

Understanding the Challenges of Today's Labor Market Service Provision in the EU

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ABSTRACT

This paper explores the challenges of today's labor market service provision in the EU, where, based on our expertise, insufficient scientific inquiry has been conducted. As there are many different focus points and factors to consider in the modern turbulent labor market, we identify the main challenges along with a list of existing scientific discussions. The central finding of the paper is that there is a lack of central collaboration between stakeholders and poor attention toward implementing changes required to meet labor market needs. We found that change management is insufficiently integrated into the service provision of the EU's public employment services. This study contributes input for building an artificial intelligence-enabled virtual assistant to help serve the needs of labor markets and citizens.

Keywords: AI, Artificial intelligence, Virtual competency assistant, Labor market

INTRODUCTION

Emerging technologies and the need for high-level skills in the labor market have caused several issues for different age groups. Despite substantial growth in employment rates of older workers in many EU countries over the past decade, the European Commission's *Joint Employment Report* (Directorate-General for Employment, 2022) highlights the potential to further increase these rates. As the population ages, the median age of the labor force has risen to 44.1 years (Eurostat, 2022a). People are staying active in their work life for longer, which in turn brings demand for the skillsets that reflect the current labor market environment. This has also brought calls to align the trainings funded by public employment services (PESs) to the current and future demands of the labor market. Furthermore, workers at the opposite end of the age spectrum tend to struggle with finding their first job. Unemployment among youth between the ages of 15 and 24 is currently 14% in the EU, which is much higher than in other age groups (Eurostat, 2022b). This highlights a crucial requirement for comprehending the most appropriate skillsets to facilitate the successful integration of younger and

older individuals into the labor market, ultimately reducing the gap between the skills taught in education and the skills in high demand in the job market.

In addition to these age group-specific problems, digitalization has had a significant impact on the EU labor market. One example is seen in the ongoing anxiety over the potential for artificial intelligence (AI) to cause workers to lose jobs as workloads are automated. Emerging technologies such as ChatGPT already have the capability to significantly influence the situation in the labor market. It is clear that with ChatGPT's capabilities, some employers can reduce their number of employees but retain workers who can effectively collaborate with these systems, which requires a deep understanding of AI technologies. In addition to demographic challenges and digitalization, a recent report revealed that in 2020, the COVID-19 pandemic caused the loss of 144 million jobs, fueling a drastic shortage of employment opportunities (International Labour Organization, 2021).

Our broader research aims to build and validate an AI-enabled virtual assistant model, such as a virtual competency assistant, for the European labor market. The broader research explores the possibility of creating a scalable AI model for the EU labor market. However, in order to do so, we need to understand the existing difficulties with the PES provision. The aim of this paper is to understand the context of current challenges in today's active labor market service provision in the public sector. Accordingly, the research question is as follows: What are the main challenges to PES provision in the EU?

CHALLENGES IN THE EU PES SECTOR

In the following subsections, the challenges of existing labor market service provision by the EU's member states is presented based on the scientific literature and official sources.

Marginalized Groups

One of the major challenges facing active labor market service provision in the EU is the limited reach and accessibility for vulnerable and marginalized groups. According to Shore and Tosun (2017), investing in a PES's institutional capacity and the quality of its services can improve young people's attitudes to overcome discouragement and improve their trust in public institutions. Often the groups most in need of active labor market services "are also furthest from the labour market, thus requiring the most time and resources to help" (Bontenbal & Lillie, 2022, p. 864). For example, the COVID-19 crisis had a negative impact on labor market outcomes for marginalized groups, including women, older workers, low-skilled individuals, individuals with disabilities, rural and remote populations, the LGBTIQ community, Roma and other ethnic or racial minorities who face exclusion and discrimination, as well as those with a migrant background (European Union, 2021). When looking at general labor market age groups specifically, the participation rates of workers ages 50 to 64 in the EU labor market increased from 40% in 2001 to 64% in 2021 (OECD, 2022). At the same time, participation rates of younger worker (between the ages of 15 and 24) declined

from 45% in 2001 to 39% in 2021. Integrating older workers and younger workers into the labor market for longer periods is a growing challenge in Europe. Employers generally do not seek new workers from the older population because the majority of workers beyond a certain age are unable to change their core skills. However, the lack of former work experience among younger generations (Generation Z) is not attractive to employers because of the resource-intensive skills development required for younger employees to start providing value. Generation Z has two times higher unemployment rates compared to any other age group (OECD, 2022). Notably, in 2021 in the EU, the average percentage of young people between the ages of 15 and 24 who were neither working nor studying was 10% (Eurostat, 2021).

Evaluation and Monitoring

In general, the aim of labor market evaluation and monitoring is to ensure that services are meeting the needs of employers and citizens. These components are crucial in the area of PES, as they can provide valuable information on the impact and effectiveness of these services, allowing public sector organizations to identify areas for improvement and respond to changing labor market needs. The EU provides labor market support to member states through a program called the European Social Fund (ESF). To avoid falling into long-term unemployment, offering support as early as possible, especially to marginalized groups “due to [a] complex set of issues” (European Network of Public Employment Services, 2022), is a critical component. The ESF provides measures for job search assistance, training programs, and employment promotion. However, a recent audit highlighted a persistent weakness in the ESF’s monitoring and evaluation framework (European Court of Auditors, 2021). Namely, the absence of a separate category for specific target groups (such as the long-term unemployed) prevents the identification of EU funding allocations for such measures as well as the evaluation of their outcomes and impact on the target group. Similar problems appear at the EU member state level. For example, in a recent report the Estonian PES was criticized for not providing more precise targeting and evaluating the impact of training courses (Estonian National Audit Office, 2022). Specifically, the Estonian Unemployment Insurance Fund only monitored whether an individual achieved employment after graduating and training but not whether the training actually helped the individual in the new position.

Variations in Delivering PESs in the EU

Although the decentralization of PESs has been implemented in numerous countries in recent years, few studies have examined its impact. In the Italian labor market, private employment agencies and trade unions also play a role, providing employment services and representation for workers (Punta, 2019).

Similar to the Italian approach, in spring 2021, Finland also decided to transfer its employment services to local municipalities (Ministry of Economic Affairs and Employment, 2021). In Finland, these regional PESs

(also referred to as Te-Palvelut, TE-Offices, or Te-Toimisto) support individuals in their job search efforts. Through these offices, individuals can register as unemployed job seekers, access vocational training programs, and receive support with finding employment.

In Germany, the Federal Employment Agency (Bundesagentur für Arbeit) is responsible for the PES. The agency operates through a network of local branches located throughout Germany, which provide access to its services and support to job seekers and employers across the country (German Federal Employment Agency, 2023). However, since 2012, Germany has had a second type of regional job center that is decentralized from the Federal Employment Agency, allowing for easier adaptation to local labor market needs. According to recent research in Germany, the decentralization of 41 federally managed job centers at the district level led to a 10% decrease in job searches within five years (Mergele & Weber, 2020).

Adapting to Changing Labor Market Needs

The labor market is constantly changing and thus requires constant reallocation of resources. One example is the gig economy and other forms of non-standard work. The gig economy is often associated with the rise of digital platforms, such as Uber and Airbnb, which facilitate the matching of workers with short-term or project-based job opportunities as opposed to permanent jobs. In the gig economy, individuals typically provide their services on a flexible, project-by-project basis and are not considered employees of the companies they work for. This model has both advantages and disadvantages, with individuals enjoying greater flexibility and control over their work schedules but often lacking access to benefits and protections typically available to employees. More importantly, it was recently established that participating in real-time ridesharing service delivery does not serve as a substitute for traditional jobs in terms of “bridging employment gaps” (Li, et al., 2019, p. 11). The gig economy has been growing rapidly in recent years and is becoming an increasingly important aspect of the labor market. However, the regulatory and legal framework for gig work is still evolving, and there is ongoing debate about how best to ensure that gig workers are protected and that the gig economy operates in a fair and sustainable way (Todolí-Signes, 2017).

Defining the Required Skills

Additional difficulties that PES face are in defining which careers have a positive outlook for the future. Combining big labor market data with AI technologies can provide some insights and reveal megatrends (Opik et al., 2018). Such megatrends affecting the job market today include automation, digitalization, globalization, and demographic changes. These trends are shaping the future of work, with far-reaching implications for businesses, workers, and the economy as a whole. There have been numerous studies on this topic, but because of limited resources, these studies have been limited to focusing on specific fields. For example, Finnish company Headai Oy launched a pilot project in 2020 with the Estonian Qualification Authority

(Kutsekoda) to conduct a skills gap analysis of Estonian job ads and specific curriculum data for mechatronics (SA Kutsekoda/OSKA, 2020). The study did not provide the expected outcomes on predicting the emerging skills, and the main weakness of the report was a limited understanding of the Estonian language because their main model only knew Finnish, Swedish, and English.

METHODOLOGY

The overall research methodology being used in our study is action design research (Sein et al., 2011) due to the nature of the research questions. In the autumn of 2022, we conducted seven semi-structured focus group interviews over a two-month period. To identify challenges in the European labor market and services such as PES, interested stakeholders, researchers, specialists, and experts were brought together to share their diverse knowledge in focus group meetings held in Italy, Estonia, and the online communication platform MS Teams. In total, there were 43 focus group participants from six different countries: Estonia, Finland, Latvia, Germany, Norway, and Italy.

To analyze the group interview data from all meetings, thematic analysis was employed, as it enables inductive and data-driven analysis. According to Braun and Clarke (2006), thematic analysis is a method that entails recognizing, analyzing, and presenting patterns or themes within data, thereby providing a detailed account of the dataset. The qualitative data analysis approach was employed with the aid of the NVivo software. This approach has become increasingly popular due to its versatility and ease of use and is often employed in the analysis of complex interview data (Braun and Clarke, 2012). The analysis process occurred in two stages. In the first stage, data were independently coded for each country to comprehend each region's specific conditions. The collected interview data were analyzed to identify individual codes. In the second stage, general themes were identified and defined using cross-country comparisons. The results were then triangulated with desk research to validate themes from the focus group interviews. For example, when a certain theme was found from the interviews related to a particular issue, a related literature research was made to gather additional information on this theme.

RESULTS

In this section, we explore the various barriers and challenges facing active labor market service provision. By understanding these challenges and barriers, we aim to highlight the importance of addressing these issues. The following challenges in labor market service provision were identified from the thematic analysis:

- Poor focus on marginalized groups;
- Lack of effective evaluation and monitoring;
- Inadequate coordination between PESs, job providers, and job seekers;
- Lack of flexibility to adapt to changing labor market needs;

- Limited integration with other social and employment services; and
- Resistance to change and to innovation in service delivery.

Poor Focus on Marginalized Groups

Participants from Estonia and Germany reported that PESs are often faced with limited resources, such as funding and personnel, which hinders their ability to effectively support marginalized and vulnerable groups in the labor market. Participants from Finland and Latvia reported that PESs often lack adequate data collection and analysis tools to effectively target their services to marginalized and vulnerable groups. Participants from Italy reported that EU PESs often face challenges in reaching out to marginalized and vulnerable groups and making their services accessible to these populations. Participants from Norway and Germany reported that EU PESs often lack coordination with other stakeholders, such as employers, trade unions, and civil society organizations, which makes it difficult for these services to effectively support marginalized and vulnerable groups.

Lack of Effective Evaluation and Monitoring

Participants from Estonia and Germany reported that PESs often lack adequate data collection and analysis tools to effectively evaluate and monitor their services and their impact on the labor market. Participants from Finland and Latvia reported that it was unclear what kind of performance indicators were used by their countries' PESs to evaluate their services and assess their effectiveness. The choice of performance indicators should depend on the specific goals and objectives of the national or regional PES and the populations they serve. Participants from Norway and Germany reported that employment services often lack meaningful engagement with stakeholders, such as trade unions, employers, and civil society organizations. This makes it difficult to assess their effectiveness from a broader perspective.

Inadequate Coordination Between PESs, Job Providers, and Job Seekers

All participants in the focus group meeting agreed that on a member state level, labor market service provisions in their country are a diverse and fragmented system, indicating coordination issues between stakeholders. According to Italian participants, the country's PES system is fragmented and divided into multiple entities with different responsibilities and areas of expertise. The national PES, Agenzia Nazionale per le Politiche Attive del Lavoro, is tasked with the development and implementation of national employment policies, while regional PESs, such as the regional employment centers, are responsible for delivering employment services, including job placement and training programs. German participants indicated that some German PES provisions overlapped, which could be confusing and ineffective for individuals in need of support.

Lack of Flexibility to Adapt to Changing Labor Market Needs

Participants from Finland and Latvia reported that forecasting future skills and jobs based on megatrends is intriguing, but there are many who are skeptical about its accuracy and usefulness. The problem is that these megatrends are usually not very relevant on a local scale (e.g., a region of a country). Conducting local skills forecasting has limitations in terms of available data. Such data must come from local industries in collaboration with labor market services. PESs can then allocate resources to providing upskilling and reskilling trainings required by the labor market. Unfortunately, the link between industries and the labor market is weak because extracting data from industries requires numerous resources from multiple stakeholders, as supported by the findings of SA Kutsekoda/OSKA (2020).

Limited Integration With Other Social and Employment Services

The majority of interviewees were particularly concerned about the limited ability of PESs. In each country, different institutions and organizations were responsible for different aspects of the activities related to labor market services. Thus, a job seeker who might be interested in a job in another region or country and needs help with relocation would have to apply for assistance through a different agency other than the PES. This is highly important issue because “being mobile is the only alternative to a decline in social status or even poverty” (Ludwig-Mayerhofer & Behrend, 2015, p. 337). In addition, to register for a training or educational program with the intention of improving their employment prospects, job seekers must turn to a specific educational agency. Such a lack of integration can lead to additional barriers for job seekers to receive the support needed to find employment. We found such integration problems in PESs in Estonia, Finland, and Germany. All participants agreed that limited integration between European member states’ PESs and other social and employment services is a complex issue, especially for vulnerable and marginalized groups.

Resistance to Change and to Innovation in Service Delivery

The focus group discussions indicated that most EU member states have not yet been able to implement the European Skills, Competences, Qualifications and Occupations (ESCO) taxonomy into their existing PES platforms. One factor contributing to this slow adoption was the resistance to change and innovation in the PES sector. Hence, the lack of a unified approach has led to different interpretations and implementations of ESCO, further complicating its adoption across the EU. Participants from Estonia noticed challenges associated with integrating ESCO into existing national systems and processes, as most of the existing portals used an older classification called the International Standard Classification of Occupations. This can lead to compatibility issues with existing databases, challenges mapping national statistics or qualifications to the ESCO system, and difficulties ensuring the quality and comparability of the data collected.

CONCLUSION

Active labor market services play a crucial role in supporting citizens seeking employment or to maintain relevant skills. Despite its importance, the effective provision of these services is faced with numerous challenges that can impact the ability of service providers such as PESs to effectively support citizens in their search for relevant employment and training, leading to negative outcomes for citizens and the wider economy.

Our research has uncovered numerous significant hurdles within the European PES sector. Our findings indicate that there is a poor focus on marginalized groups, a lack of effective evaluation and monitoring systems, limited integration with other social and employment services, and a lack of flexibility to adapt to changing labor market needs. Additionally, our research found evidence of resistance to change and innovation in PES service delivery.

Importantly, there has been limited research on various aspects of European PESs. Specifically, inadequate coordination between PESs, job providers, and job seekers and a high administrative burden for PESs have not been adequately investigated. We also found that there has been limited scientific research conducted in the field of change management and innovation in the PES sector.

These findings highlight the need for a comprehensive review of the European PES sector with a focus on developing effective strategies to address these challenges. This will require a collaborative effort from all stakeholders, including governments, PES providers, job seekers, training providers, educational institutions, and employers. It will be important to develop effective evaluation and monitoring systems as well as to implement innovative approaches to service delivery. This will not only help to address the challenges facing the European PES sector but also help to improve outcomes for job seekers and ensure that the PES sector remains relevant and responsive to changing labor market needs.

Finally, the lack of a unified understanding of current and future occupations and skills is negatively affecting cross-border and regional labor migration as well as opportunities for upskilling and retraining. However, recent developments in AI have demonstrated the potential to significantly contribute to societal success by improving PESs, developing better upskilling, and matching humans with job opportunities using advanced tools to better understand and address the changing demands of the labor market.

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