statistics, 40.4 per cent of all jobs filled in Italy in 1989 fell into the category of recruitment by name.

#### Coexistence of Public and Private Services

In contrast to this, public and commercial job placement services coexist in *Denmark* (since 1. 7. 1990), *Great Britain*, *Ireland*, *Portugal*, *the Netherlands* (since 1. 1. 1991) and *Switzerland*. In Denmark commercial firms can conduct their business without a special licence and are not subject in any way to state control. In contrast, private companies in the other countries have the legal right to run a job placement agency only when certain preconditions are fulfilled: for example, in Great Britain, Ireland and the

Netherlands placement fees may be demanded from the employers only (except for the finding of jobs for workers in the entertainment field). In Great Britain employment agencies need a current licence from the Secretary of State for Employment. A licence may be refused or revoked on the grounds that: the applicant is under twenty-one years of age; the applicant is unsuitable because of misconduct; the premises are unsuitable; the agency is being improperly conducted. In addition, certain regulations set the standard of service to be provided (e.g. with regard to advertisements, fees, young people under eighteen or employment abroad).

In contrast to the situation in Great Britain, in Switzerland the registration fee payable by the clients to the licensed placement firms is limited to a very low sum. The Swiss Employment Code provides that the fee may not exceed 12 per cent of the first month's salary, and employees may pay only up to 6 per cent of their first salary. Expenses are usually not included in the payable fee and can be charged separately. In order for it to be possible to judge the efficiency of private placement, agencies are required to publish statistics concerning the number of jobseekers registered or placed, vacancies received or filled and placements made. According to the new Swiss Placement Code (July 1991) all employment agencies (including executive search) have to apply for a licence. This regulation of placement agencies is intended to protect jobseekers from abusive methods and to ensure that they operate on a uniform basis throughout the Swiss Federation.

In the other countries several variations exist. In *Germany* the public employment services are the sole

Table 1  
Job Placement – the Legal Framework

	B	L	DK <sup>1</sup>	F	D	GR	IR	I	NL <sup>2</sup>	P	E	GB	S	CH
Permissibility of														
– commercial placement services	– <sup>3</sup>	– <sup>4</sup>	+	–	– <sup>3</sup>	–	+	–	+	+	–	+	–	+
– non-profit agencies	+	+	+	+	+	–	+	–	+	+	–	+	+	+
– temporary employment agencies	+	+	+	+	+	–	+	–	+	+	–	+	–	+
– executive search agencies	+	+	+	+	+	–	+	–	+	+	–	+	–	+
Obligation to notify vacancies	+	+	–	+	–	+	–	+	–	–	+	–	+	–

Note: + = yes, – = no.

<sup>1</sup> Since Juli 1990. <sup>2</sup> Since January 1991. <sup>3</sup> Commercial placement services for entertainers are allowed. <sup>4</sup> Commercial placement services can only search for workers abroad.

bodies responsible for job placement. Only in exceptional cases are the public employment services allowed to entrust bodies or persons with job placement for individual occupations or for groups of persons (especially in the case of entertainers and placement services free of charge). This placement monopoly does not mean that employers' or jobseekers' own efforts are restricted in any way. In *Belgium* the organization of the public placement services is comparable with that in Germany. Job placement free of charge may be carried out by various private agencies (e.g. educational institutions) to complement the state placement service. Commercial job placement is permitted in the entertainment sector only. In *Luxemburg* commercial job placement institutions must restrict themselves to recruiting workers abroad. In *France*, apart from the public job placement services, only institutions (e.g. chambers of commerce, universities) – whether private or public – which work free of charge may place workers in employment. In *Sweden* companies are obliged to notify all vacancies to the employment offices. But there is no interference with job-filling decisions taken by the employer as in Italy.

The commercial supply of workers by temporary employment businesses<sup>2</sup> can be regarded as a near substitute for commercial job placement.<sup>3</sup> The main difference between a contract to supply workers on a temporary basis and a regular placement service is that the legal relationship between the employment business and the temporary worker outlasts the individual temporary job but is not aimed at establishing a new employment contract. However, the service of temporary workers can be used by the firms employing them in their search for employees to be employed on a longer basis.

Temporary employment businesses are not permitted in Greece, Italy and Spain. There are no substantial restrictions (with the exception of the duty to obtain a licence) on the supply of temporary employment in Denmark, Great Britain, Ireland, Luxemburg and Portugal. Private job placement agencies in Great Britain, Denmark and Ireland may also supply temporary workers. In Belgium, the Netherlands, France and Germany there are restrictions such as a limit on the length of time for temporary work or the exclusion of certain branches of industry.

<sup>2</sup> This paper differentiates between (temporary) employment *businesses*, which themselves employ workers who are then hired out to other companies, and employment or placement *agencies*, which provide services for the purpose of finding employers for workers or workers for employers.

<sup>3</sup> Cf. R. Konle-Seidl, H. Ullmann, U. Walwei: The European Social Space: Atypical forms of employment and working hours in the European Community, in: *International Social Security Review*, 1990, Vol. 43, No.2.

## Market Shares

Table 2 gives indications of the quantitative market importance of public job placement services in various European countries. The reference figures for placements by public bodies are the recruitment figures in a given period. The data were taken from secondary sources. They are partly from official statistics, but are taken as well from opinion polls and assessments by the employment services in each country. The quotas are comparable on a limited basis only, because of the different methods used to record the statistics in each country. In spite of this the comparison does allow careful conclusions to be drawn.

As Table 2 shows, most vacancies are filled without the intervention of the public placement services. The market share of the public placement services in Germany is the highest followed by Sweden, Great Britain and the Netherlands. In countries in which public and commercial job placement services exist alongside one another the picture varies. Whereas the share of the public placement services in Ireland and Switzerland is much lower than in those countries with a placement monopoly for the public placement services, the public job placement service in Great Britain has been able to defend its position much better. In Great Britain employers are free to recruit labour from any source. About one third of all vacancies in the economy are notified to job centres. The main method of submitting jobseekers to vacancies is through vacancy display at job centres and self-selection by the jobseekers. Job centres fill around three-quarters of the vacancies

**Table 2**  
**Market Shares of Public Job Placement Services**  
(in %)

Country	Market share
Belgium	... <sup>1</sup>
Denmark (1989/1990) <sup>2</sup>	10 - 15
France (1989)	17
Germany (1989)	24
Great Britain (1989) <sup>4</sup>	20 - 22
Greece	... <sup>3</sup>
Ireland (1989)	8
Italy	... <sup>3</sup>
Netherlands (1989)	21
Spain	... <sup>3</sup>
Sweden (1989/1990)	22
Switzerland (1989)	7

<sup>1</sup> Only the following information is available for Belgium: in 1989 27.5% (1988: 30%) of the notified vacancies were filled following placement by the public employment service. In comparison: in Germany and in Great Britain this share was around 70% in 1989.

<sup>2</sup> Assessment by the Danish employment services.

<sup>3</sup> Intervention by the public job placement services is obligatory. This means that comparable market shares could not be determined.

<sup>4</sup> Most vacancies notified to the job centres are filled by the self-selection method, which is in the UK the main method of submitting jobseekers (even unemployed) to vacancies.

notified to them, 80% of these by the self-selection method. Priority is given to unemployed people and in particular the long-term unemployed and others experiencing difficulties in (re-)entering the labour market.

The empirical basis for an assessment of the activities of private job placement services with respect to labour market policy implications is still completely inadequate. The existing information allows only a few more general statements concerning the quantitative importance and structural characteristics of commercial agencies. These statements are based in the main on experience with commercial agencies in Great Britain, Ireland and Switzerland.<sup>4</sup>

### Great Britain

The number of private job placement agencies in Great Britain increased greatly in the 1980s. Statistics of the Employment Department show a steady growth in the number of licensed agencies and employment businesses with a current annual rate of increase of about 17 per cent and an increase between March 1980 and March 1990 of about 144 per cent. The total number of licence holders on 31st March 1990 was 16,537, of which 11,267 were licensed as both employment agencies and employment businesses, whereas 4,592 were licensed as employment agencies only and 678 were licensed as employment businesses only. The great increase in employment and the improvement in the employment market situation (i.e. more vacancies and greater fluctuation) in the same period is likely to have encouraged the spread of commercial agencies. The market share of private job placement services is at present assessed at about 10 per cent and is lower than that of the public placement service.

About 80 per cent of current licence holders are small enterprises, small being defined as a sole trader or single licence holder. The majority of agencies/businesses do not seem to belong to any body. Over 60 per cent of licence holders are situated in London and the South East. However, with there being no geographical restrictions on the activities of agencies, there is no part of the country without licence holders (including, for example, the remote islands of Scotland).

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<sup>4</sup> The following information is taken from internal reports on official trips made by staff of the Bundesanstalt für Arbeit (German Federal Employment Services) and the German Federal Economics Ministry. Besides that, national monographs entitled "Nature and Role of Private Employment Agencies" prepared for the International Labour Office (ILO) are utilized. Additional information on the situation in Switzerland is taken from the following two sources: D. Grossen: Die öffentliche und die private Arbeitsvermittlung in der Schweiz, in: Die Volkswirtschaft, Vol. 62, 1989, No. 9; E. Stocker: Zahlen und Fakten der Arbeitsvermittlungstätigkeit in der Schweiz, in: Die Volkswirtschaft, Vol. 64, 1991, No. 6.

Placement agencies now cover most types of employment, from unskilled work to senior management posts. They specialise in concrete occupational categories. Recruitment to office jobs continues to be one of their major activities. The main growth areas are the upper and lower ends of the labour market. About half the total number of licence holders deal in specialist, managerial and executive jobs; and nearly one third supply domestic and home care workers and au pairs. Demographic change is causing many licence holders to draw on groups of potential workers which are currently underused (e.g. older people, women returners).

The placement fee, payable only by the employer, is around 12-30 per cent of the annual salary, depending on the qualification requirements for the position. In return commercial agencies take pains to find the most suitable applicant. Their activities are therefore aimed at the active acquisition of positions, the careful preparation of requirement profiles and the conscientious preliminary screening of applicants.

### Ireland

In Ireland the situation is comparable to that in Great Britain. The number of private job placement agencies increased from 60 in 1971 to 255 in 1989. The numbers of vacancies filled through private placement services also increased between 1983 and 1988 from 15,000 to 22,000 per year. The commercial agencies are active above all in the area around Dublin. It is obvious that agglomerations are particularly suited as markets for commercial placement agencies because bottlenecks in the labour market can be found there. They have specialized in a few occupational categories. Their main field of activity is the nursing sector (nearly half of all placements) followed by clerical occupations (the trend here is downwards). Along with nursing occupations, particular growth has been observed in the last few years in the areas of management and data processing staff. About 80 per cent of the commercial agencies are one-man operations. The placement fees are lower than those in Great Britain and amount to 8-18 per cent of the placed person's annual salary.

### Switzerland

In Switzerland too, the number of private job placement agencies increased during the 1980s, rising from 341 in 1983 to 1,063 in 1991. The market share of the commercial job placement agencies amounts to about 10 to 15% according to assessments, and thus exceeds the market share (7%) of the public placement services, which are active mainly at local authority (canton) level. However, it can be seen that the market shares are cyclical: during

times of high unemployment the share of the public placement service in all placements is considerably higher (cf. Figure 1). In terms of figures the group consisting of musicians, entertainers and models with short-term contracts is of great importance in the field of activity of commercial agencies (over 50 %).

**Placement Monopoly: Pro and Contra**

As has been shown above, the legal framework and organization of job placement varies considerably among the countries of Western Europe and even among the EC member states. These differences could give rise to changes within the framework of the realization of the single European market. It is questionable whether the prohibition on market entry for commercial placement agents is reconcilable with the freedom to provide services guaranteed in the EEC treaties. In April 1991, the European Court of Justice gave a ruling that the placement monopoly in Germany is partly inconsistent with the EEC treaties (in the case of placement activities by management consultants). In addition, a tendency towards liberalization in this area could be observed in

Denmark and the Netherlands. What are the consequences of these possible changes? What are the main arguments in the debate on that issue?

**Social Protection**

Today, as at the beginning of the century, the prohibition of commercial placement agencies is often justified by stating that dubious profiteering with the plight of persons looking for employment should be prevented. This argument assumes that possible dangers for worker protection can only be countered with the help of a placement monopoly for the public placement services.

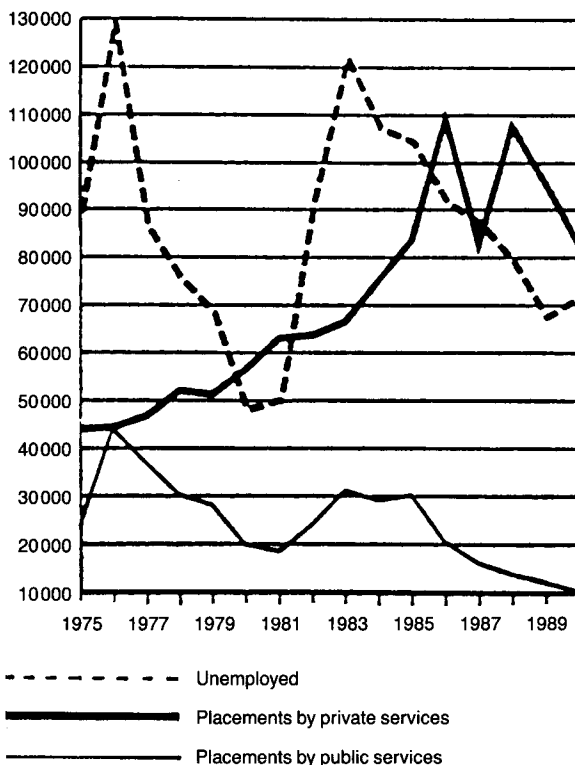
It is a matter of fact that there is a lack of transparency of quality with respect to placement services. Those using the services can in many cases judge only to a limited extent the commensurateness of the placement fees in comparison with the placement services. As employees, compared with employers, tend to make use of placement services less often, the risk of their being duped by placement fees which are too high or by inadequate placement services is greater. In addition, persons looking for employment could become economically dependent on certain placement agencies if they do not have any promising alternatives available.

But it has to be said that such economic dependencies on private agencies can be reduced or even avoided if a free public placement service is available for jobseekers. Moreover dubious placement practices which cause losses to the customer will not be able to survive in a competitive system in the long run. The experiences in Great Britain show that a successful job placer needs to have a good reputation, i.e. the profit he can achieve in the long term works as an incentive for serious placement activities.

Nevertheless, social protection for jobseekers remains necessary because dubious practices can never be completely excluded. Due to the relatively low market entry and exit costs in the sector of commercial job placement, dubious practices could achieve a certain significance in marginal areas. However, the question is whether a prohibition on commercial job placement is necessary to guarantee social protection. An alternative to this might be effective state control of the professional practices of commercial placement agencies (e.g. by establishing a licensing system and a prohibition of charging placement fees to workers, as is the case in Great Britain).

**Figure 1**

**Unemployed and Placements in Switzerland (1975 - 1990)**



Source: E. Stocker: Zahlen und Fakten der Arbeitsvermittlungstätigkeit in der Schweiz, in: Die Volkswirtschaft, Vol. 64, 1991, No. 6.

**Tasks of Public Employment Services**

Public employment services need the greatest possible share of the placement market to carry out certain public service tasks. A high market share

- simplifies monitoring of the labour market, thus enabling the knowledge gained to be turned into necessary measures for individuals and general measures for the labour market as a whole;
- serves to avoid abuse of the benefit system: benefits are payable only to those unemployed who are able and willing to take up every reasonable employment;
- furthers the possibilities for the integration of problem groups through the variety of company contacts and vacancies to be filled.

Public employment services could therefore be hampered in their tasks and social objectives if they were to lose a considerable part of their market share due to the appearance or the growing importance of private agencies. Table 2 shows that among the countries where public and private agencies coexist the market share of the public sector is lower in Ireland and Switzerland. Therefore a crowding-out effect at the cost of the public placement service cannot be excluded. But it must be remembered that most vacancies (almost three quarters) in the economies under analysis are filled without the intervention of either public or private agencies. Therefore the argument in favour of a placement monopoly must be seen in relative terms.

In addition it has to be said that the size of the job placement market is not a fixed quantity, as experiences in Great Britain show. It cannot be ruled out that the number of placements on the overall economic level could be increased through bringing in commercial agencies. It must be borne in mind that employers, along with the placement services, or instead of these, sometimes go to considerable expense for other media when looking for staff (e.g. newspaper advertising) and for staff selection procedures. For this reason it is conceivable that a part of the additional market share for private agencies would be at the cost of other recruitment methods (e.g. advertising or informal channels).

### **Labour Market Equilibrium**

Licensing commercial placement agencies could have positive effects on allocation on the labour market. An improvement in the assignment of jobs and workers, i.e. a qualitatively better labour market equilibrium, could take place for two reasons. Firstly, additional placement capacity would be created by the appearance of commercial agencies. The matching process on the labour market could be made easier through the possibility of utilizing a further search channel. Secondly, private competition could be an incentive for public services to improve their range of services. The public placement

services' efforts towards stabilizing or extending their market share (with the precondition that their existing financial scope remains) would in turn affect the private competition, and vice versa. Competition would expose and satisfy the various needs of employers and jobseekers. On the whole, better placement services from private and public intermediaries reduce search costs and contribute to bringing workers to the job where they can be used most productively.

### **Transparency**

One of the main arguments in favour of a placement monopoly is that public services contribute to a large extent to transparency on the labour market. Public placement services are open to everyone. The same applies to newspaper advertisements. The appearance of private placement agencies, however, could lead to information concerning vacancies becoming more decentralised. This could be expected if the market shares of private placement agencies are at the cost of generally accessible channels such as the public placement service or of newspaper advertisements from employers. Newspaper advertising would probably not be reduced following the appearance of private placement agencies, but more and more advertisers would probably be private placement agencies. As with the property market, this could lead to direct contact between possible partners in an exchange being made more difficult. Because of the expected specialization of commercial placement agencies the transparency problem is likely to gain a certain significance above all in regional and occupational sections of the labour market.

### **Poaching Practices**

The appearance of private placement agencies on the employment market can increase fluctuation because these agencies cause an increase in poaching practices by directly approaching people in employment. Commissions to private placement agencies to fill vacancies which presuppose definite qualifications in the person of the future employee may well only be possible through poaching appropriate staff, in view of the increasing lack of skilled workers. The assessment of a possible increase in fluctuation caused by an increase in poaching is not clear. Changing employment causes considerable fluctuation costs (e.g. search and training costs) for companies whose employees are poached. In particular, smaller and medium-sized companies with generally lower wages and more unfavourable working conditions could be placed at a disadvantage through poaching practices. An increase in the instability of employment relationships decreases companies' training

activities because amortization of the training expenses cannot be guaranteed in the firm.

An increase in poaching practices, and thus greater fluctuation on the labour market, has not only disadvantages. The workers thus placed improve their situation. They will only be prepared to change if they are offered higher pay and/or better working conditions. The employer might also be able to gain a more productive employee through poaching than via other recruitment channels. More movement on the employment market could also lead to an improvement of the qualitative labour market equilibrium already referred to, e.g. where skilled workers employed in positions below their status are able to find employment in accordance with their qualifications. Higher fluctuation through deliberate poaching could also open better chances for employment for the problem groups in the employment market. If, for example, the skilled workers employed in positions below their status were poached, semi-skilled or unskilled vacancies would have to be filled again.

How far the direct approaches of private placement services would increase fluctuation and strengthen poaching can only be assessed with difficulty. Even in the present legal situation newspaper advertisements and informal channels ensure that employees are poached. Better social benefits, working conditions and pay also increase the attractiveness today of larger companies. In addition, serious placement agencies must acquire applicants from outside their regular customers. Otherwise they would damage their own reputation with potential users of their services on the employer side. Acquisition of applicants on the one hand and vacancy acquisition on the other must be carried out with different employers. This makes the use of the instrument of direct approach to employees more difficult for private employment agencies.

### Structure of Unemployment

If commercial agencies concentrate on jobseekers with low placement risks when acquiring applicants, this could lead to an even greater rigidification of the structural problems on the labour market. The placement prospects of the problem groups on the labour market (e.g. older, less productive persons) – who are basically dependent on public placement services – could be affected by the appearance of commercial placement agencies. This would be expected if the market significance of public placement services were to decrease greatly because of the licensing of commercial placement services. One argument could be that the fewer company contacts the public placement services have, the less they will be able

to create acceptance by employers for the difficult market segment of applicants who are less productive. On the other hand, one can argue that after licensing private agencies public employment services could give priority to unemployed people (in particular the long-term unemployed). Special and more intensified help and advice could enable (long-term) unemployed to move out of unemployment.

### Conclusions

Many of the statements in this text are hypothetical and provisional. A more reliable empirical basis is required to define them precisely and to check them. The existing experiences internationally are completely insufficient to allow even an approximate assessment of the arguments. Only a wide-ranging comparison of countries including relevant employment market factors (e.g. duration of vacancies, length of unemployment, matching problems, rates of fluctuation) would allow more definite statements. This type of country comparison would have to include, on the one hand, countries with a placement monopoly and, on the other hand, countries where private and public job-placing coexist. This type of comparison would give indications as to whether, and in which areas, liberalization could be deemed positive, and which additional flanking regulations would possibly be necessary.

Independent of the concrete organization of job placement, the placement services offered have to be excellent. Efficient institutions or agencies which carry out job placement reduce search costs on the labour market and make the matching of labour supply and demand easier. Therefore an efficient placement system improves the functioning of the labour market.

But on the other hand it has to be borne in mind that placement activities have only a limited effect on the labour market as a whole. Placement services only operate with a certain (exogenously determined) number and structure of vacancies and jobseekers. Placement services do not create new jobs, they only give assistance for a quicker and better matching of labour supply and demand. The effects of placement activities on the level of unemployment are therefore negligible. Only a shorter duration of vacancies would reduce unemployment. But speed and tailor-made filling (especially with regard to the growing degree of qualification requirements) could contradict each other. However, if we look at the qualitative labour market equilibrium the effects of any particular placement system are limited. Considering the fact that most vacancies are filled without the intervention of placement services, the pros and cons of a placement monopoly must be seen in relative terms.