Choosing Whether to Buy or Make: The Contracting Out of Employment Reintegration Services by Dutch Municipalities

Mirjam Plantinga, Ko de Ridder and Alex Corra

Abstract

The Western welfare states are under reform. An important part of these reforms is the introduction of market type mechanisms for the deliverance of public services. Over the years, many countries have chosen to contract out employment reintegration services. The underlying notion of contracting out is the belief that the introduction of market elements in the production of public services increases effectiveness and efficiency. In addition to the cost benefit argument for contracting out public services, ideology is often brought forward as an important factor explaining why public services are provided in-house. In this article, we analyze to what extent cost benefit arguments and ideology affect the make or buy decision of Dutch municipalities. The Dutch employment reintegration market poses an interesting case in point since Dutch municipalities have the option to either provide employment reintegration services themselves or to buy services on the market. Our analysis shows that cost benefit arguments do not play a role in the make or buy decision of Dutch municipalities. Ideology, however, does. Municipalities that adhere to the principles of New Public Management more often opt to buy employment reintegration services on the market. Also the outcomes of municipal elections have been found to be of importance – left-wing municipalities more often choose in-house service provision.

Keywords

Contracting out; Welfare state; Employment reintegration; Quasi-markets; New Public Management ideology

Introduction

Over the last decade, many of the Western welfare states have found themselves under pressure to reform, due to the changing ideology regarding the position of government in society, also known as New Public Management...
(NPM) (Walsh 1995; Pollitt and Bouckaert 2004). An important aspect of these reforms is the introduction of new modes of governance that emphasize market type mechanisms in the delivery of public services (Hipp and Warner 2008; Abbott et al. 2009).

One component of the welfare state that has been subjected to shifts in governance is the provision of employment reintegration services. In this article, we examine the approach of local governments in the Netherlands to outsourcing such reintegration services. The underlying notion of contracting out is the belief that the introduction of market elements in the production of public services increases effectiveness and efficiency. In addition to the cost benefit argument for contracting out public services, ideology is often brought forward as an important factor explaining why public services are provided in-house. In this article, we analyze to what extent cost benefit arguments and ideology affect the make or buy decision of Dutch municipalities.

The make or buy decision of Dutch municipalities poses an interesting case in point, since the outsourcing of employment services has increased sharply (Sol and Westerveld 2005). In Europe, outsourcing was introduced in countries such as the Netherlands (Van Berkel and Van der Aa 2005), the UK (Finn 2005), Germany (Hipp and Warner 2008), Denmark (Bredgaard and Larsen 2008), and Switzerland (Bonvin and Moachon 2007).

In the Netherlands, the enactment of the 2002 SUWI Act (Wet Structuur Uitvoeringsorganisatie Werk en Inkomen) marks the beginning of the market for employment reintegration services. Apart from reshuffling public tasks and responsibilities in this area, the law made outsourcing compulsory for reintegration activities for those entitled to unemployment benefits. The SUWI Act obliged the nationwide-operating state agency UWV to purchase reintegration services for their clients in the market, applying tender procedures stipulated in the law (Sol and Westerveld 2005). This greatly stimulated the formation of a quasi-market for reintegration services. The SUWI reform has received much attention in the literature and forms an important reason why the Netherlands is often considered a prototype of the present-day market-oriented reforms of employment services (Struyven and Steurs 2005). However, in this article, the reintegration of social assistance clients conducted by Dutch municipalities forms the object of investigation.

Although the Dutch municipal reintegration market equals the size of the UWV market, the contracting out of reintegration services by Dutch municipalities has received little attention. In 2002, all Dutch municipalities combined were responsible for about 75,000 reintegration trajectories,1 this being equivalent to the number of trajectories contracted out by the UWV (Koning and Onderstal 2004). An increase in attention for this part of the Dutch employment reintegration market can therefore be argued for. Moreover, the reintegration of social assistance clients is characterized by certain particularities. As we will show in this article, the Dutch municipal employment reintegration market has some rather distinctive features that make the Dutch employment reintegration market exceptional rather than a prototype. An important precondition for the position of Dutch municipalities in the market for reintegration services was the introduction, in 2004, of a new way of financing municipal expenditures for social assistance, combined with the
legal obligation to procure all reintegration activities in the market. That requirement was rescinded two years later, but in those two years a practice of municipal outsourcing had been established. Since 2006, municipalities have the option to either provide reintegration services themselves or to buy services on the private reintegration market. The aim of this article is to describe and explain the make or buy decision made by Dutch municipalities.

This article is structured as follows. In the next section, the Dutch municipal reintegration market is described. We then focus on the literature regarding the outsourcing of employment reintegration service provision. This is followed by a presentation of the empirical findings regarding contracting out in the Dutch municipal reintegration market. The final section contains the discussion and conclusion.

The Dutch Municipal Employment Reintegration Market

In the Netherlands, the task of administering social assistance has always been assigned to local governments. The first Dutch legislation granting an entitlement to social assistance was the Social Assistance Act (ABW) of 1965. According to this law, municipalities were entitled to a reimbursement – from the national government – of 90 per cent of the costs incurred by paying claimants. After a major overhaul of the ABW in 1996, local governments were required to actively engage themselves in (re)integrating claimants in the labour market, or ‘promoting autonomous income generating capacity’ in the words of the law. Furthermore, according to article 118 of the law, the municipalities were to consider and plan the outsourcing of at least some of these reintegration activities.

The mandatory outsourcing introduced in 2002 by the SUWI Act only applied to the UWV and not to the municipalities. However, the law did oblige local governments to follow the SUWI Act tender procedures whenever they did outsource reintegration services. Two years later, in 2004, when the ABW was replaced by the Work and Social Assistance Act (WWB), outsourcing became mandatory for municipalities too.

Another important alteration the WWB introduced was a new system of financing local government expenditures for social assistance. The existing reimbursement scheme was substituted with a lump sum programme. This lump sum specific grant that local governments receive each year under this new scheme is divided into an income part and a reintegration part. The reintegration part is earmarked, but a surplus on the income part can be spent elsewhere in the municipal budget. The lump sum scheme is intended as an incentive for municipalities to limit the number of claimants and to conduct an active reintegration policy. Research shows that the new financing system did to some extent have the intended effect (Divosa 2008). For instance, the number of municipalities claiming that the culture of their social service department is characterized by an emphasis on activation and efficiency increased from 51 per cent in 2004 to 78 per cent in 2007. It is safe to say that during the two years that total outsourcing was obligatory, this way of providing reintegration services became an accepted part of local government policies.
In 2006, the obligation for municipalities to outsource reintegration services was rescinded. Since then, municipalities have the option to either provide reintegration services themselves or to buy services on the private reintegration market. Furthermore, municipalities are also no longer required to follow the SUWI Act tender procedures. Of course they must still comply with the procurement regulations of the EU and its implementation in Dutch legislation.

Based on the legislation discussed, each of the 443 Dutch local governments is a commissioner of reintegration services in its own right. However, almost a quarter of the 443 Dutch municipalities have chosen to co-operate intensively with other municipalities in order to be able to make use of scale advantages. In many cases, this has resulted in the integration of municipal social service departments into inter-municipal social service organizations acting as a single buyer for several often smaller municipalities (Divosa 2008). Yet, these conglomerates and the independently operating municipalities all have their own tender procedures (De Koning 2007). Compared to other countries, where usually only one or a few agencies buy reintegration services, the Dutch reintegration market therefore consists of a relatively large number of commissioners and producers of reintegration services. Even since the legal obligation for municipalities to contract out reintegration services was repealed, most municipalities continue to outsource (part of) their reintegration services (Council for Work and Income 2008b).

Municipalities do business with private and semi-public providers, or provide services in-house. Semi-public providers are semi-autonomous organizations over which the municipal government has a certain and varying level of control, for instance through share holder or (partial) ownership constructions (Council for Work and Income 2008c). Obtaining services from the semi-public provider can be construed as in-house provision, and the municipal government may then skip the otherwise required tender procedure. It is plausible that contract relations between a municipal government and a semi-autonomous provider may be quite different from contract relations the municipality has with private providers. For the private providers there is a further distinction to be made between for-profit and non-profit providers, although the emphasis is on contracting out to the former (Council for Work and Income 2008d). The market share of non-profit providers is therefore low in comparison to other countries, such as Australia and the UK (Struyven and Steurs 2005).

Since Dutch municipalities conclude contracts with many different reintegration companies, the number of reintegration service providers in the Netherlands is high compared to other countries. Moreover, where other countries are characterized by a decline in the number of services providers, in the Netherlands the number of providers has increased over the years (Council for Work and Income 2004). Currently about 2000 mostly private (for profit) providers are active on the Dutch reintegration market, of which 25 per cent are certified by some form of quality label (Council for Work and Income 2008a). These reintegration providers are not only contracted by Dutch municipalities, but also by the UWV, by private employers, and by individual clients. Of the companies offering reintegration services, 46 per
cent cater to municipalities and almost all work for individual clients (Council for Work and Income 2008a).

Smaller firms in particular provide what are referred to as individual reintegration agreements (Individuele Re-integratie Overeenkomst). On the basis of a personalized reintegration budget, clients can formulate their own reintegration track and choose their own reintegration company. Personalized reintegration agreements are primarily used by the UWV, but some of the Dutch municipalities offer social assistance clients the same facility. The system of individual reintegration agreements accounts for the fact that the average size of the Dutch reintegration company is very small in comparison to other countries. In 2007, more than 75 per cent of the registered reintegration service providers consisted of small firms with less than 10 employees (Ministry of Social Affairs and Employment 2008) and almost a third of these 2,000 companies have only one employee or are self-employed consultants or service providers (Council for Work and Income 2008a).

Apart from the individual reintegration agreements, Dutch municipalities procure reintegration services from the larger companies. In fact, in 2007, the Dutch municipalities combined formed the largest group of buyers in the Dutch employment reintegration market with a 39 per cent market share (Council for Work and Income 2008a). Overall, the Dutch municipal reintegration market offers an important case for analyzing outsourcing practices. Although, as mentioned, the legal obligation for municipalities to outsource reintegration services has been annulled, most municipalities still contract out (part of) their reintegration services. The make or buy decision of the Dutch municipalities therefore forms the object of our study.

**Contracting out Employment Reintegration Services**

The underlying notion of contracting out is the belief that the introduction of market elements in the production of public services increases effectiveness and efficiency (Domberger and Jensen 1997; Jahn and Ochel 2007; Fernandez 2007). Cost efficiency might increase because competition forces providers to produce at minimized costs. Competition might further encourage providers to look for product improvements and innovations, which increases so called dynamic efficiency. Finally, competition may increase the correspondence between the services that are supplied and the needs of the public service clients (allocative efficiency) which, in turn, may increase the effectiveness of reintegration trajectories (Van Berkel and Van der Aa 2005). The question whether contracting out in practice increases effectiveness and efficiency does, however, depend on the characteristics of the market that is created and the public service that is contracted out.

When a system of public provision is partly replaced by a system of private producers competing with one another, often a quasi-market comes into being. The concept of a quasi-market was introduced by Le Grand and Bartlett (1993). A quasi-market has at least three typical properties that distinguish it so much from the ideal market with perfect competition that an increase in effectiveness and efficiency is not a given fact (Lowery 1998). One characteristic of a quasi-market is that the market is not made up of for-profit
providers only, but may also employ non-profit and public providers (Struyven and Steurs 2005). This may hamper open competition for service contracts. A second characteristic is that the users do not pay for the services themselves (Le Grand and Bartlett 1993). Instead, the services are paid for by the public agency that is outsourcing the services. Because users do not pay the costs of the services, they can be expected to be less critical than they would be in a situation in which they are confronted with the costs of service provision, while the agents that pay the costs do not feel the consequences. Finally, since the public agency buys a service to be delivered by private providers to a third party, the quasi-market exacerbates the information asymmetry between principal and agent. The fact that the principal is not the user of the service that is outsourced makes it harder for the principal to monitor the agent. As a result, the likelihood of opportunistic behaviour increases under quasi-market conditions and can be expected to counterbalance the potential efficiency gains associated with the outsourcing of public services.

Procurement regulation is another characteristic of a market for outsourcing public services that distinguishes it from markets in general. In the typical principal–agent relation, procurement strategies in general and tendering as a way of procuring in particular are decided upon on the basis of cost benefit analysis. Depending on the circumstances, tendering may be the most efficient procedure for contracting outside providers. In many circumstances, however, the principal will find that other ways for selecting the provider are more cost efficient. Public agencies that are outsourcing do, however, often find themselves operating under public regulation regarding procurement that leaves them little choice as to whether to tender or not. Although the obligation for Dutch municipalities to outsource reintegration services was lifted in 2006, municipalities still have to comply with the procurement regulations of the EU and its implementation in Dutch legislation. The European Public Procurement (EPP) legislation and the national directive, Besluit aanbestedingsregels voor overheidsopdrachten (BAO), prescribe that tender procedures above a certain threshold value and for specific services must comply with the stringent tendering requirements based on the principles of non-discrimination, transparency, proportionality and mutual recognition. The purpose of these regulations is to create a level playing field for providers and to prevent particularism and favoritism on the part of the public agency that is seeking to contract out. Within the principal–agent framework, such regulation entails sub-optimization of the principal’s decision making, since a number of options are not available.

Finally, characteristics of the public service to be contracted out may influence the potential for realizing cost savings on the private market in comparison to public production. According to Brown et al. (2006), the choice of whether to make or buy a certain service depends on the service characteristics, the associated asset specificity, the reoccurrence of the need for the service, and the transaction costs associated with the type of service. One of the most important notions identified in the literature on contracting out public services relates to the difficulty of specifying and measuring service outcomes (Walker and Weber 1984; Preker et al. 2000). The more difficult it is
to define or measure an outcome or result of a service, the more difficult it is to contract out this service (Deakin and Walsh 1996; Van Slyke 2003; Van Genugten 2008). Moreover, outsourcing complex services can also create difficulties in disentangling short-term and long-term results and outcomes (Deakin and Walsh 1996). In the context of employment reintegration services, the measurement of final service outcomes is, for example, in some cases not possible until long after contracts have expired. The buy or make decision is further influenced by the capacity of the buyer to produce the service in-house (Domberger and Jensen 1997; Brown and Potoski 2003).

Due to the characteristics of the quasi-market, as discussed, it is not necessarily profitable for municipalities to outsource. So at least a number of municipalities may have lacked the incentive to stay in the market after the lifting of the obligation to outsource. Therefore the volume of contracting by Dutch municipalities is expected to have decreased after 2006.

The extent to which it can be expected to be profitable for municipalities to contract out employment reintegration services does, however, depend on the size of the municipality. For small municipalities, the transaction costs of tendering for employment reintegration services can be expected to be high, making outsourcing unattractive. Also, with regard to small municipalities, the capacity to monitor the contract can be expected to be inadequate. On the other hand, with regard to large municipalities, the transaction costs per reintegration trajectory should be much lower. Large municipalities can also be expected to have the ability to organize an adequate monitoring capacity, while the capacity to provide employment reintegration services in-house could prove to be problematic for large municipalities. Therefore it is fair to assume that cost benefit arguments may induce small municipalities to provide employment reintegration services in-house, while large municipalities will tend to choose for outsourcing.

In addition to the cost benefit argument for contracting out public services, ideology is often presented as being an important factor explaining why public services are provided in-house (López-de-Silanes et al. 1997; Brudney et al. 2005; Fernandez et al. 2008). Ideology could also be an important factor influencing the make or buy decision of the Dutch municipalities. In the first place, local authorities may differ with regard to the role they attribute to government in providing goods and services. As outlined above, an important element of the welfare reforms is curbing government involvement in the actual delivery of welfare services. Where the welfare state used to belong exclusively to the public domain, the reforms introduced a market type mechanism on the basis of expectations of increasing efficiency.

The use of ‘private-sector and business approaches in the public sector’ (Denhardt and Denhardt 2000: 550) is an important feature of the NPM philosophy. In the NPM philosophy, the market forms an important mode of coordination and the steering role of the government is emphasized (Van Berkel and Borghi 2007). The provider’s role has been labeled as the rowing role of government (Osborne and Gaebler 1992). It is regarded as a characteristic of the state in the traditional public administration philosophy (Denhardt and Denhardt 2000), in which hierarchy is considered the most important mode of coordination (Van Berkel and Borghi 2007). Over the
years, the provider role has decreased (Huber et al. 2008). The reason is that, according to the NPM philosophy, it is not necessary to have ‘big, centralized and bureaucratic’ governments to realize policy goals (Osborne and Gaebler 1992: 321). The role of the government should therefore switch from rowing to steering, for example through the use of contracts.

It should be noted that much of the NPM philosophy still awaits corroboration by empirical evidence. In fact, thoughtful comparative academic evaluations show at best mixed results (Pollitt and Bouckaert 2004). Therefore, even though there is at least a token of acceptance of the NPM philosophy in most Dutch municipalities (Van Helden and Jansen 2003), many of the more practical NPM ideas are still, or again, controversial, depending on the prevailing ideology in a municipality. We therefore expect that the make or buy decision is influenced by the adoption of NPM ideas within the municipality. The stronger the adoption of NPM ideas, the higher the contracting out employment reintegration services is expected to be.

An important factor that might influence the adoption of NPM ideas is the division of political power within a municipality. Political parties are found to differ with regard to the role that is attributed to government. In general, right-wing political parties are assumed to be more pro-market and left-wing parties more in favour of public production (Bel and Fageda 2007). We expect this assumption to hold ground in the Dutch case too and that the decision to make is positively influenced by the percentage of votes received by left-wing parties in a municipality, while it is negatively influenced by the percentage of votes received by right-wing political parties in a municipality.

Contracting Out in the Dutch Municipal Reintegration Market

Method

To test whether the volume of contracting by Dutch municipalities decreased after 2006 and to what extent cost benefit awareness and ideology influence the make or buy decision of Dutch municipalities, we make use of data (Omnibus enquête) collected in 2006 and 2008 by the Dutch Council for Work and Income (RWI). Both questionnaires were distributed among the managers of all Dutch municipal social service departments. The first questionnaire, in 2006, was returned by 162 municipal social service departments. A response of 38 per cent. The follow-up questionnaire of 2008 was returned by 195 municipal social service departments, a response of 56 per cent (Koehler and Kemper 2009). The distribution in the sample of the municipal social service departments according to municipality size, is representative for all municipal social service departments in the Netherlands (Kemper 2009). For our analyses we used the questions regarding the spending, on in-house provision or contracting out,2 of the grant local governments receive for providing employment reintegration services (Werkdeel WWB). The influence of political parties is measured by linking the data of the RWI with the results of the 2006 Dutch municipal elections.3 Since the inclusion of a measure for party affiliation is problematic for municipalities that co-operate

© 2011 Blackwell Publishing Ltd.
with each other in providing reintegration services, in the analyses these municipalities have been left out. In the following section we present our analysis of the make or buy decision of Dutch municipalities.

**Analyzing the make or buy decision of Dutch municipalities**

We start our analysis by describing which part of the reintegration budget is spent on in-house provision of employment reintegration services. Given the fact that since 2006 Dutch municipalities can choose between either providing employment reintegration services in-house or outsourcing these services on the private market and the fact that employment reintegration services are difficult to outsource, we expect to see a decrease in the outsourcing of employment reintegration services and an increase in spending on in-house provision over time. Table 1 shows the percentages of the reintegration budget spent on in-house provision of employment reintegration services by Dutch municipalities in 2005, 2006 and 2008.

Table 1 indicates that most municipalities did not opt for either making or buying, but spent their reintegration budget on providing employment reintegration services in-house as well as on contracting out. What is remarkable, and contrary to our expectations, is that over time an increasing number of municipalities choose to spend their whole budget on contracting out. The increase in full contracting out is, however, compensated by a decrease in municipalities spending one per cent to 20 per cent of their reintegration budget on in-house provision and an increase in municipalities spending 21 per cent to 40 per cent of their reintegration budget on in-house provision.

---

**Table 1**

Percentage of budget spent on in-house provision of employment reintegration services

<table>
<thead>
<tr>
<th>Percentage spent on in-house provision</th>
<th>2005¹</th>
<th>2006</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>0–120</td>
<td>63</td>
<td>53</td>
<td>39</td>
</tr>
<tr>
<td>21–40</td>
<td>16</td>
<td>19</td>
<td>26</td>
</tr>
<tr>
<td>41–60</td>
<td>11</td>
<td>11</td>
<td>10</td>
</tr>
<tr>
<td>61–80</td>
<td>6</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>81–99</td>
<td>3</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>100</td>
<td>0</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Average</td>
<td>n.a.</td>
<td>n.a.</td>
<td>28</td>
</tr>
</tbody>
</table>

*Note:*

¹ The 2005 data (n = 84) are based on the research conducted by Research voor Beleid (2006). On the website of the Council for Work and Income (http://rwi.stratusbv.nl/), the data are made accessible in order to compare the results with the Omnibus questionnaires. For 2005, the percentages spent on in-house provision are approximates.
The average budget spent by Dutch municipalities on providing employment reintegration services in-house, therefore, does not seem to have decreased since 2005. The hypothesis that Dutch municipalities have decreased the outsourcing of employment reintegration services since the legal obligation for municipalities to contract out reintegration services has been repealed, therefore, is not confirmed.

With regard to the effect of the size of municipalities on the make or buy decision, we have data from 2006 and 2008. Table 2 displays the percentages of the reintegration budget spent on in-house provision of employment reintegration services by Dutch municipalities differing in size. The table shows that both small and large municipalities most often spent one per cent to 20 per cent of their budget on in-house provision of employment reintegration services. The majority of the budget is therefore spent on employment reintegration services that are outsourced. It is interesting to note that small municipalities, in comparison to larger municipalities, more often choose for complete outsourcing. Also complete in-house provision occurs more often in smaller municipalities, although to a much lesser extent. In general it can be said, therefore, that smaller municipalities more often specialize in either in-house provision or contracting, while larger municipalities more often opt for a combination of in-house provision and contracting out. On average, the budget spent on in-house provision of employment reintegration services does not, however, differ between small and large municipalities. Thus the hypothesis that cost benefit arguments would spur small municipalities to provide employment reintegration services in-house, while inducing large municipalities to choose for outsourcing, does not seem to be confirmed. However, in order to gain a good understanding of the underlying reasoning of local governments for opting for either in-house provision or contracting out of employment reintegration services, more information is needed.

### Table 2

Percentage of budget spent on in-house provision of employment reintegration services by Dutch municipalities differing in size

<table>
<thead>
<tr>
<th>%</th>
<th>&lt; 10,000 residents</th>
<th>10,000–25,000</th>
<th>25,000–50,000</th>
<th>50,000–100,000</th>
<th>&gt; 100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>n = 7</td>
<td>n = 30</td>
<td>n = 69</td>
<td>n = 15</td>
<td>n = 10</td>
</tr>
<tr>
<td>2008</td>
<td>n = 12</td>
<td>n = 37</td>
<td>n = 87</td>
<td>n = 29</td>
<td>n = 23</td>
</tr>
<tr>
<td>0–20</td>
<td>29</td>
<td>19</td>
<td>7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>21–40</td>
<td>43</td>
<td>50</td>
<td>54</td>
<td>47</td>
<td>45</td>
</tr>
<tr>
<td>41–60</td>
<td>14</td>
<td>20</td>
<td>17</td>
<td>33</td>
<td>28</td>
</tr>
<tr>
<td>61–80</td>
<td>0</td>
<td>11</td>
<td>9</td>
<td>13</td>
<td>10</td>
</tr>
<tr>
<td>81–99</td>
<td>17</td>
<td>4</td>
<td>2</td>
<td>0</td>
<td>9</td>
</tr>
<tr>
<td>100</td>
<td>14</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Average</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

The average budget spent by Dutch municipalities on providing employment reintegration services in-house, therefore, does not seem to have decreased since 2005. The hypothesis that Dutch municipalities have decreased the outsourcing of employment reintegration services since the legal obligation for municipalities to contract out reintegration services has been repealed, therefore, is not confirmed.
In the questionnaires, municipalities are also directly asked to give the reasons for their choice either to provide employment reintegration services in-house or to contract out. Table 3 presents the most important arguments put forward by the Dutch municipalities. The results show that the reasons for providing employment reintegration services in-house differ from the reasons for contracting out. The expectation that a better result will be received forms the most important argument for the choice to provide employment-reintegration services in-house, while capacity and expertise form the most important arguments for contracting out. The results further show that the choice between in-house provision and outsourcing is rarely made on the basis of expectations about efficiency and cost control. Especially for the decision to outsource, efficiency hardly matters. The ordering of the different reasons does not change much over time. A few slight alterations can be observed. Expertise has become more important as a rationale for outsourcing. The number of municipalities that say they outsource because it used to be obligatory has decreased. Finally, political choice is put forward as a reason for choosing either to make or buy.

As mentioned, in the theory, ideology is often put forward as an important factor explaining why public services are provided in-house. One item in the questionnaire sheds some light on the importance of ideology for the make or buy decision. The question was whether respondents agreed or disagreed with the proposition that ‘Municipalities are better able to conduct employment reintegration services than reintegration firms’. This measure is only available for the year 2008. Table 4 displays the results. The table shows that 40 per cent of all municipalities included in the sample agree or fully agree with the proposition that ‘municipalities are better able to conduct employment reintegration services than reintegration firms’. A large proportion of Dutch municipalities therefore display an ideology that is in favour of in-house provision. The preference does, however, not seem to differ much between left-wing and right-wing municipalities.

A second indication of the influence of political convictions on the make or buy decision comes to light when focusing on the part of the reintegration budget that is spent on in-house provision of employment reintegration services. Table 5 shows that none of the right-wing municipalities opts for full in-house provision. Although some of the left-wing municipalities do opt for full in-house provision and the spending of the whole budget on contracting out is less popular in left-wing municipalities compared to right-wing municipalities, the average budgets spent on in-house provision do not seem to differ significantly.

In order to gain a better understanding of the influence of cost benefit arguments and ideology on the make or buy decisions of Dutch municipalities, we conducted a multivariate analysis. The correlations between the variables included in the multivariate analysis are given in table 6.

Table 6 shows that, in line with table 4, the percentage of votes for right-wing political parties in Dutch municipalities is significantly correlated with the disagreement with the proposition that ‘municipalities are better able to conduct employment reintegration services than reintegration firms’. Table 6 further shows that, contrary to what was indicated in table 5, the percentage
### Table 3

<table>
<thead>
<tr>
<th>Reason</th>
<th>In-house provision (reason 1)</th>
<th>In-house provision (reason 2)</th>
<th>Ordering reasons</th>
<th>Contracting out (reason 1)</th>
<th>Contracting out (reason 2)</th>
<th>Ordering reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political choice</td>
<td>10</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Capacity</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>36</td>
<td>31</td>
<td>29</td>
</tr>
<tr>
<td>Better result</td>
<td>33</td>
<td>36</td>
<td>1</td>
<td>4</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td>Cheaper</td>
<td>7</td>
<td>4</td>
<td>5</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Expertise</td>
<td>27</td>
<td>13</td>
<td>2</td>
<td>36</td>
<td>51</td>
<td>12</td>
</tr>
<tr>
<td>Quick start</td>
<td>9</td>
<td>8</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>Was obligatory</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>2</td>
<td>1</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>35</td>
<td>12</td>
<td>6</td>
<td>37</td>
<td>22</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>
of votes for left-wing political parties in Dutch municipalities is significantly correlated with the budget spent on in-house provision. The reason why table 5 did not indicate such a positive relation might be due to the fact that the percentage of votes for left-wing political parties is also correlated with the size of the municipality: the size of left-wing municipalities is larger than average. In order to appreciate the influence of left-wing political convictions on the make or buy decision, it is necessary to control for the size of the municipality. The results of such a multivariate regression analysis are displayed in table 7.

Table 7 shows that when cost benefit arguments and ideology are taken together while analyzing the make or buy decision, the effect of ‘ideology’ prevails. The analysis shows that cost benefit arguments do not play a role in
Table 6

Pearson correlations of the variables included in the multivariate analysis

<table>
<thead>
<tr>
<th></th>
<th>Budget spent on in-house provision</th>
<th>Size municipality</th>
<th>Percentage votes left wing (PvdA)</th>
<th>Percentage votes right wing (VVD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size municipality</td>
<td>0.012 (0.88)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage votes left wing (PvdA)</td>
<td>0.155 (0.050)*</td>
<td>0.332 (0.00)**</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage votes right wing (VVD)</td>
<td>-0.113 (0.155)</td>
<td>-0.0023 (0.763)</td>
<td>0.045 (0.565)</td>
<td></td>
</tr>
<tr>
<td>Disagreement with proposition ‘Municipalities are better’</td>
<td>-0.445 (0.00)**</td>
<td>0.105 (0.149)</td>
<td>0.123 (0.115)</td>
<td>0.182 (0.019)*</td>
</tr>
</tbody>
</table>

Notes:
* P < 0.05.
** P < 0.01.
the make or buy decision while both ideology measures do. First, we find that left-wing municipalities more often choose for in-house service provision. 4 Our second ideology measure, the extent to which municipalities adhere to the principles of NPM, is also corroborated. Municipalities that disagree with the proposition that ‘Municipalities are better able to conduct employment reintegration services than reintegration firms’ more often opt for buying employment reintegration services on the market.

**Discussion and Conclusion**

In this article, the make or buy decision of Dutch municipalities is described and explained. Over the years, many countries have chosen to contract out employment reintegration services. In the Netherlands, the task of employment reintegration – previously carried out by the Public Employment Services (PES) – is attributed to the Employee Insurance Agency (UWV) and the Dutch municipalities. While the UWV is responsible for unemployment and occupational disability beneficiaries, social assistance recipients form the domain of municipalities.

The focus, in this article, on the Dutch municipal employment reintegration market is interesting for several reasons. First, the contracting out of employment reintegration services by the UWV has received much attention in the literature and forms an important reason why the Netherlands is often considered a prototype of the present-day market-oriented reforms of employment services. The contracting out of employment reintegration and activation services for social assistance claimants as administered by Dutch
municipalities, has received little attention despite the fact that the size of this part of the Dutch employment reintegration market is comparable to the size of the Dutch UWV market. Moreover, the Dutch municipal employment reintegration market has some rather distinctive features that make this part of the Dutch employment reintegration market exceptional, rather than a prototype. Finally, in addition to the cost benefit argument for contracting out public services, ideology is often stated as an important factor explaining the make or buy decision. Especially in political decision making concerning the outsourcing of employment reintegration services, this reason may count. The Dutch municipal employment reintegration market therefore provides a good example for studying the influence of ideology on the make or buy decision in the market of employment reintegration.

In this article, we have analyzed to what extent cost benefit arguments and ideology played a role in the make or buy decision of Dutch municipalities. The analysis shows that cost benefit arguments do not play a role in the make or buy decision of Dutch municipalities while ideology does. We find that municipalities that adhere to the principles of NPM more often opt to buy employment reintegration services on the market. Also the outcomes of municipal elections have been found to be of importance—left-wing municipalities more often choose in-house service provision.

To conclude, until now, the influence of ideology on the make or buy decision in the market for employment reintegration has not been investigated extensively. This article suggests an initial step for taking this explanatory factor into consideration. Given that the factor ideology may complicate the make or buy decision, as in our example of the Dutch municipal employment reintegration market, it forms an important reason for investigating this matter further.

Acknowledgements

We gratefully acknowledge the Council for Work and Income (RWI) for granting permission to use the data from the Omnibus questionnaires collected in 2006 and 2008. The Council for Work and Income is the consultation agency of employers, employees and municipalities in the Netherlands. Core functions of the Council for Work and Income are to increase the transparency and improve the quality of the reintegration market.

Notes

1. Reintegration trajectories are a series of interventions and activities contained in a service plan aimed at achieving a specified goal, such as finding employment for a client.
2. In our analyses, contracting out entails the outsourcing of reintegration services to semi-public as well as private (for-profit and non-profit) reintegration providers.
3. The 2006 Dutch municipal election results are accessible via http://www.verkiezingsuitslagen.nl. A municipality is denoted as left-wing when the percentage of votes for the PvdA is higher than average. A municipality is denoted as right-wing when the percentage of votes for the VVD is higher than average.
Comparison of the municipal election results for the PvdA and VVD in the population and the sample has shown that the sample is representative for all Dutch municipalities.

4. Analyses have also been conducted on the basis of both the 2002 and 2006 municipal election results. In these analyses, municipalities were denoted as left-wing (right-wing) when the percentage of votes for the PvdA (VVD) was higher than average in both 2002 and 2006. Since including the 2002 data did not change the outcomes, but resulted in a lower N due to missing values in the 2002 data, we have decided to report the outcomes based on the municipal election results of 2006 only.

References


Van Genugten, M. (2008), The Art of Alignment. Transaction Cost Economics and the Provision of Public Services at the Local Level, Enschede: University of Twente.

