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Analyzing modes of contracting in the Dutch private reintegration market

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Market mechanisms and contractual governance in activation in the Netherlands

- Contracting out was introduced in the Dutch reintegration market with implementation of SUWI Act (2002).
- Contracting out was mandatory for municipalities and the Institute for Employee Benefit Schemes (UWV).
- From 2006 onwards contracting out is no longer mandatory for municipalities.
- Presently municipalities can function as both buyer and provider of reintegration services.



Analyzing modes of contracting

- Why look at the contracting out process?
 - Institutional level (functioning of the market).
 - Process level (functioning of the contracting out process).
- We believe a better understanding of the choices that are made in the process of contracting out, can contribute to help assess the value of expected improvements in efficiency and flexibility contracting out might yield.
- We use an theoretical framework based on the work of *Brown, Potoski en van Slyke* (2006), in which we divide the contracting out process in *four* phases:
 - First, assess whether to make or buy a service.
 - Second, specify service aims and requirements and select an appropriately suited vendor.
 - Third, implement a monitoring strategy.
 - Fourth, implement and execute a steering strategy.



Four important factors influencing the contracting out process

- The service characteristics.
 - The specifiability and measurability of service.
- The capacities for specification.
 - Capacities of the buyer to specify service goals and requirements.
- The institutional context.
 - Legal and policy framework in which the buyer operates.
- The characteristics of the market.
 - The nature of the market, availability of information, level of competition.



Contracting out process

- The four phases of the contracting out process
 1. Make or buy
 - The possibility to make or buy (context, capacity)
 - Transaction costs (service characteristics)
 2. Specification and selection
 - The call for tender document: choose best provider
 - Possibly try to achieve value congruence
 3. Monitoring
 - trade-off: costs and benefits of monitoring
 4. Steering
 - steering strategy: 'hard' and 'soft' contracting



Findings on contracting out by Dutch municipalities

- Findings relating to the make or buy phase:
 - The re-internalization of direct service provision.
 - Adopting a modular buying strategy / buying different products.
 - Both these developments may contribute to flexibility.
- Findings relating to the specification and selection phase:
 - Procurement requirements form a constraint for selection.
 - Municipalities often try to select based on value congruency.
- Findings relating to the monitoring phase:
 - Monitoring is difficult due to lack of information regarding performance.
 - Managing gathered information can be burdensome.
- Findings relating to the steering phase:
 - A tendency to make use of closer steering relationships.
 - The use of informal tools to maintain a strong and active role in case management.



Conclusion

- › Contracts are an important new governance mechanism in the Dutch reintegration market. The process of contracting out comes with challenges related to flexibility and efficiency.
- › Better understanding of choices made in the contracting out process can contribute to assessing the value of possible improvement in efficiency and flexibility that contracting out may bring. The analytic framework presented in our paper can aid in achieving this.
 - Capacities of municipalities are an important factor in the contracting out process.
 - Municipalities adapt their contracting and monitoring strategies to overcome challenges regarding contracting out (flexibility?).

Thank you for your attention.
