



THE JOB NETWORK AND UNDEREMPLOYMENT

by

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The paper notes how long-term unemployment has been replaced with long-term underemployment and examines the role of the Job Network in this new environment. The paper discusses how the structure of unemployment has changed, how the Job Network has evolved and comments on its performance. It is noted that the Job Network has become more and more driven by tightly specified processes and services supported by an ever tighter compliance regime. This business model has much in common with franchising and this analogy is used to interpret the observed outcomes and the concerns expressed by providers and other interested parties. The paper concludes that there are some inherent problems with the franchising model and suggests that less prescriptive arrangements may be preferable.

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1 Introduction

In 1998 the Government abolished the Commonwealth Employment Services and replaced it with a devolved system of private providers of employment services. This new system, the Job Network, involved a radical change in the way in which employment services were delivered. Already at the outset of the Job Network it was understood that hard to place clients might be under-served in a private employment service market. This was also evident from what could be observed about the operation of the system in its early years (Dockery and Stromback, 2001). But that was a long time ago and much has happened in the meantime. The contractual arrangements have been refined, the administrative processes have been significantly improved, the performance measures made more comprehensive, and the system for monitoring is now more refined. Likewise, the private employment service industry has matured. It has a more stable structure, a higher degree of professionalism, and has the potential to deliver higher quality services than in the past. These developments, in conjunction with

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the strong growth in employment, should have seen a transformation in the fortunes of job-seekers. Since the inception of the Job Network, employment has grown by over one million persons and the growth has been particularly large during the past three years. It appears, however, that the most disadvantaged have not benefited from these developments to the extent that might have been hoped. While the long-term unemployment is at a record low, there are indications that it has been replaced by long-term underemployment.

This paper provides an up-to-date analysis operation of the Job Network and comments on its performance during a period of strong employment growth and falling unemployment. The issue of particular concern is how well the Job Network is serving the needs of its more disadvantaged customers. The paper first summarises the recent trends in unemployment and the use of income support. Turning then to the Job Network, it gives an overview of its operation using the limited data available. This is followed by an analysis of the Job Network business model and how the operation of the Job Network has evolved in recent times. This theme is further developed in the penultimate section, which examines the views of the Job Network providers. The concluding section summarises the main findings and draws out the implications for the future direction of the Job Network.

2 Recent Trends in Unemployment and Use of Income Support

As the unemployment rate has now fallen below the 5% level, the fall in the number of long-term unemployed has been even more drastic. At below 100,000 this is the lowest level since the late 1970s. This does not mean that unemployment is a thing of the past. The reliance of people on income support has not dropped at anything like the same rate. This applies to long-term income support in particular. In fact, there has been a growing divergence between the long-term unemployed and long-term income support recipients. Using only the latest figures (Table 1), the number on long-term income support stands at 320,000 after having been above 400,000 for most of the 1990s. This divergence is associated with the continuing shift towards casual and part-time jobs, a trend evident since the 1980s. One aspect of this trend is an increase in underemployment. The ABS measure of underemployment has increased by about 100,000 persons since 1999 and now stands at 567,000 (ABS, 2005a). Half of these persons are part-time workers actively looking for more hours. Similarly, the Centre for Full Employment and Equity (2006) indices of underemployment show a very small drop in underemployment in recent times. Another dimension of short-duration jobs is 'churning': the movement of people off and on income support. As pointed out by Yi-Ping *et al.* (2004), "churning is an important feature of the income support system in Australia" (*ibid.* p. 59). Noting that churning is mainly associated with unemployment payments, they suggest that 'churners' are those with problems in holding onto jobs. During the 1995–2002 period there was a small increase in the rate of churning but it is not known whether this trend has been reversed or has accelerated.

What is suggested by these figures is that notwithstanding the strong employment growth a section of the community has been left behind. There are more jobs, fewer people are unemployed, and even fewer are unemployed for long periods of time. However, the jobs that many job-seekers obtain do not last long or entail too few hours to make much difference to their financial situation. Long-term unemployment has been

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replaced with long-term underemployment. In consequence, large number of people remains reliant on income support for long periods of time. The earnings they receive from temporary and part-time jobs can only augment, but not replace, their income support. These facts have been extensively document by ACOSS (2005a) in particular. To capture this new reality they have also proposed a new measure of long-term unemployment, suggesting that those who have been unemployed for nine of the last twelve months should be regarded as long-term unemployed.

TABLE I
PERSONS RECEIVING LABOUR MARKET AND RELATED PAYMENTS,
UNEMPLOYED AND UNDEREMPLOYED WORKERS

	Labour market and related payments (September 2006)		Unemployed workers (August 2006)	Underemployed workers (September 2005)
	NSA and YA (other) recipients	Job seekers only		
Long-term	321,534	203,024	93,900	
Short-term	221,792	159,462	424,500	
Total	543,326	362,486	518,400	566,600

Note: Persons on income support receiving labour market related payments include persons on New Start Allowance (NSA) and Youth Allowance (YA) (other). Not all of these persons are job-seekers, i.e. obliged to actively look for work.

Sources: DEWR, Labour Market and Related Payments—A Monthly Profile, September 2006; Australian Labour Market Statistics, ABS Cat. No. 6105.0, August 2006; Underemployed Workers, ABS Cat No. 6265, September 2005.

Other data provide less direct evidence. The number of job-seekers (person looking for work at some time during a year) has dropped, from 1.777 million to 1.512 million during the 2001–2005 period (ABS 2005b). This is a rather small decrease given the large fall in the number of unemployed persons. Those that remain job-seekers, however, spend less time looking—the median duration has dropped from thirteen to ten weeks—mainly a result of a fall in the long periods of job search (for the whole year). Consistent with the large fall in long-term unemployment, there has been a large fall (188,000) in the number of job-seekers that do not work at all during a year. Also, those who work for some time during a year have jobs that last longer. In other words, job-seekers spend less time looking for a job and the jobs they obtain last longer. In particular, the number of what might be termed ‘Job Network jobs’—jobs lasting 13–26 weeks—has actually fallen, albeit not in proportional terms (ABS, 2005b). Much the same picture can be gleaned from the gross flow data on movements between labour force states. Flows in and out of unemployment have only decreased about 10% mirroring the small drop in the number of job-seekers. On the other hand, the number of persons who remain unemployed for two successive months has fallen by almost 50%, reflecting the shorter average duration of unemployment (ABS, 2006a). Another positive sign is that the trend towards casualisation and part-time working has at least abated. During 2004 and 2005, full time employment grew strongly and the long

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running trend increase in the proportion in part time employment appears to have stabilised (ABS, 2005c).

3 The Job Network

The changing structure of unemployment doubtless has a number of causes. First and foremost, there has been a long-running trend towards casual and part-time jobs and more 'flexible' employment arrangements. In addition, Government policy, in particular the many changes to income support arrangements may have had a role. Many of these policy changes have affected job seekers indirectly via the Job Network. In addition the operation of the Job Network may have had direct effects. What the Job Network does, or does not do, can have a significant impact on many job-seekers and the jobs they get.

The Job Network is an extensive operation that costs almost \$1.5 billion per year and impacts on the lives of more than half a million people. Notwithstanding, information about its operation is both scant and difficult to interpret. There are only two regular sources of information. The monthly Job Network Performance Profile provides a small number of highly aggregated figures. More detail is contained in the quarterly Labour Market Performance Outcome, but this source is specifically concerned with reporting principal outcome measures. Other data about the Job Network are of a more incidental nature. Thus, the DEWR Annual Reports contains mainly internal performance measures and a few selected statistics. In addition, there are occasional studies that measure the causal effect of the assistance given by Job Network providers.

Job Network Performance Profile is a new regular publication first published in 2005. It simply details the number of placements achieved by the Job Network and the new Job Placement Organisations. In addition, placements of Intensive Support (IS) clients into thirteen 'week-jobs' is provided.

TABLE 2
JOB NETWORK PERFORMANCE PROFILE: TWELVE MONTHS ENDING JUNE
2006

New Vacancies	1,019,100
Total Job Placements	638,000
Placements of IS clients in jobs lasting thirteen weeks or more	181,800
Placements of disadvantaged IS clients in jobs lasting thirteen weeks or more	93,200

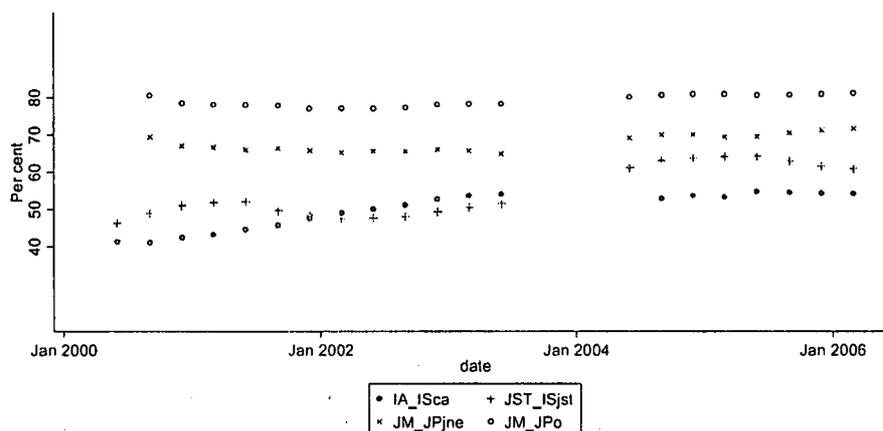
Source: DEWR, *Job Network Performance Profile*, June 2006.

The principal source for information about the Job Network is the regular post-programme monitoring surveys undertaken by the DEWR. These surveys have been conducted regularly since the 1987, which means that they provide comparable data over a long period. A sample is drawn from persons who left assistance during a twelve-month period. They are then surveyed about their employment status three months after the date they left. The findings about outcomes are most commonly presented as the proportion of positive outcomes, being in employment (full- or part-time) or engaged in an education or training activity (Figure 1). The break in the series during the 2003–2004 re-contracting period partly obscures the trends, but the overriding

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impression one of relative constancy of the proportion of positive outcomes. The only notable exception is the increase in the positive outcomes of Intensive Assistance during the 2000–2003 period.¹ This increase was a result of Intensive Assistance (IA) clients obtaining part-time jobs to a much greater degree than previously. In the case of Job Search Training/Support, there was a distinct increase in the level of positive outcomes between the two sub-periods. However, since both the form in which the service was delivered and the characteristics of persons receiving it changed, it is unclear how this shift should be interpreted.

FIGURE 1
JOB NETWORK POSITIVE OUTCOMES, 2000–20006



Source: DEWR, Labour Market Assistance Outcomes, June 2000 to June 2006.

Note: The figure show the per cent of persons that had achieved a positive outcome (being in employment or training) three months after exiting one of four types of Job Network assistance. There is a break in the data during the 2003–2004 period and the terminology for the various types of assistance changed as the new contracting arrangements came into effect in June 2003. In the graph, similar pre-and post 2003 assistance is combined according to the following key:

IA_ISca—Intensive Assistance / IS Customised Assistance.

JST_ISjst—Job Search Training / IS Job Search Training.

JM_JPjne—Job Matching / Job Placement (Job Network eligible).

JM_JPo—Job Matching / Job Placement (other—ineligible for the full Job Network services).

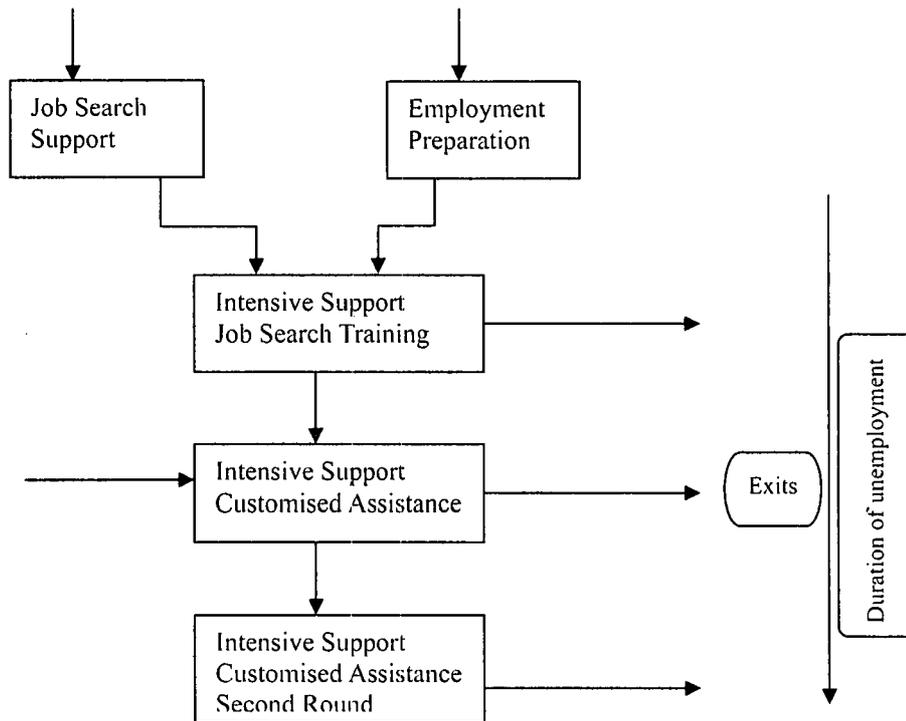
If the proportion of positive outcomes is taken as the principal indicator of the performance of the Job Network, which is commonly the case, these figures are disappointing. During the period covered by Figure 1, employment has increased by more than a million persons and unemployment has fallen by 250,000, yet there has been no significant improvement in the measured outcomes. It is also fair to say that the proportion of positive outcomes gives an exalted view of the situation. Less than one third of the positive outcomes for IA (Customised Assistance) clients are full-time jobs.

¹ Prior to June 2003 the term IA was used to refer to persons who were offered personal support to find a job. During 2003, this term was replaced by IS, but to complicate matters IS can take two forms. In the first instance only job search training is provided and in a second stage, customised assistance.

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Not too much should be read of this lack of improvement, however. Although the survey is designed to measure outcomes, the continued insistence of DEWR to measure outcomes by reference to the date of exiting the Job Network makes the figures difficult to interpret. In the case of IS, an 'exit' can take one of two forms; being placed in a job or having participated for 12, 24 or 36 months. Those that reach these time limits are deemed to have exited at that time to avoid overstating the outcomes. If the only reason people exit is because they got a job, the data tell us how long these jobs last. More specifically, the proportion of jobs lasts for thirteen weeks or more. On the other hand, if nobody exits to a job, but all persons who exit are deemed to do so because they have been on the books for a certain length of time, then the data tell us the proportion of long-term clients who have got a job. In other words, depending on the category in question the data reflect the duration of Job Network jobs, the proportion that got a job, or some combination of the two. This ambiguity makes the data difficult to interpret. In addition, the positive outcome measure is silent about an important dimension of performance—the time it takes to place people in jobs.

FIGURE 2
SCHEMATIC FLOW OF JOB-SEEKERS THROUGH THE JOB NETWORK



Note: Job Search Support is the normal entry point to the Job Network but parents with a dependent child enter via Employment preparation. Job-seekers classified as disadvantaged enter IS Customised Assistance directly.

Source: DEWR, *Exposure Draft of Employment and Related Services Purchasing Arrangements 2006*, Chapter 7.

Apart from the outcomes, the LMAO details the number of commencements into and exits from the Job Network. From these data one can derive an approximate picture of the flows of persons through the Job Network. A schematic picture of the flows is given in Figure 2. During recent years about 500,000 persons entered the Job Network via Job Search Support (JSS) during a twelve-month period. Of these, about 100,000 are placed in jobs while on JSS and are thus counted as exits from JSS. Of the remainder, 380,000 commence IS, in the first instance IS Job Search Training (ISJST). The 20,000 who do not exit JSS or move on to ISJST presumably comprise persons not eligible for the full Job Network services. The progress of those who begin IS is more difficult to track in the data. About 150,000 are recorded as exiting Intensive Support Job Search Training: Job Support Search (ISJSTJSS) of which some are placed in jobs while other exit ISJSS only to enter Intensive Support Customised Assistance (ISCA). However, what happens while on ISCA cannot be inferred from the data as many persons exit more than once for the reason explained above.

TABLE 3
SUMMARY OF LABOUR MARKET ASSISTANCE OUTCOMES FOR JOB SEEKERS
ON IS: YEAR ENDING JUNE 2006

(a) Per cent				
	Outcome (per cent)			Exits (number of persons)
Employed	Unemployed	Not in the Labour Force	Further Assistance	
54.7	35.1	10.3	3.0	477,129
Employed full-time	Employed part-time	Education and training	Positive outcomes	
29.1	25.6	11.1	61.2	477,129
(b) Number of persons				
	Outcome (number of persons)			Exits (number of persons)
Employed	Unemployed	Not in the Labour Force	Further Assistance	
260,989	167,472	49,144	14,313	477,129
Employed full-time	Employed part-time	Education and training	Positive outcomes	
138,844	122,145	52,961	292,003	477,129

Source: DEWR, *Labour Market Assistance Outcomes, Year Ending June 2006*.

Notes: Outcome is the status of a person who has exited or is deemed to have exited the Job Network three months after exit. The percentage figures in Part (a) sum to more than 100% because more than one type of outcome has been recorded for some persons. For the same reason, in Part (b) the sum of the number of persons in each category is larger than the number of exits.

Confusing as this picture may be, any attempt to read anything more from the figures is hampered by the multiple reasons for exits. Table 3, Part (a) gives the condensed figures for IS outcomes for the twelve-month period ending June 2006. From these percentages and the number of exits one can then derive the corresponding number of persons for each type of outcome given in Part (b) of the table. This calculation reveals that 260,989 of the IS exits were in employment three months after

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they exited or were deemed to have exited. But this number is some 80,000 larger than the 181,800 IS clients placed in jobs according to Table 1. Of course, there may be a number of reasons why the two figures differ. For example, many IS clients would have found jobs themselves and thus were not 'placed' by a Job Network provider.

The ambiguity is not resolved by reference to other sources of data. The ABS data on job search experience estimates that 427,100 of job seekers (persons unemployed at a point in time or having begun a job in the last twelve months) were registered with a Job Network provider (ABS, 2005b). This figure is distinctly lower than the 500,000 quoted above, but at least of the same order of magnitude. On the other hand, the ABS data suggest that the Job Network plays a much smaller role in placing people in jobs than suggested by the Job Network data. The ABS estimates that about 1.5 million persons began a job in the previous twelve months. Of these, 191,600 had been registered with a Job Network provider who might also have 'placed' them in the job (ABS, 2005b). The Job Network data puts the figure of at least 281,800 (181,800 IS placements lasting thirteen weeks or more plus the 100,000 from JSS). This is a much larger difference and difficult to account for. To make matters worse, the ABS figure includes persons who found a job themselves so the difference to be explained is really larger.

TABLE 4
*IS PAID OUTCOME DATA FOR FOURTEEN EMPLOYMENT SERVICES AREAS
2003-2006: NUMBER CLIENTS FOR WITH OUTCOME PAYMENTS BY TYPE OF
PAYMENT*

Type of paid outcome	Job seeker unemployment duration			Total number of payments
	4-12 months	>13 months		
		Type of payment		
		Full	Intermediate	
Interim	27,866	34,550	9,061	71,477
Final	na	23,390	2,970	26,360
Educational	na	na	na	1,354
Number of clients with at least one outcome payment				72,831
Number of clients starting IS				255,565

Source: Catholic Social Services Australia (2006), Attachment 3.

Notes: Providers are paid an interim payment when they have placed a person in a job that lasts for thirteen weeks. A final payment is received if the job lasts for an additional thirteen weeks, i.e. for twenty-six weeks. The amount paid depends on a job seeker's characteristics (mainly unemployment duration) and the reduction in their income support payments. If income support payments cease completely providers receive the full payment. If the reduction in income support is between 70 and 100% they are paid an intermediate payment.

As is evident from the above, it is difficult to obtain a clear picture of the operation of the Job Network from publicly available data. The problem is not the lack of data. The Job Network IT system is state-of-the-art and provides real-time information on all job-seekers. The problem is the restricted access. This is a problem that providers themselves also face, but at least they have access to the aggregate data for the Employment Services Area (ESA) in which they operate. These figures are not publicly available, but some summary data have been made available for the fourteen ESAs in which Centacare operates (Table 4). According to these figures, IS placements in

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thirteen week jobs are about 28% of the number of starts. For the Job Network as a whole the figure in Table 3 above was given as 50%. Of course the figures in Table 4 are based on partial figures—the fourteen ESAs only account for about 20% of the Job Network. Still, as with the other comparisons that have been made between different measures, this difference is equally difficult to account for.

Since it is difficult to get a handle on the operation of the Job Network in general, it is not surprising that the data have even less to say about the details. The transformation of unemployment into underemployment directs our attention to the duration and weekly hours of Job Network jobs. About three million clients have been through IS or Intensive Assistance since the start of the Job Network. These clients cannot possibly be different persons. There must be a fair degree of churning through the system but the extent of this is not known. One reason for this is that only jobs that last at least thirteen weeks are recorded. About these jobs we know that two-thirds lasts another thirteen weeks (the ratio of final to interim outcomes in Table 4). Part-time jobs, which fall under the 'intermediate' heading, tend to have a shorter duration. This information is only available for the longer duration category since there is no final payment for those with shorter duration. As regards weekly hours the LMAO data (Table 3) indicate that about half of the jobs are full-time. This proportion was lower in the past, so at least the incidence of full-time jobs has increased. However, the partial figures in Table 4 give a quite different impression about the full- and part-time proportions. As most outcomes qualify for a full rather than intermediate payment, the suggestion is that most payable outcomes are full-time jobs.

4 The Job Network Business Model

As the data in the previous section indicate, the Job Network has assisted large number of job-seekers into jobs. By doing so it has no doubt contributed to a lower unemployment rate and a much reduced number of long-term unemployed. But the emerging long-term underemployment suggests that it has been less successful in placing job-seekers in sustainable jobs. On that issue, the data are largely silent. Even the most rudimentary facts, such as the nature and duration of Job Network jobs, are clouded by ambiguities. The remainder of the paper draws on other information about the operation of the Job Network that might explain why the jobs may not have been as sustainable as one might wish.

The recent direction of the Job Network is best gauged by reference to the two broad policy initiatives Active Participation and Welfare to Work.

Under the Active Participation Model, the model that underpinned the Job Network contracts for the 2003–2006 period the emphasis was two-fold. The first was a detailed specification of what the provider should do at each stage in the process of assisting a job seeker. The second was to ensure the active engagement by job seekers by providers having regular contact with them. Thus the contract included a long list of things to do. Examples include to “engage the job seeker in work preparation activity . . .” to “meet with the job seeker at times specified in Clause 4.7(f) for an average total of 10.5 hours . . .” and to “monitor the job seekers activities to ensure the job seeker is actively participating . . .” (DEWR, 2005a, p. 119). The detailed specification of the services to be delivered is here integrated with the compliance requirements. In other words,

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compliance was to be attained by the regular contact that a large number of discrete services necessitate.

Under the Welfare-to-Work changes that came into effect in July 2006 the compliance thrust was more explicit. As stated, the objective was to ensure that job seekers who fail to meet their participation requirements are quickly re-engaged. Thus the breach penalties were revised from a proportionate reduction in payments to a two-stage regime. For minor breaches the next payment became contingent on compliance while for more serious breaches an eight-week non-payment penalty was introduced. In addition, the requirements on the provider to monitor the job-seeker were made more onerous.

Since the contractual arrangements are extensive and couched in a formidable language, one example has to suffice. In the 2003–2006 contracting period a wage subsidy scheme, 'Wage Assist', was introduced as the final option for the very hard-to-place job-seekers. But even for a final option its use is highly circumscribed and the tender document contains many warnings and conditions. Some examples are: "Providers will need to target their use of Wage Assist carefully"; "[T]he use will be closely monitored" and "[F]unds will not be paid unless a qualifying job lasts thirteen consecutive weeks" (DEWR, 2005a, p. 120). Even if one accepts that the spending of taxpayers' moneys should be subject to restraint, the conditions seem overly restrictive. The 'Wage Assist' subsidy is hardly a blank cheque to be claimed by anybody. It is a last resort. To be eligible, a person must have completed two periods on IACA, meaning that all other attempts to place the person in a job have been exhausted. In addition, only a small number of places (about 5,000) are provided for.

'Wage Assist' is also coupled with a harsh compliance regime and, having exhausted the forms of assistance provided so far, the choices are stark. If someone cannot get a 'Wage Assist' job, he or she will normally be referred to the full-time 'Work for the Dole' programme where they remain until they find paid work or take up education and training. In the intricate flow-chart that sets out the 'Business Model for the Very Long Term Unemployed', the 'Work for the Dole' is indeed the end of the line (DEWR, 2006a, p. 3). The only escape from a life on 'Work for the Dole' is a 'Job Capacity Assessment' that might identify non-vocational barriers to employment and, possibly, assistance to overcome those barriers.

Whether this 'Business Model' is the best model to use in assisting the very long-term unemployed is questionable. As regards the activation and compliance thrust, the emerging long-term underemployment is hardly a result of job-seeker inactivity. On the contrary, job-seekers must be getting jobs, but the problem is that those jobs do not last long or entail only a few hours. There is nothing to suggest that people voluntarily quit their jobs or shun full-time jobs. One can also question the factual basis for this thrust. No comprehensive analysis of non-compliance has been undertaken. The limited data suggest that non-compliance might be an issue for certain groups. Youth and indigenous persons, for example, account for no less than 63% of all participation failures (DEWR, 2006b).² To deal with this, targeted policies directed at these groups would be a more appropriate response.

² With the passing of the 'Welfare to Work' legislation in 2006 the term participation failure is now used to describe job-seekers non-compliance with their obligations. The most common participation failure is not attending an interview with a Job Network (or equivalent) provider.

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The new Business Model also sits uneasily with the original conception of the Job Network. The intention was to develop a market for employment services in which the Government was the regulator and purchaser. This market was to be characterised by four features: contestability, local competition, performance based funding, and flexibility (DEWR, 2000). Instead of the old system that "relied on volumes of highly prescriptive guidelines" (ibid., p. 23), the Government envisaged a system in which providers had a far greater degree of flexibility in the type of services they delivered and how they delivered them. Contestability, competition, and performance-based funding were to ensure that services were efficient, effective, and of high quality, so that there would be little need for the purchaser to closely prescribe how the service was delivered. In addition, in this flexible system "the Government expected providers to pursue more innovative solutions to problems faced by job seekers in securing employment" (ibid., p. 23).

What has evolved is indeed a market for employment services, but in several respects the arrangements do not correspond to what was originally envisaged. While individual providers do decide how to best assist job-seekers, their choices are heavily circumscribed by volumes of prescriptive guidelines. In addition, it was never contemplated that the Job Network should be driven by ever increasing activity and compliance requirements. The new business model that has emerged is best characterised as a franchise model. The Job Network has become 'The McNetwork', having many of the features common to franchising.

During the past decades, franchising has become a dominant arrangement for supplying a standardised product in many locations. The first feature of franchising, and this is the dominant rationale, is the use of mass marketing methods to achieve economies of scale. Second, the quality of the product is maintained primarily by a prescriptive specification of what is to be delivered, closely monitored by the franchisor. This is to prevent individual franchisees from free-riding on the brand name. Third, cost efficiency is attained by the strong economic incentives inherent in the franchisee being the residual claimant.

All these features now characterise the Job Network. First and foremost, the Job Network has come to rely on a prescriptive specification of the service that providers should deliver, rather than allowing individual providers to develop the most effective forms of assistance in the community in which they operate. A strong compliance regime ensures that job-seekers avail themselves of the services that are offered and the providers face strong financial incentives to deliver payable outcomes.

This analogy should not necessarily be seen as derogatory. Although franchising is often associated with the fast food industry, it is a very common, and in many cases the dominant, business model in the retail industry. That this model can deliver value at low cost in dispersed locations is beyond doubt. To that extent, it is appropriate that the Job Network arrangements should gravitate towards this model. But franchising works because the products and processes that are replicated by franchisees have been developed and refined over a period of time and have proved to meet the requirements of the marketplace. This does not apply to the Job Network. The 'work first' approach inherent in the model may well be appropriate for the majority of job-seekers. But many of the more disadvantaged job-seekers face a combination of vocational and non-vocational barriers. The list of the latter type of barriers is particularly long and includes mental illness, homelessness, and drug and alcohol problems. Many in the welfare

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sector argue that a 'life first' approach (Smith, 2006), assistance to deal with the barriers combined with training and work experience, is the best way to assist these persons (Temby et al., 2004; Horn and Jordan, 2006). But the strong financial incentives to deliver payable outcomes inherent in the franchise model means that there is little room for providers to develop services that might better meet the needs of the most disadvantaged job-seekers. As a DEWR report states: "Successful providers were very focused on overall Job Network KPIs (key performance indicators) . . . which were aligned heavily with Star Ratings" (DEWR, 2006c, p. 60). And to reinforce the message, these focused providers "are not distracted by other (than getting a job) needs of clients" (ibid., p. 59). These needs are not necessarily taken care of by simply getting people into jobs. With the barriers intact, many of the long-term unemployed find it difficult to hold on to jobs and become prone to being recycled through the Job Network. Thus, their long-term unemployment is transformed into long-term underemployment.

5 The Job Network Providers

The Job Network industry now comprises just over a hundred providers operating in 1,000 locations. By and large, the providers have not played a highly visible role in the evolution of the Job Network. Thus, main role of the industry association (the National Employment Services Association) is to represent the industry to the DEWR, but this role is not conducted in the public arena. In addition, it has an important function in developing the capacity of the industry to meet the needs of its diverse clients. This includes an active programme of professional development. But like most industry bodies, it is mainly concerned with operational issues. It does not normally get involved in matters of policy and public comments tend to be restrained. As regards the service prescription, it appears to be agreeable, although they have concerns about the implications—the resulting administrative overload (National Employment Services Association, 2006a). It is also in broad agreement with the more stringent compliance thrust, "acknowledging the need for a fair and firm compliance regime" (National Employment Services Association, 2006b, p. 7).

The peak body of the community employment services organisations, Jobs Australia, has a more prominent public profile. It sees itself as not just representing the interests of its member organisations, but also being an active participant in the policy debate and an advocate for just and equitable outcomes. But like NESAs it has to work within the system, rather than challenge it. Thus, rather than questioning the 'work first' approach, it works to convince the Government that more resources need to be devoted to programmes that can help reduce the barriers that have to be overcome before job search is a realistic option (Jobs Australia, 2006).

Not bound by organisational constraints, the front-line staff in the Job Network are probably more likely to provide the unadorned truth. When Jobs Australia discovered that front-line staff were dissatisfied with many aspects of the services they delivered, they were sufficiently concerned to undertake a survey in conjunction with the Brotherhood of St Lawrence. While no less than 85% thought that the Job Network was 'good to excellent' in assisting people into employment these positive attitudes do not carry over to all aspects of the Job Network. When the question referred to sustainable employment, as opposed to just getting people into a job, one third thought the Job

Network was only 'poor to fair'. This discrepancy can be traced to the belief that there is an excessive focus on thirteen-week jobs. As regards the Job Network's effectiveness for specific groups, such as highly disadvantaged job seekers, 40% ranked the service as poor to fair. The 'poor to fair' rating were even more prevalent for the 'new' client groups: people with disability and single parents (Jobs Australia and Brotherhood of St Laurence, 2005).

The reasons for this rather unflattering view of the services they themselves provide can be traced to the two features of the Job Network to which attention has been drawn. As the Job Network system has evolved, it has become more and more driven by service obligations and easily measurable performance indicators. It has also been given a stronger compliance role. In consequence, staff feel overburdened by administrative requirements to process people through the system and to monitor their compliance with an increasing array of requirements. They feel that too much time taken up with system-driven activities that are not very helpful to job-seekers. These activities include auto-matching, vocational profiling, two monthly interviews and 'Work for the Dole' placement. 'Work for the Dole', in particular, has a very low standing among the front-line staff. Few believe that it enhances job prospects, and it is not seen as having much relevance to the broader labour market. In contrast, too few resources are devoted to activities that are judged to be more helpful in getting people into jobs, and sustainable jobs in particular. These include job-seeker accounts, wage subsidies, personal support, including post-placement support, and vocational training.

The potential consequences of this can be clarified by reference to the use of job-seeker accounts. This scheme was introduced in the contracting period beginning in July 2003. As a job-seeker progresses through the various stages and an account is credited with money that the Job Network provider can use to subsidise the wage or spend on job related training, transport, clothing, tools and equipment for work. The latent need for investing in job-seekers is evident from the relatively large amounts paid out. In the three years 2003–2004 to 2005–2006 JSA expenditures were \$117, \$278, and \$196 millions, respectively (DEWR, 2006c). These are large sums, amounting to about 20% of Job Network expenditures in recent years. The Job-seeker accounts have received glowing endorsement by an internal evaluation (DEWR, 2006c). This endorsement is repeated in the DEWR Annual Reports (see for example DEWR, 2005b). Notwithstanding, more restrictive guidelines on the use of the funds were introduced in March 2005, apparently in a bid to reign in expenditure. Thus, while everybody agrees that the scheme makes a difference, the system responds by allocating less money to it.

As regards the compliance issue, front-line staff were in two minds. In nominating the most significant barriers to employment, one of the most common responses was the poor attitudes and lack of motivation of many job-seekers. But recognising that attitude and motivation are problems does not imply support for a tight compliance regime. Some felt that a more compliance-orientated approach was needed, in line with the official view and the thrust of Government policy. Others, however, thought that these problems were best dealt with by an engagement-orientated approach—to develop a supportive relationship with job-seekers to modify attitudes and build self-esteem and motivation.

Recently, the simmering concerns in the industry have been given a more forceful expression by Catholic Social Services Australia (CSSA). CSSA participates in the Job Network as Centacare Employment and operates eighteen sites in fifteen employment

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services areas. As such, it is one of the largest Job Network providers. Based on an extensive analysis of data for the 2003–2006 contract period they raise a number of concerns about the operation of the Job Network. At the core of the problem is the incentives structure that drives the behaviour of providers. This incentive structure, it is argued, is both limiting and has ‘perverse’ effects. In turn, this has adverse effects on providers and job seekers alike. It impairs the financial viability of providers who are unwilling to ‘play the system’. It also has an adverse impact on the services that job-seekers, particularly those who are disadvantaged, receive.

Four ‘perverse’ effects of the incentive structure are singled out: ‘short-term parking’, ‘outcome buying’, ‘outcome manipulation’, and ‘short-duration placement’ (Catholic Social Services Commission 2006). Short-term parking, refers to the practice of delaying to place job seekers in jobs in order to secure a higher fee when the job seeker moves into a higher unemployment duration category. ‘Outcome buying’ is the improper or excessive use of Job Seeker Account funds to subsidise wages in jobs that otherwise would not exist. ‘Outcome manipulation’ is the placement of job seekers in part-time jobs that are then upgraded to full-time to claim an additional payment. Finally, ‘short-duration placement’, as implied by the label, is the placement of job seekers into jobs that are *not* expected to last for very long

This is, in fact, a long list of sharp practices. No doubt they all exist to a degree. But by their very nature the extent of such practices is difficult to document and most of the evidence that CSSA can provide is anecdotal. In case of using wage subsidies to buy outcomes, the selected hard facts suggest otherwise. Less than 10% of job seekers receive a wage subsidy, the amount they receive is on average 20%, the thirteen-week outcome rate is 60% and the conversion rate (the proportion that remain in a job for twenty-six weeks) is close to 100%.³ But only the DEWR is in possession of the full facts, making it very difficult for others to substantiate their concerns.

The claim that the incentive structure is limiting, meaning that providers are only rewarded for placing job-seekers in jobs, is on more certain ground. Providers are paid a service fee and a payment for outcomes, where an outcome is a placement in a job that last for at least thirteen weeks. Other dimensions of the providers’ service do not count. Thus the speed of placement and the quality of the job, except to the extent that it is reflected in the duration of the job, are not rewarded. Other dimensions of quality, pay, hours, the nature of the work, or the match between the job and the job seekers’ aspirations do not count either. Nor are providers rewarded for getting job seekers ‘job ready’ or assisting clients with the many personal problems that prevent them from finding and holding on to jobs. In fact, the term ‘job ready’ seems to have disappeared from the Job Network terminology.

In summary, the CSSA presents a rather grim picture of the situation. As a direct result of the sharp practices of some, other providers are being pushed towards the margin of what is ethical and responsible towards job-seekers. The consequence is that providers who follow a service model that tries to get the best result for job-seekers risks becoming unviable. Even though the hard evidence is not convincing, the views of such a prominent operator must be taken seriously and should be a cause of great

³ These figures were provided by DEWR to the Senate Budget Estimates hearings in May 2006 and are reproduced in *Catholic Social Services Commission 2006*, p. 33.

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concern. The non-profit/community sector has made a significant contribution to the Job Network and it would be a great loss if this contribution were to diminish.

To interpret these observations it is useful to set them in the context of franchise business model developed in the previous section. As was pointed out, franchising is subject to an inherent quality problem whereby franchisees seek to lower their costs by providing a sub-standard product or service. In the Job Network, some providers 'play the system' to increase revenue. By doing so they provide a sub-standard service, so there is a sense in which the effect is the same. In addition, in both cases quality shading is controlled by monitoring combined with financial penalties. However, the underlying causes differ. In case of franchising the underlying problem is free-riding, the fact that individual franchisees do not carry the whole cost of the lower quality that they provide. But free-riding is not an issue in the Job Network. Although the sharp practices of some adversely impact on the system as a whole, much of the demand for Job Network services is driven by compliance requirements rather than job-seekers' assessments of the value of service. Instead, the sharp practices seem to be a consequence of the limiting incentive structure. If all dimensions of the service could be measured and rewarded at the appropriate rate, there would be no way to 'play the system', and no need to monitor providers. But monitored they are. Indeed, by the standards of franchise systems the monitoring is intense. Reference has already been made to the almost universal complaint about administrative overload. A more direct indicator is that around 1,200 DEWR staff oversee about 1,100 Job Network site (Catholic Social Service Australia, p. 20). It is as if every manager of a Job Network site has his or her own personal monitor.

This perspective also suggests where the solution may be found. Evidently, more intense monitoring of providers is not the answer. At the heart of the problem is the limiting incentive structure that reward providers for a sub-set of the services they provide. Among providers there is a strong sense that too much weight is given to thirteen-week jobs. However, the incentive structure is quite complex, and in practice it is not obvious how to improve on the existing situation. Recognising this, and the fact that many dimensions of the service are difficult measure, it may be that a less intense incentive structure would be preferable. This would be consistent with the standard principal-agent model, which implies that the optimal incentive intensity of a contract is lower when the desired outcomes are poorly measured (see e.g. Milgrom and Roberts, 1992, p. 221).

6 Conclusions

While the Job Network has contributed to the decline in long-term unemployment, it has not prevented the emergence of long-term underemployment. Indeed its operation may well have contributed to this emerging phenomenon. As the Job Network has evolved, it has become characterised by three features: a tight specification for processes to be followed and services to be delivered; job-seekers being subjected to ever tighter activation and compliance requirements; and providers being driven by strong financial incentives. This business model has much in common with franchising and this analogy is useful to conceptualise how the Job Network operates.

Several indicators suggest that there are inherent problems with this business model. The number of persons on long-term income support remains high; there has

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been no decline in the number of persons on IS, and long-term under-employment has increased. There is also a growing concern from within the Job Network of an excessive concern with immediate and easily measurable outcomes. Perhaps the most concrete concerns are expressed by the Job Network front-line staff. They are overburdened by administrative work to meet the process, service, and compliance requirements, and are frustrated by their lack of discretion and access to effective resources to deal with the barriers that many job-seekers face. The consequence of this is that the long-term unemployed may be placed in jobs that they cannot hold and end up being recycled between short-term jobs. In other words, long-term unemployment is transformed into long-term underemployment.

Similar concerns have been expressed in the recent literature based on other perspectives. Marston and McDonald (2006) draw attention to how the human service function of the Job Network is compromised by the organisational structure of the Job Network with its emphasis on processes, products and outcomes. In a similar vein, Smith (2006) has reservations with the 'work first' approach and points to the evidence that suggests that this approach is not appropriate to deal with the barriers that many of the long-term unemployed face.

The main alternative to the current franchise model is a less prescriptive contract that gives greater discretion to providers. This would need to be accompanied by more broadly based performance indicators. The capacity to adapt to changing requirements is also an important design consideration. During the last few years, the structure of unemployment has changed significantly and with it the operation of the Job Network. Easy-to-place persons are now in jobs and the Job Network has to deal with the backlog of the hard-to-place and those brought into the system by the more stringent compliance regime. In addition, it has to service two additional client groups: single parents and disabled persons. Using the franchise analogy again, we know that this business model is not unresponsive to change; but that is not its greatest strength.

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