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## How far does regulation determine how for-profit welfare services operate?

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*What can social services in Denmark teach us about the limits of market regulation? Commercial firms now provide social care in many countries. But does the way they operate differ depending on how they are regulated? Anders Bach-Mortensen, Benjamin Goodair, Ole Helby Petersen and Jon Kvist discuss the welfare markets in England and Denmark and find striking similarities even under quite different regimes.*

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Children in residential care and adults with care needs represent some of the most at-risk groups in any society. But beyond having needs for care, they have something else in common too: they are increasingly cared for by private for-profit companies on the public purse.

This is not a new story in England. For-profit providers now dominate both adult and children's residential care, [representing over 85 per cent of both sectors](#), with investment-owned chains gradually growing their market share in both [adult](#) and [children's](#) social care services. Research consistently shows that this shift has come at a cost. For-profit facilities are rated as lower quality by industry regulators ([Ofsted for children's social care](#) and the [Care Quality Commission for adults](#)), are associated with more [placement instability](#), and tend to [cluster in areas](#) where need is lowest and profits are easiest. The market, in short, is [not working](#) for the children and adults it is meant to serve.

But what happens when you outsource complex care services in a country with tax-financed services, stronger regulation, standardised pricing and long-standing tradition of public service delivery, such as Denmark? [Our new research](#) offers the first nationwide analysis of Danish social services.

## The Danish outsourcing experience

Denmark has long been held up as a model of what high-quality, [publicly accountable welfare provision can look like](#). Social services, including residential care for children in care and adults with disabilities or mental health needs, are fully tax-financed, needs-based and overseen by an

independent regulator, the Social Service Authority. Uniquely, and unlike England, the industry regulator in Denmark also monitors and regulate providers' financial accounts. In principle, this allows them to monitor not just whether a home is safe, but also whether the financial practices of a provider are compatible with good care and value for public money.

Despite these comparatively strong regulatory safeguards, for-profit provision in Danish social services has grown by 44 per cent in just five years and now accounts for roughly 18 percent of all providers. The patterns that have emerged in this expanding market are strikingly familiar to England.

**Our research found** that for-profit providers were significantly more likely to be sanctioned for malpractice compared to both public and non-profit providers. Non-profit providers consistently achieved the highest quality scores. Newer for-profit providers performed the worst, suggesting that market entry is outpacing learning in the sector.

Importantly, the key difference in performance was not between public and private provision, but between for-profit and non-profit ownership specifically. This points to the profit motive itself, rather than private ownership, as the driver of poorer inspection outcomes in the social service sector.

## Does financial oversight make a difference?

What makes the Danish case particularly instructive is that if any country could make social service marketisation work, it should be Denmark. Strong unions, equivalent pay across sectors, independent oversight, and, uniquely, financial transparency over provider accounts. So does having oversight of provider accounts change anything?

The findings suggest that financial oversight may be insufficient to ensure high quality services. Financial monitoring does give regulators more information. This is important **in a sector defined by information asymmetries between buyer and seller**, where commissioners struggle to assess quality, users have limited voice and contracts are incomplete, which makes reliable information critical. Danish regulators can, in principle, identify if providers are extracting excessive returns or running unsustainable financial models before they collapse.

But information is not the same as action. Having access to provider accounts does not automatically translate into the ability to hold them accountable by renegotiating contracts or redirecting commissioning. **An expert committee** set up in 2024 highlighted that fragmented data, weak transparency and rising costs have not translated into better care.

Indeed, the sector has been plagued by a number of recent scandals involving **financial wrongdoing** and **sudden bankruptcies**, many of which were flagged not by the regulator but through investigative journalism. Most worryingly, this appears to be systematic. Denmark's Financial Intelligence Unit recently reported that it had received five or more suspicious transaction reports for around **15 per cent of all for-profit social service providers**. The accounts are being monitored, but that has not made the problems go away.

## Two countries, one pattern

The differences between the English and Danish contexts are significant. England's care market is far more commercialised, and investment-owned for-profit provision has become one of the largest **sources of care**. At the same time, the institutional capacity to regulate that market has been hollowed out by a **decade of austerity**.

Denmark starts from a far stronger baseline. Yet the direction of travel is the same. In Denmark, for-profit growth is outpacing public and non-profit provision, even though quality outcomes in the for-profit segment are worse. High-performing non-profit providers are stagnating or closing, while lower-quality for-profit providers continue to expand. In other words, the market does not appear to be selecting for quality.

What this cross-national comparison suggests is that the problem is not simply one of inadequate regulation in any individual country. It may be more structural. Welfare markets for complex social services, which are characterised by variable demand, limited user choice, and inevitable information asymmetries between buyer and seller, are, as scholars in the field have long predicted, **prone to failure**. Financial transparency helps. But without the regulatory capacity and political will to act on what that transparency reveals, oversight becomes a paper exercise rather than a corrective tool.

Denmark's outsourcing experience does not offer a blueprint for how to make profit-driven social care work. It offers something more sobering: evidence that even under strong regulatory conditions, for-profit provision is associated with poorer quality outcomes, while still expanding its market share. That is a lesson both countries need to take seriously.

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*This article gives the views of the author, not the position of LSE Business Review or the London School of Economics. You are agreeing with our comment policy when you leave a comment.*

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