

BEHIND THE GERMAN JOBS MIRACLE

Germany's federal employment agency went from a bloated laggard to a lean, best-in-class service provider—just in time to help cushion against job loss during the downturn.

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The year is 2003. Unemployment in Germany has hit 4.5 million, a rate of 10.5 percent. The federal employment agency (Bundesagentur für Arbeit, or BA), Germany's largest government agency, with more than 90,000 employees at that time, stands accused of doing little more than tallying this figure. It is perceived as a bureaucratic monstrosity, so inefficient that it struggles to survive on the budget provided by taxpayers' unemployment insurance premiums. It is seen as a black hole, completely dependent on government handouts.

To deal with the situation, the Social Democrat–Green Party coalition government, led by Chancellor Gerhard Schröder, passes the “Hartz laws,”¹ initiating what may be the most substantial labor-market overhaul ever undertaken in Germany. “Challenge

and encourage” is the motto under which job seekers—including welfare recipients, who had previously been invisible in unemployment statistics—will be mobilized, using all of the measures at the government's disposal. The goal is to integrate customers into the workforce faster and in a more targeted way, shortening the duration of unemployment and accelerating the hiring process. More intensive mobilization measures, along with work incentives and entitlement cuts, are designed to encourage the unemployed to reenter the workforce.

Under tremendous political pressure, the BA was forced to undergo a dramatic transformation from a legalistic administrative body into a modern, performance-driven service provider. Extensive process overhauls and structural reorganization were necessary

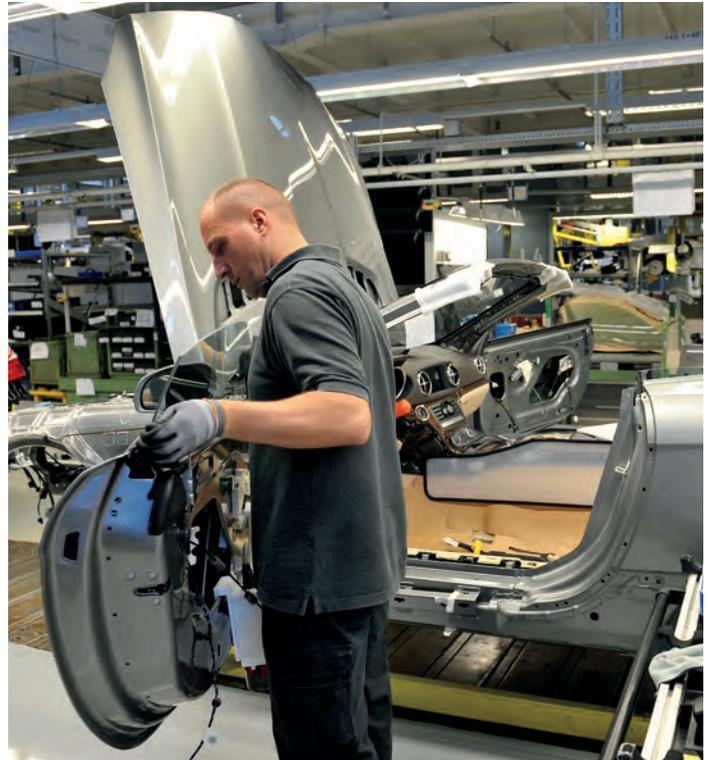
for the BA to become a highly effective broker between supply and demand. Reforms had to be comprehensive, yet sustainable. And, as we know today, they had to be crisis proof.

It was a complex process. During the initial phase, from 2004 to 2006, management approaches and structures were revamped, with a new emphasis on impact, profitability, and decentralized decision making. Acting on the maxim that structure follows strategy, the agency focused primarily on advisory services and job placement in designing structural reform. Anything that was not a part of this core business was outsourced.

In each of the main 178 local employment agencies, workflows were more closely tailored to customer needs. As part of the new customer-centered business model, job seekers were directed to the appropriate staff in a more straightforward way and, more important, appointments for advisory services were scheduled. As a result, waiting times of an hour or more and overflowing corridors became a thing of the past. New profiling tools were introduced, enabling agency staff to pursue individualized approaches that focused on customer strengths.

Alongside these reform initiatives, it was essential to establish transparency of outcomes and processes, internally and externally. Absolute clarity about the market, customer impact, in-house workforce potential, and finances was necessary to give momentum to the new management approaches. Three key considerations guided policy decisions on advisory services for both job seekers and employers: how long will it take? What will it cost? What value will it have?

A new system based on targeted outcomes and the introduction of strategic-management mechanisms helped propel the BA to success during the second phase of the reforms, from 2007 to 2009. In addition, the BA was able to bring an element of competition to local agencies by mapping heterogeneous



labor markets into clusters. Internally, the introduction of explicit goals for all managers underlined the principle of “target-based management.”

By basing policy decisions on economic efficiency, the BA markedly improved its financial standing. Although there was a €1 billion deficit on the balance sheet in 2005, the BA had accumulated reserves of €16.7 billion by the time the 2008 financial crisis hit. This was the start of the third phase of reforms, focused on preventing unemployment and expanding local and regional networks and partnerships. The accumulated reserves provided the liquidity necessary for Germany’s unique policy reaction to the economic crisis, which included more aggressive intervention in the labor market in the short term. This was a basis for what

FIT FOR WORK

An auto worker puts the finishing touches on a door in a plant in Bremen, Germany. An overhaul of the government employment agency helped Germany hold onto jobs during the current downturn.

¹Named after Peter Hartz, chairman of the commission charged with drafting the reform plans.

international observers termed the “German jobs miracle.” Moreover, unemployment-insurance premiums were reduced from 6.5 percent to a fixed rate of 3.0 percent, lessening the burden on employers and employees by approximately €25 billion annually. Yet the BA remained agile and responsive. It was the only branch of the social-security system to achieve a reduction in labor costs.

Six trends will determine the BA's future mission

In the current reform phase, the BA must rise to the challenges posed by the labor market of the future. The agency is now drafting a position paper, “Prospects for development—BA 2020—Promoting employment in a changing world,” which is a step toward anticipating developments throughout the industrialized world. The paper highlights six trends that will drive the future demands of the labor market and outlines action areas for the BA for each trend.

Life and work will become more mobile, more flexible, and more volatile.

People will make more short-term plans—even with regard to employment—and will expect and demand more from their jobs. Flexible, mobile, and team- and project-based working styles will become the norm. The future labor market will have to absorb sudden, dramatic shocks, and increasing volatility will demand swift, flexible responses to achieve balance in the market.

A demographic shift is coming.

The workforce is aging and at the same time undergoing structural changes. By 2020, the size of the German workforce will decrease by approximately 3.5 million employees. Since future employers will be forced to hire from a smaller applicant pool, they will require more advisory services from the

BA. In addition, service offerings must be more closely tailored to customer needs.

Job opportunities will be distributed more unevenly. Unskilled workers will be increasingly at risk of losing their foothold in the workplace. Acquiring, maintaining, and developing professional skills will become more important. Disadvantaged groups in the labor market will need more than just support in addressing shortcomings in education or training. The BA aims to tap into the potential of migrants, older people, and women to meet the demand for labor.

Markets will become even more global.

The global economy and its labor markets are more intertwined than ever before. Accordingly, German employers will invest more in international recruiting. Similarly, German job seekers will be free to look for work throughout the European Union. The BA has taken on the challenge of the “Europeanization” of labor-market policy and will be more directly involved in European labor- and education-policy initiatives.

Our information society will evolve rapidly.

Multimedia technologies will become ubiquitous as a result of a broad social consensus. Knowledge will spread in a more virtual fashion. In the labor market, both employers and employees will need to demonstrate more initiative and act more independently. The BA is responding with a multichannel strategy that, depending on the customer's needs, provides access to a variety of services. Additionally, the BA will continue to promote targeted network strategies and partnerships with all market participants.

Public funding will remain scarce. Debt ceilings and curtailed budgets will limit financial flexibility and will increasingly force

institutions to consolidate spending. The BA will emphasize the need for unemployment insurance to finance itself and to remain ready to react to crises as swiftly and appropriately as in the past.

The BA intends to closely track these trends and will modify its strategy as necessary. It is currently expanding and personalizing its advisory offerings with the goal of providing customers with services precisely tailored to their needs. With the rise of online access, for example, customers are becoming increasingly connected to employment agencies. The main goal is to establish new channels of contact that more accurately target customers' requirements.

At the same time, though, the BA will maintain and deepen its personal relationship with customers. Advisory offerings, such as skill analysis and networking management, will be further improved, and job seekers can be assured of continued access to face-to-face advising and job counseling.

Employer services in local agencies will become more professional and more performance oriented. By developing new skills and strategies and maintaining a sound financial standing, the BA will continue to innovate and drive German labor-market policy. ■

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MEASURING SUCCESS

By the end of 2011, the reforms at the BA had paid off with quantifiable results.

- **Shorter duration of unemployment.** The average BA customer was unemployed for approximately 136 days, down from 164 days in 2006.
- **Lower unemployment.** Total numbers of unemployed people fell from 4.5 million to 2.9 million.
- **More jobs filled.** The number of job placements more than doubled, from 240,000 to 510,000 per year.
- **High customer satisfaction.** In surveys, both job seekers and employers gave the BA high marks, with scores of 2.1 for employers and 2.2 for job seekers, on a scale from 1 (best) to 6 (worst).