

**ICES** 2014

INTERNATIONAL CONFERENCE OF THE SCHOOL  
OF ECONOMICS AND BUSINESS IN SARAJEVO

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**7th International Conference of the  
School of Economics and Business**

# Conference Proceedings

**October 13-14, 2014**

**Sarajevo, Bosnia and Herzegovina**



**UNIVERSITY OF SARAJEVO**

**School of Economics  
and Business**



**7<sup>th</sup> International Conference of the School of Economics  
and Business**

**CONFERENCE  
PROCEEDINGS**

Edited by Eldin Mehic

**October 13-14, 2014**

**Sarajevo, Bosnia and Herzegovina**

**Title**

7th International Conference of the School of Economics and Business  
Conference Proceedings

**Type**

Conference Proceedings

**Year**

2014

**Publisher**

University of Sarajevo, School of Economics and Business  
Trg oslobođenja – Alija Izetbegovic 1, Sarajevo, Bosnia and Herzegovina

**For the Publisher**

Zeljko Sain

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ISBN 978-9958-25-093-4

School of Economics and Business  
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71000 Sarajevo  
Bosnia and Herzegovina  
[www.efsa.unsa.ba](http://www.efsa.unsa.ba)

The papers have not been proof-read and the authors assume sole responsibility for any errors.

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**CIP - Katalogizacija u publikaciji**  
**Nacionalna i univerzitetska biblioteka**  
**Bosne i Hercegovine, Sarajevo**

**33(063)(082)**

**INTERNATIONAL Conference of the School of**  
**Economics and Business (7th ; 2014 ; Sarajevo)**  
**Conference proceedings / 7th International**  
**Conference of the School of Economics and**  
**Business, Sarajevo, October 13-14, 2014. -**  
**Sarajevo : School of Economics and Business, 2014.**  
**- V, 379 str. : ilustr. ; 24 cm**

**Bibliografija i bilješke uz tekst.**

**ISBN 978-9958-25-093-4**

**COBISS.BH-ID 21596166**  
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## **FOREWORD**

The 7th ICES Conference continues the initiative started in 2002 by a group of academics interested in developing research in Central and Eastern Europe undergoing the process of systematic and economic transition. Following earlier conferences with participants from nearly all over the CEE region as well as from many other countries, the School of Economics and Business in Sarajevo is proud to host the 7th International Conference from 13 – 14 October, 2014 in Sarajevo, Bosnia and Herzegovina. This conference aims to bring together academics as well as practitioners to discuss diverse issues in the fields of economics and business with a focus on transition economies. The purpose of this conference is to disseminate high quality research and to promote scientific information interchange between researchers, developers, students, and practitioners.

I have a great pleasure to introduce a collection of papers presented at the 7th ICES Conference. The conference proceedings offer a variety of research perspectives from a number of Central and Eastern European countries. This wide-ranging research context forms the basis for studies in different fields: development, international economics, macroeconomics and monetary economics, financial economics, business administration, business economics, marketing and advertising, tourism, information technology, and law and economics.

As was the case in earlier ICES conferences it is our pleasure to inform conference participants that selected papers presented at this conference will be considered for publication in a special issue of the Eastern European Economics, an ISI-ranked journal published by M.E. Sharpe Inc., USA and South East European Journal of Economics and Business published by the School of Economics and Business. Therefore, I would like to invite you to submit your paper for publication in these journals.

I strongly believe that the discussions between prominent and experienced researchers at the conference will serve as a solid bases for improving your paper and enriching your further research focusing on transition countries.

## **Acknowledgments**

We would like to thank all the authors who prepared and submitted their abstracts and/or papers to ICES2014.

A special thank you is addressed to keynote speakers, Maks Tajnikar, University of Ljubljana, Faculty of Economics, Slovenia and Geoff Pugh, Staffordshire University, Business School, UK. We are certainly aware that it has taken time and effort to take part in this Conference, and this is much appreciated.

We would also like to express our gratitude to all participants for their expertise and for sharing their views and ideas which present the most important contribution to the success of this Conference.

On behalf of the Organizing Committee we very warmly welcome you to Sarajevo and hope that you will enjoy the 7th ICES Conference both professionally and socially.

Sarajevo, October 2014

Eldin Mehic  
Editor

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# **PUBLIC EMPLOYMENT SERVICES MOVING FROM PUBLIC MONOPOLIES TOWARDS QUASI-MARKETS**

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## **Abstract**

In Bosnia and Herzegovina, Public Employment Services (PES) provide services through public monopolies, without any system in place which would ensure the best possible service delivery to its clients. PES delivers identical services, with fixed costs, while the only difference is its quality or efficiency. The key regulator's (PES management or government) issue should be how to ensure good quality services, which can be measured, and constantly improved. In order to achieve its goals, the regulator has to be able to assess competitiveness of the sector, but also to conduct comparisons across individual service providers. This would set the basis for a competitive environment.

This paper provides practical solutions to move public monopolies towards quasi-markets. As a result of the model, PES local office managers will be measured against their peers, that will bring competitive pressure to provide services more efficiently and responsively, and (in)directly clients will get better service at the end.

In order to establish comparisons it is important to establish measurable objectives for services, in line with relevant legal acts and strategies, and they can be summarised as follows: quick and permanent reintegration of registered job seekers into the labour market, prevention of long-term unemployment and prevention of long-term usage of unemployment benefits.

The efficiency calculation has been made for 58 municipal employment bureaus (MEB), which rank MEBs based on their operational efficiency – deregistration of unemployed persons in the shortest possible time as a result of their integration into the labour market. Calculation has been faced with problems of different exogenous conditions (e.g. population density, local economy, working population age, skills gap, etc.) which influence efficiency of MEB. Therefore, researchers used Pearson Correlation Matrix to assess the relationship between external factors and efficiency indicators.

Influential external factors are included in the calculation of the efficiency indicators, by using COLS regression, which gave relative efficiency of a service provider, and ranked them in efficiency order. In this quasi-market order, the most efficient service providers are being recognized, while all others are encouraged to reach at least sector average.

This method is being used to assess the efficiency of public sector, where management by objectives operationalizes strategic objectives and translates them into quantified norms. It is important to justify invested public funds, through good quality impact reached by its expenditure.

**Keywords:** *public employment service, performance, exogenous factors, efficiency*

**JEL classification:** *D73, D78, H11, J22, J64*

### **Acknowledgements:**

Authors would like to acknowledge to *Swiss Agency for Development and Cooperation (SDC)*, Marcel Egger, from *Egger, Dreher, and Partners AG Bern*, and to Olivier Nussbaum from *Swiss Secretariat for Economic Affairs (SECO)* for their great support during development of the model.

## **1. Introduction**

Existing employment policies in Bosnia and Herzegovina focus on persons who are registered as unemployed, regardless of their actual status. According to the latest available data used in the survey, the percentage of registered unemployed persons in BiH in June 2013 amounted to 44.4% (Agency of Statistics Bosnia and Herzegovina, 2013, pp. 1). It is interesting to compare this data with Labour Force Survey (LFS), which estimates unemployment rate at 27.5% (April 2013). Status of “being unemployed” ensures a range of benefits such as free health insurance, cash assistance for unemployed, etc. As a result, a significant number of persons who are officially unemployed (working in the informal economy) or are voluntarily unemployed (not active job seekers) are registered as unemployed in PES register. This was confirmed by a recent survey of the Swiss funded Youth Employment Project (YEP), that shows how only 41% registered unemployed persons in Novo Sarajevo, or 26% in Doboje, are actively looking for a job. (Markuš, 2013, pp. 458-459).

Due to a large number of registered unemployed persons (app. 550.000, source Agency for Labour and Employment BiH, 2013, pp. 4) there is not enough capacities to deal with active job seekers. An individual employee in MEB is in charge of 1.300 unemployed persons on average, which prevents provision of any services besides regular administration, check-in and registration.

Unemployed persons by default expect health insurance, confirmation of unemployment, cash assistance, while individual counselling, financial support for self-employment, and activities of re-training and additional training are not recognised as key PES services (Markuš, 2013). Social role of PES, but also its market position where services are provided through public monopolies, cannot ensure the best possible service delivery to its clients. Such situation generates inefficient mix of policies, while the main purpose of PES to deal with active job seekers, provide job counselling and career guidance, and support to employers in finding adequate workers seems to be completely undermined. Therefore, the evaluation of services provided and its efficiency should become one of the main management tools in future development of PES.

PES delivers identical services, with fixed costs, but they differ in its quality or efficiency/performance. The key regulator's (PES management or government) issue should to ensure good quality services, which can be measured and constantly improved. In order to achieve its goals, the regulator has to be able to assess (average) competitiveness of the sector, but also to conduct comparisons across individual service providers. This would set basis for a competitive environment and would move public monopolies towards quasi-markets. As a result of the model, MEB managers will be measured against their peers, bringing competitive pressure to provide services more efficiently and responsively, and (in) directly clients will get better service as an outcome. Performance incentives aimed to encourage competition rely mostly on the motivating effect of attention received. Typically they are cheaper and equally efficient as financial incentives (Scharle, 2013).

## 2. Methodology

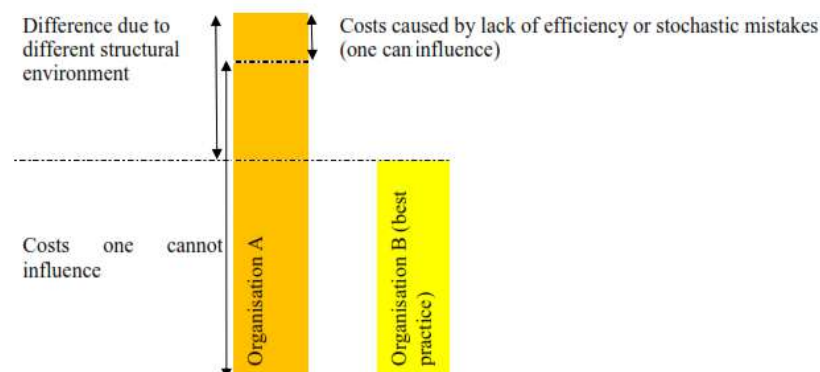
This research is based on *Yardstick Competition* as a theory, which was set by Shleifer (1985, pp. 319-327). The model considers N identical risk-neutral firms (organisations) operating in an environment without uncertainty. Considering N identical organisations, one can say they operate in un-perfect monopoly, which is usually called monopolistic competition. In monopolistic competition a lot of small scale organisations provide similar products. The model is based on assumption that each organisation has a decrease in demand  $Q(P)$ . Demand is even more challenged when produce or services are less differentiated and price changes can impact the quantity of sale for entire competition, which eliminates any chance of extra profit.

Therefore *Yardstick Competition* is a regulatory mechanism that decreases costs (public) in a monopoly by introducing comparative competition and in that way puts „similar organisations in competitive relation by observing their costs“ (Baldwin, 1999, pp. 243). The comparison introduces competition elements where the market cannot establish it, i.e. within the natural monopoly circumstances. This helps to give incentive to organisations observed to adjust their production or service delivery to similar organisations that is to decrease the cost of service delivery, or in case of PES to increase volume of activities and outputs within the given budget. In this balance, each organisation chooses socially acceptable level of activity increase, having in mind that it can be increased up to a certain point without any impact on quality of provided goods or services.

In such conditions, organisations are becoming un-perfect monopolists (in conditions of artificial oligopoly) and their behaviour is changing. That is precisely the role of *Yardstick Competition*, which can move the efficiency of production or service delivery towards the position of perfect competition hence eliminating chance for a monopoly type organisation.

If organisations that we compare operate in heterogeneous conditions, the regulator will use regression model to adjust analysed data in line with those conditions. It is extremely important to define external factors in the right way in order to reach the exact result.

**Figure 1:** Structure of Costs of Two Different Organizations



Source: Markuš, 2014, pp. 16

The main assumption is that costs can be decreased in two cases (Cubbin, 2005, pp. 289-293): entire sector can decrease costs by technical improvements „moving the bar“, or decreasing costs of individual organisations „moving towards the bar“. In practice both cases are being applied for the benefit of final service users.

Therefore, the key comparison element is to determine measurement bases and to set “the bar” (average or the best practice) within which each service provider can have a relative position (Berg, 2010). In principle, organisations are allowed to have higher costs (less activities) than the average of all organisations, but only in cases that their efficiency is better than the average, or unless justified by specific business terms. External factors are specific business terms that can make an impact on performance and are not under direct impact of organisation. Based on all information collected, regulator makes a selection of objectives acceptable to service beneficiaries,

service provider management and policy creators (Corton, 2003, pp. 133-142). There are several different methods of comparative analyses:

- Non-parametric (Data Envelopment Analysis -DEA<sup>43</sup> and Stochastic or chance constrained Data Envelopment Analysis –SDEA) and
- Parametric (Corrected Ordinary Least Squares COLS, and Stochastic Frontier Analysis – SFA<sup>44</sup>)

This research used PES official database and Annual Statistical Bulletin for 2013, for efficiency calculation within 58 municipal employment bureaus (MEB) in Bosnia and Herzegovina. The results helped to rank employment bureaus based on their operational efficiency – deregistration of unemployed persons in the shortest possible time due to finding employment. MEBs are marked by codes in order to remain anonymous.

This methodology has been faced with problems of different exogenous conditions (e.g. population density, local economy, working population age, skills gap, etc.) which influence the efficiency of MEB. Therefore, researchers used Pearson Correlation Matrix to assess the relationship between external factors and efficiency indicators.

Influential external factors are included in the calculation of the efficiency indicator, by using Corrected Ordinary Least Squares (COLS) regression, which gave relative efficiency of a service provider, and ranked them in efficiency order. In this quasi-market order, the most efficient service providers are being recognized, while all others are encouraged to reach at least sector average.

### 3. Definition of Basic Measurement Principles

In order to make comparisons between organizational units it is important to establish performance measurement, which represents the basis of performance management system (PMS). It is possible to distinguish between three different types of PMS:

- *Effect-oriented PMS*, which either directly measure the attainment of the desired efficiency objective or measure whether the desired changes in behaviour are achieved among the target group (example of indicator: how many persons are integrated into the primary labour market?)
- *Output-oriented PMS* base measurement on performance indicators in terms of the extent and quality to which particular services are performed (example of indicator: how many persons participate in active labour measures?).
- *Input-oriented PMS* evaluate performance in terms of the extent and quality in which particular resources have been deployed (example of indicator: how many active labour measures are available?)

If these three types are to be compared, the effect-oriented management system has an important advantage because of the fact that the attainment of the super-ordinate objective is measured directly. Thus effect indicators permit immediate conclusions as to whether the desired efficiency objective has been achieved.

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<sup>43</sup> The Data Envelopment Analysis (DEA) is method to measure efficiency of organisational units. The method has been developed by Charnes, Cooper & Rhodes (1978), in order to measure business efficiency of organisation units primarily of those that make no profit.

<sup>44</sup> Stochastic Frontier Analysis (SFA) is alternative approach in determining the efficiency border by using econometric models.

Another important advantage of effect indicators is the fact that, when suitably designed, they do not lead to any misdirection of management or incentives. Effect indicators always create an incentive for the relevant offices and their staff to pursue the desired super-ordinate efficiency objective. This is not necessarily the case for input-indicators and output-indicators.

The greatest difficulty with effect indicators consists in the fact that the intended effects are influenced by a multiplicity of exogenous factors. It is often difficult to determine which factor has ultimately contributed to the attainment of the efficiency objective, and to what extent. When for an example an effect indicator shows that a particular municipal employment bureau (MEB) has integrated more unemployed persons into the primary labour market than another MEB, this may not automatically be related to more efficient work by that particular MEB. It could also be due to the fact that the labour market in that region is in a better condition than in another region. These external factors must be taken into account. In order to address this, effect-oriented PMS can be expanded with analytical/evaluative measures which attempt to interpret the relationships between the different factors and weigh costs and benefits. For example, such measures might include cost per jobseeker of all employment services, cost per job outcome or rates of transition to employment for different types of interventions. Ultimately, this approach might result in measures of the net benefit of PES activity (Nunn, 2012).

A key advantage of output indicators is that by rule they are comparatively easy to collect. A significant disadvantage of output indicators, by contrast, often lies in the fact that they only measure whether particular services have been performed to a particular level of quality, but not whether these ultimately had any effect. Thus, on the basis of performance indicators, it is not possible to make any conclusive evaluation of how the effectiveness of an MEB has developed. For example, on the basis of the performance indicator “number of persons who have participated in active employment measure” it can only be determined whether persons participated in measures. However, it is not possible to evaluate whether this was necessary for their integration into the labour market or whether perhaps other measures might have been more effective. Therefore this indicator also permits (practically) no final conclusions regarding efficiency.

The second important disadvantage of performance indicators lies in the potential for misdirected management to which they can lead. If, for example, an indicator is defined which assesses the performance of the MEBs on the basis of how many of their unemployed persons have attended courses, it gives the MEBs a false incentive to send unemployed persons on courses which are in fact not necessary for those persons to achieve integration into the labour market.

In general, the so-called input-oriented PMS allow (practically) no conclusions regarding efficiency. At most, input indicators make it possible to evaluate whether the attainment of the desired effects is possible at all on the basis of the resource deployment involved. Input indicators, like output indicators, also bring with them the danger of misdirected management.

Based on the above considerations researchers came to the conclusion that, despite the recognised measurement problems in connection with exogenous influences, to trustworthy management system should be largely based on effect indicators. The use of performance or input indicator should be reduced to a minimum on account of their potential danger of misdirected management and their lack of meaningful conclusions, but its biggest advantage is to understand what is happening in the field. In another words, input and output indicators should be followed, but only as a monitoring tool.

Still, regardless of which types of indicator are finally being applied, as a rule they are an insufficient basis for a conclusive evaluation. Often, indicators only give pointers to a certain development. They need to be interpreted and placed in an overall context, so management should develop strong analytical team which should help to steer the organization based on understanding of performance measurements, not only on its calculations.

## 4. Performance Management System

PMS can be seen as *super-ordinate, strategic* management instrument, intended to indicate how the overall efficiency of the individual MEBs is to be evaluated and what need for action exists in order to improve efficiency. In its ideal form, this management process can be described as follows:

- As the starting point, the efficiency objectives of the PES must be defined (based in institutional mandate and legal framework).
- Define indicators which will describe attainment of efficiency objectives.
- Based on defined objectives and indicators, the MEBs adapt their operative and strategic management (or their use of resources and the services performed) in order to reach the best possible efficiency results.
- After completion of previously-agreed reporting period, the attainment of objectives by each MEB is measured with reference to the defined indicators.
- MEBs analyse their attained levels of efficiency and draw conclusions with regard to possible improvements in their use of resources and the services performed in order to achieve better efficiency in future.
- If it proves at this point that the defined objectives and/or the predefined indicators do not fit their purpose (for example because the indicators contain misdirected incentives), the definition of the objectives or the indicators must be reviewed.

This chapter explains application of these steps in practice.

### 4.1. Setting the Goals and Indicators

Management by objectives (MBO) makes the institution's strategic objectives operational by transferring them into quantified norms. The transition from the "management by regulations" to the "management by objectives" (Weishaupt, 2010) on the basis of quantified norms in order to continuously increase the work efficiency (Mosley & Schutz, 2001) shifts the focus of the PES from the importance of the available resources to the quality of work results. It is important to achieve and verify the adequacy of public funds investments (budget) by obtaining quality outcomes by means of their use. Therefore, a prerequisite for the establishment of an effect-oriented management system is that it must firstly be clearly and explicitly determined in what direction the relevant system is to be steered, i.e. what primary objectives are to be attained and how any conflicting objectives are to be avoided (prioritisation).

The objectives put forward to the public employment services need to be derived from the objectives of the Law on Job Mediation<sup>45</sup>, relevant legal acts and strategies, and they can be summarized as follows: prevention of unemployment, as quick as possible and lasting reintegration of the registered jobseekers at the labour market, prevention of long-term unemployment and long-term cash assistance for unemployed. The following two super-ordinate efficiency objectives are defined:

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<sup>45</sup> Law on Employment Mediation and Rights during Unemployment. Available at [http://www.zzzrs.net/images/uploads/dokumenti/Zakon\\_o\\_posredovanju\\_u\\_zaposljavanju\\_i\\_pravima\\_za\\_vrijeme\\_nezaposlenosti\\_5.pdf](http://www.zzzrs.net/images/uploads/dokumenti/Zakon_o_posredovanju_u_zaposljavanju_i_pravima_za_vrijeme_nezaposlenosti_5.pdf)



- Fostering the integration of unemployed persons into the labour market.
- Correct implementation of responsibilities under social security legislation at as low as possible cost (maximum efficiency of implementation).

Fostering integration of unemployed persons into the labour market, has been set as Efficiency objective 1. Namely, the effect of MEB should be that as many unemployed persons as possible to be re-integrated into the labour market, in the shortest possible time. Quick response mitigates the occurrence of social risks such as long-term unemployment or a loss of competencies (Ecorys, 2012). Having in mind a large number of registered unemployed persons, it is important on one hand to ensure that efforts are not concentrated on those persons who would be able to find a new job even without the support. On the other hand, care must also be taken to ensure that scarce counselling resources are not used for those persons who lack the necessary potential for the labour market or who have no real interest in finding a new job and who therefore cannot in fact be integrated.

Correct implementation of responsibilities under social security legislation at as low as possible cost (maximum efficiency of implementation), has been set as Efficiency objective 2. The MEB should correctly fulfil the implementation responsibilities assigned to them, but at the same time pursue the objective of doing this at as low as possible costs or staff expenses. The objective is attained when staff costs (staff-hours) for the administrative care of an unemployed person in MEBs are as low as possible.

## 4.2. Performance Management Indicators

In order to follow up on the achievement of objectives, it is necessary to assign performance indicators in accordance with the following criteria:

- The indicators have to enable direct insight into the real performance,
- The indicators should have only fractional, random variances which should be as little as possible dependent on the external effects,
- The indicator values should be in the form that cannot be manipulated by the reviewed public employment services i.e. that they are presented in a better light than they actually are.

Efficiency objective 1 is attained when as many as possible of the persons registered with the MEBs can take up a new job in the primary labour market as quickly as possible. As an indicator for evaluating the attainment of these objective researches propose to compare MEBs in terms of the following four data items, as well as observing their development over time.

- Share of unemployed persons who have found a new job 6 months after registration.
- Share of unemployed persons who have found a new job 12 months after registration.
- Share of unemployed persons who have found a new job 18 months after registration.
- Share of unemployed persons who have found a new job 24 months after registration.

If these four indicators are measured, MEBs have a strong incentive to ensure that as many as possible of the newly-registered unemployed persons find a new job as quickly as possible. The best case for MEB occurs when a newly-registered person finds a job within six months; this person is

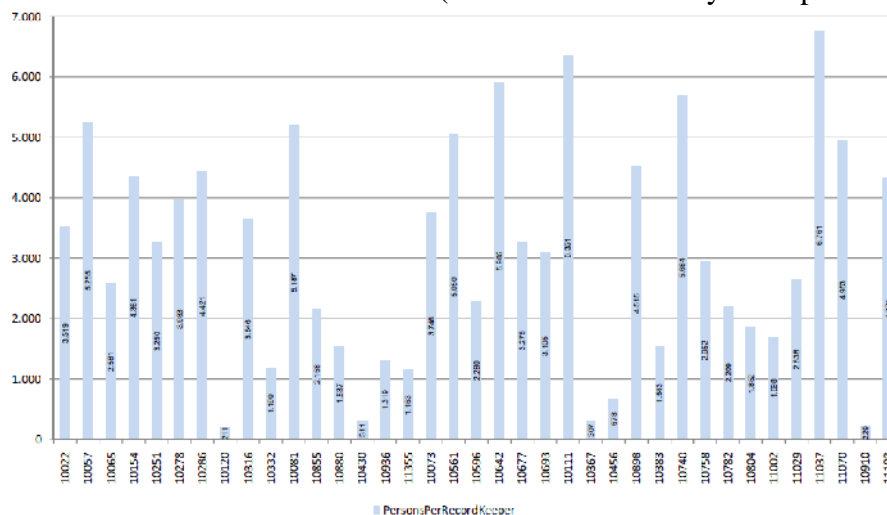
rated as a success according to all 4 indicators. The second-best case occurs when a newly-registered unemployed person finds a job within 12 months, because they are then counted as a success according to three indicators. And so on. The indicators are largely based on information which, already exist in the IT systems that are available in analysed PES, so results accuracy depends on data accuracy.

As an indicator for the measurement of the objective 2 was proposed the number of full time equivalent (FTE) staff positions per registered unemployed person; where possible this should only cover those staff members who are involved with ‘record-keeping’ (*registration, verification of regular check-ins; deregistration*). This indicator gives the MEBs an incentive to use the greatest possible proportion of their resources for counselling activities, and to keep the staff costs for administrative activities as low as possible.

## 5. Modelling and Results

The first round calculation of indicators was made based on simple comparison of defined one-dimensional indicators, for both efficiency indicators. Researchers decided firstly to analyse efficiency indicator 2, as it explains internal organization of MEB. Data are presented at a Figure below, and it is obvious that there is a lot of space for improvement in the internal organization of MEBs, as number of unemployed per record keeper varies from 6,761 in MEB coded 10037 to 211 in MEB coded 10120.

**Figure 2:** Efficiency Objective 2 – Correct Implementation of Responsibilities under Social Security Legislation at as Low as Possible Costs (Maximum Efficiency of Implementation)



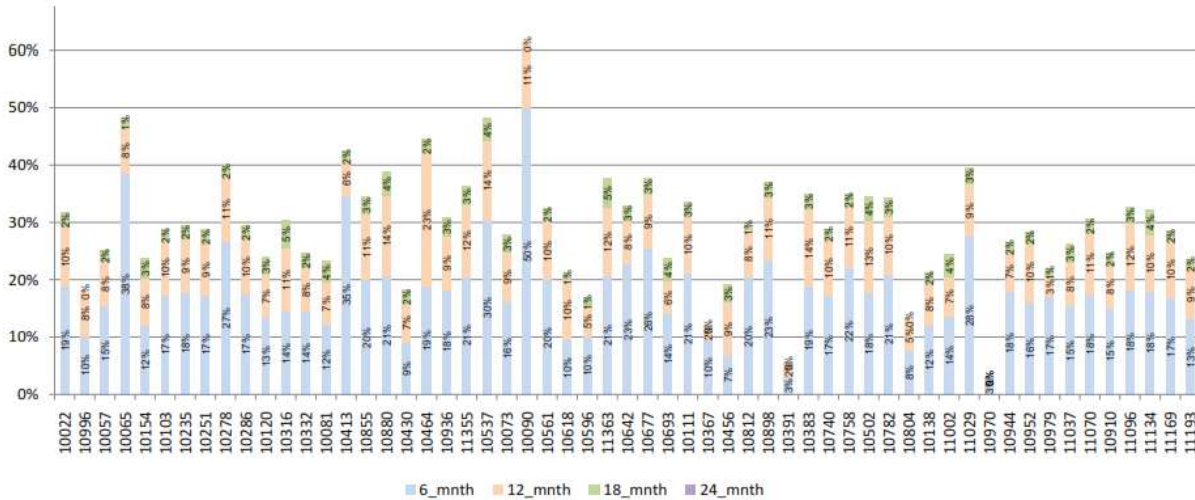
Note: Indicator: Registered Persons per Record Keeper; Date: 30.01.2014

Source: Authors' illustration

Analyses of the efficiency indicator 1 gave several conclusions, out of which the most important are:

- The biggest chances for employment are within 6 months after registration at MEB register. After that period employment chances significantly decrease;
- Great majority of MEBs have average performance and
- There are significant differences between MEB performance, due to a variety of reasons—some MEB might function in different external conditions (better economy), but it also may be that the data are not being recorded correctly by the staff.

**Figure 3:** Efficiency Objective 1 – Fostering Integration of Unemployed Persons into the Labour Market



Note: Indicator is Percentage of deregistrations of new arrivals within 6, 12, 18 or 24 months

Period of registration: 2012-07 to 2013-06

Source: Authors' illustration

Variations in results might be caused by a large territory covered by analysed MEBs. Therefore, in order to analyse the efficiency in the right way, it is necessary to take into account external factors (the environment in which the employment bureau is operating). In principle, there are two ways to deal with exogenous factors in the management system: Either there is an attempt to assess the exogenous influences on the indicator by means of econometric procedures and to adjust the data assessed; or to compare 'similar' MEBs in evaluation and interpretation of the indicators. Researchers decided to analyse exogenous influences on efficiency indicators. It is important to highlight that only efficiency indicator 1 is influenced by exogenous factors, as indicator 2 is largely endogenous, i.e. almost completely dependent on the organisation of internal operational processes and as such does not require any correction for exogenous influences.

Therefore in addition to descriptive statistical calculations of individual indicators, Pearson's correlation was calculated in order to analyze relationship (strength of a linear association) between combination of variables. Pearson's correlation coefficient is a value that reveals a degree of linear relationship between two variables, and ranges between -1 and +1, where -1 indicates perfect negative correlation, 0 indicates no correlation and +1 perfect positive correlation. So, the closer the Pearson's coefficient is to 1, the stronger the relationship between two variables.. Exogenous factors are defined through Pearson's Correlation analysis, by the following formula:

$$r = \frac{n(\sum xy) - (\sum x)(\sum y)}{\sqrt{[n\sum x^2 - (\sum x)^2] [n\sum y^2 - (\sum y)^2]}} \quad (1)$$

The estimated correlation coefficients show significant correlations for the following external factors:

- Average income (coefficient 0.11).
- Number of persons who claim health insurance (coefficient 0.15).
- Number of persons who receive unemployment benefit (coefficient 0.28).
- Work experience (coefficient -0.19).

- Number of unemployed per inhabitant (coefficient 0.26).
- Number of motor vehicles (coefficient 0.24).
- Share of qualified workers per unemployed person (coefficient 0.21).
- Number of tourist visits (coefficient 0.24).

Some of correlations are expected, such as number of unemployed per inhabitant, or share of qualified workers per unemployed person. Still it is interesting to see that Pearson Correlation found strong linear correlation between integration into the labour market and number of motor vehicles. Researchers investigate that factor further and came to the conclusion that might indicate level of wealth, but also level of workers mobility. Due to a large number of different features, analyses identify those factors that significantly impact results. Researchers decided not to calculate correlation coefficients (which uses only 1 exogenous factor at a time). Instead they applied a linear regression model based on COLS-method (which uses several exogenous factors at the same time). The result of these calculations is 'residuals' which are interpreted as corrected indicators.

Having said that, in order to get comparable results of efficiency it is necessary to make corrections of the indicators through linear regression analysis COLS (Corrected Ordinary Least Squares). The real value of variable in the time of registration (unemployed) needs to be replaced by the expected, regressed value which will be considered as „corrected“ based on the total of measurable external factors which will be saved in the web application database. Therefore performance indicator values need be calculated by linear regression model of achieved values of indicators and external factors, as follows:

$$I_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \dots + \beta_k X_{ki} + \epsilon_i \quad (2)$$

$I_i$  – indicator

$X_{1i}$  to  $X_{ki}$  – external factors

$\epsilon_i$  - Residuum of regression

Using OLS regression (ordinary least squares) researchers have regressed different combinations of exogenous factors that could influence performance indicator 1 (share of registered unemployed in one year, that deregistered within 6 months). Hereby the regressions that fulfil both of the following conditions:

- Needed as higher value of statistical adjusted R-Square.
- All exogenous variables used should show the level of relevance between 0.0 and 0.1, meaning the statistical error of estimate will be below 10 %.

The regression analysis model determinants of integration of unemployed persons into the labour market, five different model specifications were estimated. In all cases, the same dependent variable was used - the percentage of unemployed people deregistered from the MEB's records within 6 months period.

In order to find combination of factors which gives the highest possible R-square (coefficient of determination) researchers tested the following combinations of exogenous variables:

**Table 1:** Specification of five tested Models

Model Number	Left hand variables	Right hand variables
1	EI_1_6Mt	HI_TRUE_, BENEFITS, EXPERIEN, JOBSEEKE, INCOME___, CARS2___
2	EI_1_6Mt	INCOME_0, N_D_BRAN, JOBSEEKE, EXPERIEN
3	EI_1_6Mt	PART_ED1, JOBSEEKE, EXPERIEN, N_D_BRAN
4	EI_1_6Mt	PART_ED1, JOBSEEKE, EXPERIEN, NO_HI_0, N_D_BRAN
5	EI_1_6Mt	TOURIST2, EXPERIEN, JOBSEEKE, PART_ED1, N_D_BRAN

**Table 2:** Description of the right hand variables

INCOME_0	Avg income per household
N_D_BRAN	Percentage of registered persons without any information of the sector s/he worked in before registering as unemployed person
JOBSEEKE	Number of jobseekers per habitant in the respective area of the office
EXPERIEN	Average working experience (days) per registered person
PART_ED1	Percentage of registered persons with education 'secondary school / skilled workers'
NO_HI_0	Percentage of registered persons without health insurance benefits
TOURIST2	Number of tourists per year per habitant in the respective area of the office
VEHICLES 2_0	Number of vehicles per habitant

Estimated coefficients from the regression analysis of the above specified models are presented in the table below.

**Table 3:** Selection of the Best Regression Model

Variable	Model 1	Model 2	Model 3	Model 4	Model 5
HI_TRUE0	-0.17 (0.14)	--	--	--	--
BENEFITS	0.41*** (0.00)	--	--	--	--
INCOME_0	-0.34*** (0.00)	-0.25*** (0.01)	--	--	--
PART_OB1	--	--	-0.38*** (0.00)	--	-0.38*** (0.00)
PART_ED1	--	--	--	-0.43*** (0.00)	--
N_D_BRAN	--	-0.69*** (0.00)	-0.86*** (0.00)	-0.86*** (0.00)	-0.89*** (0.00)
JOBSEEKERS	0.29*** (0.01)	0.37*** (0.00)	0.38*** (0.00)	0.35*** (0.00)	0.37*** (0.00)
WORKING EXPERIENCE	-0.53*** (0.00)	-0.49*** (0.00)	-0.47*** (0.00)	-0.48*** (0.00)	-0.49*** (0.00)
NO_HI_0	--	--	--	0.14 (0.13)	--
TURISTI2	--	--	--	--	-0.13 (0.12)
VEHICLES	0.33*** (0.01)	--	--	--	--
R <sup>2</sup>	0.44	0.56	0.62	0.64	0.64
Adjusted R <sup>2</sup>	0.37	0.53	0.59	0.60	0.60
N	56	56	56	56	56

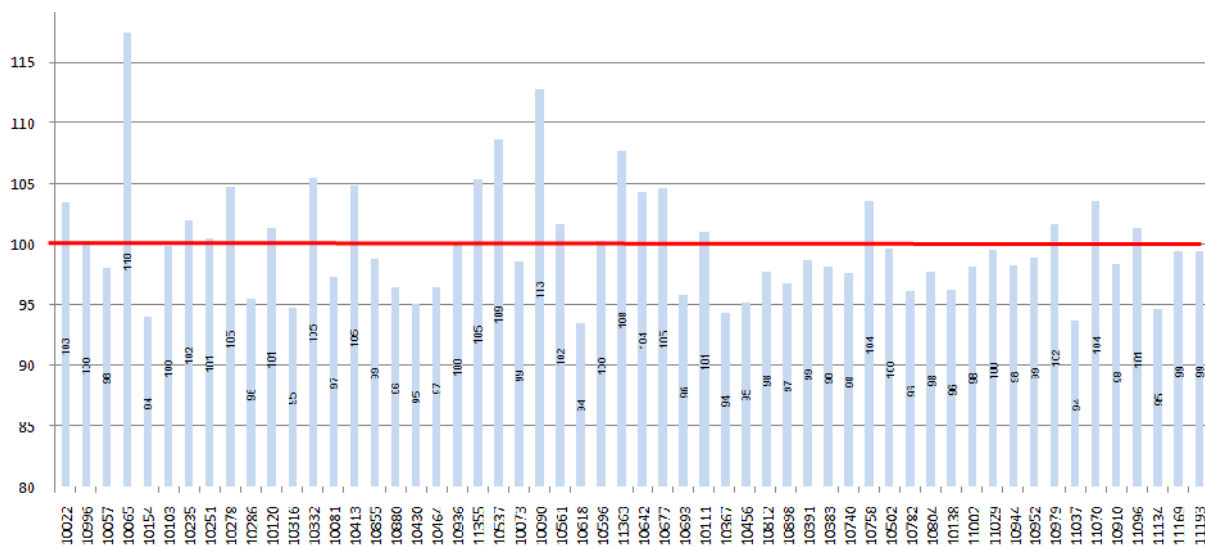
Note: \*\*\* statistically significant at 1% level of significance

The table above confirms that different model specifications provide consistent results, as key variables have the same sign and statistical significance. Moreover, the values of coefficients do not change considerably across different model specification, suggesting its robustness and low sensitivity to inclusion or exclusion of variables.

The regression results suggest that variables BENEFITS, JOB SEEKERS (share of job seekers in total population of a bureau's area), VEHICLES\_\_0 (number of registered cars per capita) have positive influence on the performance of a local bureau (expressed in term of deregistrations of persons), while variables INCOME\_0 (average revenue per one job seeker), PART\_OB1, PART\_ED1, N\_D\_BRAN (percentage of registered persons without information about the business sector before registering to an employment bureau) and WORKING EXPERIENCE (average work experience, in days, per person registered in a bureau) have negative influence on performance of a bureau. Variables HI\_TRUE0, NO\_HI\_\_0 (percentage of registered persons without right to health insurance) and TOURIST 2 (ratio of number of tourists to total population of an area) do not have statistically significant influence on performance of local bureaus. This suggest that we should expect better performance of MEB where the share of job seekers in total population of MEB is larger, where the number of registered cars per capita is larger, and where average revenue per one job seeker and average work experience of a person are lower.

Residiums of certain MEB correspond to variations of some MEB from average values for all MEBs which are calculated in percentage scores. For an example, if a residium of one MEB has the value of -0.1 then the indicator of that bureau is 10 % below the average indicator of all bureaus. And vice versa, the value of +0.3 means that indicator is 30% higher than the average value. In the calculations for March the researchers have presented average value of residium for each MEB from five different regression analyses shown in Figure below performance index with corrections.

**Figure 4:** Efficiency Objective 1 – Fostering Integration of Unemployed Persons into the Labour Market



*Note:* This calculation has been made for indicator “Percentage of deregistration of new arrivals within 6 months (with correction of exogenous influences)”. Index 100 = average performance; Index 110 = 10% above average performance; Index 90 = 10% below average performance.

*Source:* Authors’ illustration

Analyses showed that 22 MEB, out of 58 have either average performance or even above average, while all others have the incentive to improve their performance. One of advantages of this model is that the sector sets the average performance (basically the targets) hence eliminating any

excuse for its achievement. MEB management gets incentive to analyse internal procedures, but also to benchmark it against the best practices and best performers.

By doing it, this measurement tool becomes performance management tool, which allows activities monitoring (what goes on inside the MEB), *targets setting* (are appropriate action taken in order to fulfil institutional goals), and *incentives* (*HR management in line with achievements, including* rewarding, hiring and keeping their best employees). Future researches should analyse reengineering principles, i.e. how to move towards best practice, and identify barriers of MEB better efficiency in order to support MEB managers which are attempting to restructure their organisations.

### 3. Conclusions

In the public sector in general, and thus also in case of PES, the most frequently used method of regulation is the *Yardstick Competition*. The application of *Yardstick Competition* will help in steering public employment services to reduce costs and increase their efficiency.

Also, this model will help PES be more focused on increasing efficiency and analyzing the purpose of their work on a daily basis in order to help them steer their activities and achieve targets. *Yardstick Competition* leads to optimum balance. It is a position in which an organization does its best, considering the decisions of other organizations with which it compares itself. The most frequent strategy of organizations resulting from this situation leads to the selection of the best level of costs, and if costs are fixed as in the case of public employment services, it means they can select best use of resources that will lead to the best results.

In designing a future, effect-oriented PMS, there are general principles which should be taken into account. Before the effect-oriented management system can be defined, it must firstly be clearly determined in what direction the relevant system is to be steered, i.e. which primary objectives are to be attained and for which objectives attainment is to be measured. In the subsequent determination of suitable effect indicators, it must be ensured that these are relevant to the super-ordinate efficiency objectives. Furthermore, no indicators should be selected whose attainment the MEBs cannot or can scarcely influence. In addition it must be ensured that *all* super-ordinate efficiency objectives are covered by suitable indicators (including objectives that cannot be directly measured). Otherwise there is a danger that those objectives without an appropriate indicator will be implicitly regarded as unimportant. In the case of effects that are influenced by a multiplicity of (qualitative) aspects, it is recommended in some circumstances to use evaluations or audits in place of quantitative indicators.

The analysis of environment in which the organisation operates is to monitor the surrounding in order to identify current and future opportunities or threats that can make an impact on the ability of organisation to reach its' objectives. This is extremely important when analysing performance of PES which operate in different conditions, and their results are very sensitive because of the conditions determined by the environment. Only some PES results are under a direct influence of management while everything else is under the influence of economic situation, number of employers and vacancies, but also structure of unemployed and balance between supply and demand side. External factors can be defined as those factors that PES cannot influence, and be mindful to select the most important ones, but also if one important external factor is left out the results might be inadequate. This research used Pearson's Correlation coefficients to identify the main independent variables in strong relationship with the dependent ones for the subsequent econometric estimation. Results are determined based on relative position in relation of average result of analysed PES offices.

This model enables to measure each indicator and its deviation from the expected value impacted by external factors. It is used in assessing efficiency of public sector, including technical inefficiencies of rural utilities, efficiency of electricity distribution companies, assessment of public transport etc. There is no dilemma that competition is an effective way to improve performance, while monopoly is a great enemy to good management (Smith, 1978, pp. 148).

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