

## A third generation of performance contracting in danish central government?

Kristiansen, Mads Bøge

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*Mads Bøge Kristiansen*  
Department of Political  
Science and Public Manage-  
ment, University of Southern  
Denmark  
mkr@if.s.ku.dk

### Abstract

This paper compares the content of performance contracts in Danish central government over time in order to identify whether – and if so, how – it develops. The analysis is conducted as a two-step, mixed methods study. First, a quantitative study was carried out based on a study of all performance contracts in Danish central government in 2002, 2006, 2009, 2012 and 2014. For each year, all performance contracts have been coded according to the number and type of targets included in them. A range of qualitative interviews was then carried out, and Ministry of Finance recommendations were consulted to improve the understanding of the results of the quantitative analysis and development patterns. The paper finds a general decrease in the number of performance targets per contract and a change in the relative share of different types of targets over time. During the period under study, the share of outcomes has increased, activity-oriented targets have decreased, and targets for internal management decreased in the mid-2000s before again increasing more recently. On this basis, performance contracting in Danish central government is argued to have entered a third generation.

### Introduction

Management by Objectives and Results (MBOR) and performance contracting were adopted in central government in Denmark in the 1980s and early 1990s (Kristiansen, 2015), and it is now possible to critically examine how the system has evolved over time.

Already in the early years of the performance movement, Pollitt (1989) observed that performance management systems might change over time. Since then, various researchers and practitioners have made numerous observations about the dynamics involved. One of these dynamics is how performance management systems tend to escalate over time. De Bruijn (2007), for instance, argues that performance management systems tend to inflate over time through the ‘law of mushrooming’. Similarly, Pollitt (2013: 353) points out the notion of a ‘logic of escalation’ that is characterised by, among other things, performance management becoming increasingly technically complex and expansive (and ultimately costly) as well as increasingly control-focused.

In the Danish context, Binderkrantz and Christensen (2009) have analysed the development of the contract content for central government agencies over time. Their study outlines a development process that mirrors the notion of a logic of escalation quite closely, as the numbers of targets in the contracts tend to inflate. The question is, however, whether it is possible to change and reverse this dynamic. The Binderkrantz and Christensen (2009) analysis builds on data that is more than 10 years old. The context has changed considerably, as Denmark, like other countries, was hit by the global financial crisis, resulting in pressure on public finances, cutbacks and new and changed accountability systems

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\* **Mads Bøge Kristiansen** is Associate Professor at the Department of Political Science and Public Management, University of Southern Denmark. He holds a PhD from the Department of Political Science, University of Copenhagen. His research focuses on public administration and management, public management in times of austerity, budgetary reforms and financial management, cutback management, public management reforms and performance management.

for budgeting, spending controls and financial management (Hansen & Kristiansen, 2014a,b). Moreover, actors involved in performance contracting have acquired further experience with the system, and the Ministry of Finance (MoF) has published new recommendations for its implementation (Finansministeriet, 2010; 2014). This provides reason to examine whether and how the content of performance contracts has developed in recent years and scrutinising the dynamics of the development patterns.

More specifically, there is an examination into whether contracts become simpler over time (containing fewer performance targets) or more comprehensive (containing more performance targets), and whether their content is refocused by changing the relative share of different types of performance targets (activities, outputs, quality, outcomes, productivity or internal management) over time. In other words, the examination focuses on whether some types of performance targets become more popular over time at the expense of others.

In order to identify continuity or change in the content of the performance contracts, the paper compares contract content over time (diachronic comparisons). The analysis is conducted as a mixed methods study in two steps. First, a quantitative study was carried out based on a study of all performance contracts in Danish central government in 2002, 2006, 2009, 2012 and 2014. For each year, all performance contracts have been coded according to the number and type of targets included in them. A range of qualitative interviews was then carried out, and historical MoF recommendations were consulted in order to improve the understanding of the results of the quantitative analysis and the development patterns.

The paper shows a general decrease in the number of performance targets per contract in the period studied; at the same time, it shows how the relative share of different types of targets changes over time. The share of outcomes has increased during the period studied, whereas the share of targets oriented towards internal management fell in the mid-2000s, increasing again in recent years. The study thus illustrates how the content of performance contracts is open to adjustments and gradually changes over time. Based on these findings, it is argued that Danish central government is now facing a third generation of performance contracting.

The paper is structured in six sections. In section 2, MBOR and performance contracting in Danish central government are presented. The theoretical framework is sketched out in section 3 and the research methodology in section 4. Section 5 holds the analysis of the content of performance contracts over time, while the sixth section discusses how the development patterns might be interpreted on the basis of a historical institutional framework. The results of the analysis are discussed and conclusions are drawn in section 7.

## **MBOR and performance contracting in Danish central government**

The origins of MBOR can be traced back to the mid-1980s (possibly even earlier), when Management by Objectives was introduced together with a budget reform. Through this reform, agencies gained more autonomy but were obliged to manage their activities towards specific goals. In the early 1990s, the Danish MoF initiated an experiment with performance contracts as a new accountability arrangement between parent ministries and their agencies. In 1992, the first seven contracts ('free agencies') were established in a pilot project. The MoF initially played a decisive role in setting up the contracts and determining the contractual relations; later it withdrew. Performance contracting was not mandatory, so the MoF had to persuade departments and agencies to join the scheme. In the early 1990s, the MoF issued a 'budget guarantee' to all of the agencies that were willing to join (Finansministeriet, 1995; Binderkrantz & Christensen, 2009), but this was later abandoned (Kristiansen, 2015: 552). Due to its optional status, performance contracting was relatively slow-developing in the early years. It thereafter spread and contracts became institutionalised in the early 2000s and are now nearly universally adopted in central government (Binderkrantz & Christensen, 2009: 55; Kristiansen, 2015).

The MoF is now solely responsible for maintaining the system, including setting requirements and recommendations for the design and use of performance contracts. Thus, since the introduction of the contracts, the MoF and agencies within it (e.g. the Agency for Modernization) have continuously launched new regulations and reports containing recommendations related to their implementation.

Based on these recommendations, various interventions have been added to the original performance contracting system over time. In 1995, performance contracts for chief executives in the agencies related to performance-related pay were introduced as a pilot project, becoming permanent in 1997. In 1996, a committee of public managers completed a report in which it was stated that the decentralisation of budget responsibility had gone too far and more central control was needed. The report recommended 'enterprise accounts' (later, annual reports) as a useful tool in the performance-controlling process. In 1997, 'enterprise accounts' became mandatory. Over time, the use of the MBOR system in the Danish central government has escalated. In the beginning, a simple system was established. Performance contracts were later introduced, the focus on performance control was intensified, and performance was to be reported in annual reports, thereby also rendering MBOR an external steering tool. MBOR escalates, in other words, and the system becomes more sophisticated, detailed and comprehensive, as well as more control-oriented (Kristiansen, 2015).

Escalations of the institutional elements related to the MBOR system seem to have been reflected in a similar escalation process in the contract content. Building on an analysis of contracts in 1995, 2000 and 2005, Binderkrantz and Christensen (2009: 55) have shown how the early contracts (first generation) were *quid pro quo* agreements, as agencies committed themselves to improving efficiency while simultaneously increasing managerial discretion (Greve, 2000). Departmental ministries later formulated targets related to policy and service levels rather than internal management. During the 10-year period from 1995 to 2005, Binderkrantz and Christensen (2009: 66) show how the number of performance targets per contract almost doubled (second generation). The 1995 contracts included on average 20 targets, while those for 2005 averaged 37. On the basis of these conclusions, it is interesting to examine whether and how the content of the performance contracts has developed in recent years.

### Analytical framework: Institutional dynamics

The dynamics in performance management systems are well known, including escalation over time. Based on a historical institutional perspective, institutional dynamics and the mechanisms that potentially might result in escalation and/or de-escalation are unfolded in this section.

Institutional development processes are often analysed on the basis of historical institutional perspectives emphasising path dependence (e.g. Pierson, 2000, 2004; Mahoney, 2000; Mahoney & Thelen, 2010). Pierson (2000: 252) defines path dependence as '*social processes that exhibit increasing returns*'. In this definition, steps in a particular direction lead to further movement in the same direction. In this perspective, changes occur in *critical junctures*, which are described as when: '*Political life is punctuated by critical moments or junctures that shape the basic contours of social life*' (Pierson, 2000: 251).

Streeck and Thelen (2005: 8) criticise such path dependent models, however, arguing that too much of the institutional literature relies on punctuated equilibrium models that draw a sharp distinction between long periods of institutional stability periodically interrupted by exogenous shocks that open things up, allowing for radical change (see also Kristiansen, 2015: 545). They argue that an institution such as performance contracting is defined by

'is defined by continuous interaction between rule makers and rule takers during which ever new interpretations of the rule will be discovered, invented suggested, rejected or for the time being adopted'.

Institutions are thus continuously created and recreated by a great number of actors with divergent interests, varying normative commitments, different powers and limited cognition (Streeck & Thelen, 2005: 16).

Related to performance contracting in Denmark, the MoF functions as the guiding authority (the 'rule maker'). Formal requirements related to performance contracting in Danish central government are very few and very general (see Moderniseringsstyrelsen, 2014), however, and MoF publications concerning MBOR

and performance contracting primarily contain recommendations and only very few direct requirements. These recommendations might, however, be perceived as requirements or directives by the rule-takers, especially as the National Audit Office often bases its audits on the MoF recommendations.

Another way to interpret the dynamics of performance contracting might be to view events as cyclic, as between decentralisation and centralisation, managerial autonomy and tightening accountability, coordination and specialisation (see e.g. Aucoin, 1990). Cycles might primarily be related to specific conditions, such as the absence of any stable, generally accepted design principles and a limited number of apparent options (each containing significant advantages and disadvantages). Cycles may also take place within an overall path and could be combined with a long-term trend (Pollitt, 2008: 58) towards, for example, institutionalisation, sophistication or professionalisation. According to Pollitt (2008: 53), the underlying mechanism of cycles might be that, in a highly uncertain world where there are no firm rules as to the best solution, organisational designers tend to opt for one set of forms until their particular disadvantages become apparent, whereupon they begin looking for opportunities to move towards a different form that reduces these disadvantages. The cost hereof is the introduction of other kinds of drawbacks. Over time, reformers will therefore swing between alternatives, each of which carries advantages and disadvantages.

These adjustments and changes can be seen as resulting from rational decisions taken in order to solve problems when reformers in some kind of single-loop learning have learned that the existing management tool is no longer optimal (Argyris & Schön, 1978). Changes, however, might also be affected by new management ideas popping up and exerting pressure to adapt to these socially created norms in order to receive legitimacy and support (Meyer & Rowan, 1977; DiMaggio & Powell, 1983).

## Research methodology

The paper compares the content of performance contracts in Danish central government (diachronic comparisons) in order to identify whether and how it develops. More specifically, the number and types of performance targets in the contracts are analysed over time.

The primary empirical basis of the paper comprises a study of all performance contracts in Danish central government for the years 2002, 2006, 2009, 2012 and 2014. The years included in the study were selected because data was available for these specific years. The MoF and/or Agency for Modernization<sup>1</sup> have collected and coded performance contracts in 2002, 2006, 2009 and 2012. For the year 2014, data was collected and coded by the author of this paper and a research assistant using the same coding scheme and same population of central government agencies and state institutions. Although the selection of these years might appear to be a rather pragmatic approach, it provides opportunity to analyse the development patterns in the contract content over a time series with maximum 4-year intervals.

Another aim of this study is to discuss how the development patterns can be interpreted. MoF reports have been consulted to analyse whether changes in contract content match its recommendations. A range of interviews was carried out in 2014-15 with policy makers in the MoF and actors involved in formulating performance contracts in ministries and agencies in order to gain a better understanding of the mechanisms leading to changes in the contract content over time.

### Operationalisation of the dependent variables and measurement

The performance contracts have been coded according to the number and type of performance targets included in them. ‘Number of targets per contract’ is simply a count of all performance targets in a performance contract for a given year. A performance target is: ‘*measurable and restricted in terms of time. The measurement of a performance target is used as documentation for the fulfilment of a goal*’ (Moderniseringsstyrelsen, 2013b: 1).

‘Type of performance targets’ measures the relative share of different types of performance targets in the contracts. It focuses on which dimensions of performance are measured, as a target can capture different aspects, such as activities, output and outcome, and efficiency/productivity. Figure 1 shows a somewhat standard approach to classifying the stages in the public-sector production process.

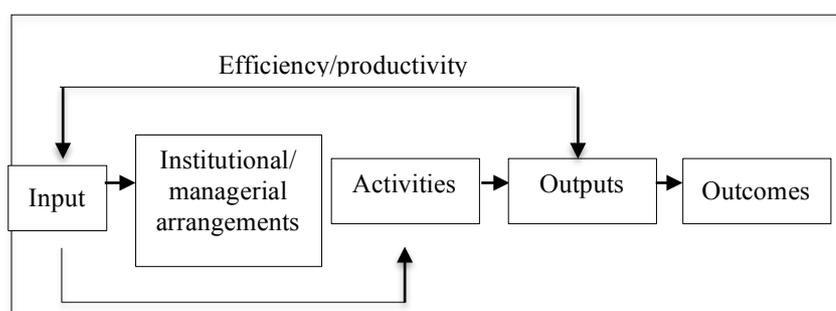


Figure 1: Production process

Source: Based on OECD (2009: 17)

Related to this production process model, the performance contracts have been coded according to the type of targets included in the contracts. We distinguished between seven types of performance targets in the contracts presented in Table 1:

*Table 1: Types of performance targets*

<b>Types of targets</b>	<b>Definition and examples</b>
Internal management	Targets related to the internal relations in the organisations (e.g. rate of sick leave, employee satisfaction, financial management and budget compliance, reorganisation and process optimisation).
Activities	An action or group of actions contributing to the production of a product or a service (e.g. compose a law draft, plan a conference, evaluate a programme).
Output (Quantity)	The services/products the organisation delivers to its environment. Outputs are the means used to affect the society or specific users/citizens (e.g. number of inspections carried out, number of research publications published).
Quality	Targets related to the quality of outputs such as user satisfaction or the satisfaction of a parent ministry with the agency's service of the minister.
Case processing time	Case processing time refers to a specific quality dimension of an output and includes targets oriented towards, for example, time spent on a case.
Productivity	Financial inputs/resources spent on an activity, a service or a product. The cost of producing a given output (e.g. the costs of a control/inspection or the costs of processing a case).
Outcome	The effects/impacts the organisation strives to obtain in the environment through outputs. Outcomes might be either intermediate (e.g. new knowledge, improvement of skills, changed behaviour etc.) or final outcomes (e.g. better educated students, improved competitiveness, healthy patients, more enlightened citizens).

Source: Developed on the basis of Økonomistyrelsen (2010; 2011) and Moderniseringsstyrelsen (2013b)

Although these dimensions vary slightly from previous studies of performance targets (e.g. Askim, 2015; Binderkrantz & Christensen, 2009), they generally reflect the different dimensions of the production process presented in Figure 1. As the previous codes provided by the MoF were based on these dimensions, they were also used as the basis for the coding of the 2014 contracts in order to compare data over time.

## Research strategy

As the primary purpose of the paper is to reveal trends in the development patterns of contract content over time, the analysis is primarily based on descriptive statistics in which the number and types of targets are presented for each year and compared and contrasted to the remaining years included in the analysis. Inferential statistical analyses carried out using z-tests are applied to measure whether the difference found between two scores (e.g. the share of outcomes in 2006 and 2009) is systematic and unlikely to be caused by random factors (van Thiel, 2014: 128). Z-tests are selected as they have a critical value for each significance level (e.g. 1.96 for 5% two-tailed) and because the sample size is large. The development patterns were then matched with MoF recommendations, and interviews with central actors in central government were coded and interpreted in order to grasp the underlying mechanisms leading to changes in the contract content. Quotations are used in the analysis in order to interpret the identified development patterns. With the exception of MoF informants, the informants are quoted anonymously and listed as R1, R2, etc.

## Data quality: Reliability and consistency of the data

To ensure reliability, clear definitions of what is meant by a performance target and the different types of them were established (see Table 1 above). Moreover, attempt was made to establish reliability by ensuring the replication of the same coding scheme as used in previous MoF studies. Historically, however, changes have been made to the coding scheme on a few occasions, which might affect the accuracy of the measurements over time. Before 2009, activities and outputs were all coded as outputs. In 2009, activities and outputs were split up and coded as two separate categories. In 2002 and 2006, a category termed 'others' was also used in the coding scheme. In 2006, in particular, many of the performance targets were coded in this category, which might affect the accuracy of the data. A category entitled 'external development' was also included in the coding scheme in 2002, 2006 and 2009. 'External development' was defined as: '*Development projects [...] where it appears as though the task is related to the fulfilment of external demands to the agency e.g. from the ministry, EU requirements or legislation*' (Økonomistyrelsen, 2010: 16). 'External development' is therefore interpreted as being quite similar to 'activities'. These changes to the coding scheme over time affect the accuracy of the measurements and how correctly and precisely the variables are captured.

Although the codes are based on a clear coding list, much of the interpretation relates to the categorisation of a target. What counts as a performance target and how can one precisely distinguish between their different types? In other words, there might be cases in which it can be difficult to decide whether a range of demands related to the same target should be counted as *one* performance target or as several. In other cases, it can be difficult to determine precisely whether a performance target should be categorised as an activity or an output etc. It is therefore difficult to attain consistent measurements, especially as the study is based on a time series of data consisting partly of data collected by the author of the paper

and partly by data collected and coded by the MoF. Different coders have therefore been involved over time, which might affect the consistency in a negative direction.<sup>2</sup>

As the MoF studies have been replicated in order to establish time series, we have sought to enhance the reliability of the research in various ways. First, we have based our measurement on the MoF coding scheme. Second, we have discussed ambiguous cases with MoF coders (although different MoF coders have been involved over the years). The same person was involved in the coding of performance contracts for 2009 and 2012, whereas those responsible for the coding of the 2002 and 2006 performance contracts are unknown. Third, two independent coders have coded performance contracts for 2014 in order to ensure the reliability and consistency of the codes.

While considerable effort has been made to ensure reliability, data might suffer both from accuracy and consistency problems, which obviously limits the research. Despite these data problems, the dataset still seems appropriate for meeting the primary purpose of this study: to illustrate the overall development patterns and trends in the content of the contracts over time.

### Changes in contract content over time

We will now examine the number of performance targets in the contracts and the types of targets that have dominated over time.

How does the number of performance targets per contract develop over time?

As Table 2 shows, the number of performance targets per performance contract decreases over the period studied, halving from 37.3 in 2002 to 18.6 in 2014.

*Table 2: Number of performance targets in the performance contracts over time*

	<b>2002</b>	<b>2006</b>	<b>2009</b>	<b>2012</b>	<b>2014</b>
Number of performance contracts	140	111	121	108	103
Number of performance targets	5219	3381	3058	2002	1916
Number of performance targets per performance contract	37.3	30.5	25.3	18.5	18.6

Table 2 also shows a decrease in the number of performance contracts coded since 2002. This is not the result of agencies dispensing with performance contracting but rather because of a decreasing total population of agencies and state institutions in recent years.

Which specific types of performance targets dominate over time?

Table 3 below shows how performance targets regarding activities and outputs have dominated the entire period. Before 2009, activities and outputs were all

coded as outputs, whereas they have been coded as two separate categories since 2009, which reflects how activities were the dominant type of performance targets.

*Table 3: Share of specific types of performance targets over time*

	2002	2006	2009	2012	2014
Case processing time	7%	8%	1%	9%	7%
Productivity	2%	3%	3%	2%	2%
Activity	-	-	49%	41%	34%
Output	36%	48%	11%	13%	16%
Quality	5%	13%	15%	8%	14%
Outcome	0%	4%	15%	18%	15%
External development	5%	1%	3%	-	-
Internal management	40%	14%	3%	10%	13%
Others	5%	10%	-	-	-
<b>Total</b>	100%	100%	100%	100%	100%

While activities have been the dominant type of performance target over time, their share has been decreasing since 2009 (from 49% in 2009 to 34% in 2014), and the share of activity-oriented targets is statistically significantly lower in 2014 than in 2009.<sup>3</sup> At the same time, the number and share of outcomes has increased, especially from 2006 to 2009. Statistically speaking, the share of outcome-oriented targets is significantly larger in 2009 than in 2006.<sup>4</sup> The share of outcomes also increases from 2009 to 2012, but if we examine the total number of outcomes in the performance contracts (see Table X in the appendix), it would appear to have peaked in 2009. After 2009, the increasing share of outcomes relative to other types of targets is primarily caused by a general decrease in the total number of performance targets across the contracts studied. From 2012 to 2014, a smaller drop in the share of outcomes is observed.

Whereas the share of outcomes increases from 2002 to 2012, the share of productivity-oriented targets does not differ statistically significantly between 2002 and 2014<sup>5</sup> and they are present in the contracts to a very limited degree.

Another trend in the development pattern is an increasing number and share of targets focusing on internal management from 2009 to 2014. Statistically speaking, the share of targets oriented towards internal management is thus significantly greater in 2014 than in 2009.<sup>6</sup> After a dramatic and statistically significant drop in the share of this type of targets from 2002 to 2009,<sup>7</sup> the relative share has been increasing since 2009. This has primarily been related to an increase in the targets for financial management and budget compliance, especially the precision of the agencies' spending forecasts.

In Figure 2 below, the general development process for central government is illustrated by scrutinising the performance contracts for the Danish Veterinary and Food Administration in the period under study. Figure 2 shows a dramatic fall in the number of targets per contract, from 95 in 2002 to 25 in 2014. Moreover, the

figure shows how the number of targets for outcomes increases, whereas the number of activity-oriented targets decreases. Figure 2 also reveals a dramatic decrease in the number of targets for internal management from 2002 to 2006. Contrary to the general picture in central government, however, the number of targets for internal management has been quite stable since 2006.

<p><i>Performance contract 2002:</i> 32 pages and 5-page appendix. The contract contains 95 performance targets: activities (22), outputs (30), productivity (3), quality (4) and internal management (38).</p> <p><i>Performance contract 2006:</i> 15 pages and 3-page appendix. The contract contains 64 performance targets: activities (26), outputs (21), quality (2), case processing time (7) and internal management (8).</p> <p><i>Performance contract 2009:</i> 18 pages and 3-page appendix. The contract contains 44 performance targets: activities (19), outputs (13), outcomes (6), quality (7) and internal management (9).</p> <p><i>Performance contract 2012:</i> 12 pages. The contract contains 21 performance targets: activities (1); outputs (3), outcomes (5), quality (4), productivity (1) and internal management (5).</p> <p><i>Performance contract 2014:</i> 13 pages. The contract contains 25 performance targets: activities (4), outputs (1), outcomes (7), quality (5), productivity (3), case processing time (1) and internal management (4).</p>
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*Figure 2: Contract content for the Danish Veterinary and Food Administration over time*

### **Interpretation of development patterns**

This section digs deeper into the main findings in the analysis and discusses how the development patterns can be interpreted and understood.

#### **Number of performance targets over time**

The analysis found a general decrease in the number of performance targets per contract over time. Whereas Binderkrantz and Christensen (2009: 66) showed how the number of performance targets in contracts had almost doubled from 1995 to 2005, this study demonstrates that it was cut in half from 2002 to 2014. The development process thus appears to be characterised by a somewhat cyclical pattern

as the number of targets per contract escalates for a period until they start de-escalating in the mid-2000s. In other words, the pendulum swings (Aucoin, 1990) from a limited number of targets per contract to very comprehensive contracts containing a large number of targets – and back again towards simpler contracts containing fewer of them.

The decreasing number of performance targets becomes particularly evident in the dramatic fall in the number of targets for ‘internal management’ from 2002 to 2006. These changes reflect recommendations from the MoF. In 2003, it published a new report (Finansministeriet, 2003) in which the primary recommendation was that performance contracts should focus more on external directed targets<sup>8</sup> (Finansministeriet, 2003: 37).

In the early and mid-2000s, MBOR was exposed to extensive criticism, as it was argued that it was excessively comprehensive and detailed (see, e.g., Gjørup et al., 2007). At the end of 2007, a working group in the Danish MoF started collecting experiences with MBOR from central government departments and agencies. Based on this work, a report was published in the beginning of 2010 (Finansministeriet, 2010), which abolished some of the previous demands according to a deregulation agenda (Finansministeriet, 2010: 5) and recommended that performance contracts should now focus on a few, strategically important goals (Kristiansen, 2015: 555). Previous MoF reports had recommended that performance targets should cover all agency activities (see, e.g., Finansministeriet, 2000) in order to avoid measure-fixation. The priority now became avoiding target inflation and red tape. This focus on contracts with fewer targets was also emphasised in a recent MoF report (2014), which was issued in an attempt to solve observed problems with the existing system. As one MoF policymaker explained:

‘We had observed a tendency to target inflation in the contracts, as the agencies tried to cover their entire task portfolio [...] The contracts had to serve too many purposes at the same time, meaning they weren’t sufficiently focused on the strategy and core agency tasks. We [the MoF] therefore started an analysis of the contracts. We measured the number of targets in the contracts and carried out a range of interviews with practitioners and top managers [head of secretaries and managing directors], researchers and consultants. Based on this work, we have launched this new model’ (Manager, MoF).

The latest report from the MoF thus recommends an even further simplification of the contracts containing few (maximum 5–10) targets. Some (1–3) of these targets may be oriented towards internal management (Finansministeriet, 2014). These adjustments and changes mean that the performance contract regime de-escalates at the same time as it seems to become more standardised as more clear requirements are presented. These changes are stated as being a response to the problems experienced. Similar explanations appear in the interviews with actors in the ministries and agencies:

‘This exercise with restructuring the performance contract regime towards fewer targets is very important in order to draw attention to the main purpose of our steering documents. So I think there has been an admission that it must be optimised; but when you look across central government, it’s clear that it [the trend towards fewer targets] comes from the Agency for Modernization’ (R1).

‘I totally go along with the Agency for Modernization’s thoughts about fewer targets [...] I think you have to admit that it [performance contracting] is derailed and that it’s uninteresting for the top management in central government’ (R3).

The development pattern for the number of targets per contract thus seems to reflect the general impression that performance contracting has become excessively comprehensive, which would appear to be reflected in new MoF and Agency for Modernization recommendations. The importance of the MoF recommendations is also seen in how many of the performance contracts contain statements announcing that: ‘*This contract is composed on the basis of the Ministry of Finance’s recommendations*’. Over time, the MoF recommendations (and agencies within it) have shifted from focusing on autonomy and a simple MBOR system in the early years towards increased control and a more sophisticated, detailed and comprehensive system in the late 1990s – and then back towards a simpler one in recent years emphasising fewer targets in the contracts (Kristiansen, 2015). As the analysis shows, the content of the contracts takes almost the same development pattern.

#### **Types of performance targets dominating over time**

Upon examining the specific targets in the contracts, the analysis revealed an increasing share of outcomes since 2006, whereas the share of activities in the same period decreased. In other words, outcome-oriented targets become popular in Danish central government (or actually in the entire public sector in Denmark) in this period. This possibly also reflects recommendations towards an increased focus on outcomes from the MoF (Finansministeriet, 2010) and the National Audit Office (2009). Outcome-oriented targets instead of detailed targets oriented towards activities were seen as a means with which to enhance the managerial freedom of agencies and state institutions (Finansministeriet, 2010: 22) and to solve a problem with contracts containing too many and too detailed targets.

The main increase in the share of outcomes appears from 2006 to 2009, before the MoF (Finansministeriet, 2010) and the National Audit Office (Rigsrevisionen, 2009) published their recommendations. However, most ministries were already aware of the MoF (Finansministeriet, 2010) conclusions in early 2008. Furthermore, numerous actors promoted the idea of focusing on outcome-oriented targets in this period. Consultancies arranged conferences, wrote articles and books, and

invited senior public managers on study trips in order to promote outcome-based management (DJØF-bladet, 2005a,b; Ejler et al., 2008). Internationally, outcome-based management was also at the top of the performance management agenda at this time (Department of Treasury and Finance Government of Western Australia, 2004; Heinrich, 2002; Cook, 2004) and was promoted by the OECD (Kristensen, Groszyk & Bühler, 2002; Webber, 2004). In that sense, the recommendations made by the MoF and the National Audit Office in 2009 and 2010 simply reflected the already institutionalised norms for the ‘correct’ way of doing MBOR (or performance management in general) and a practice already implemented by front-runner ministries.

The analysis also showed that after a decrease in the share of targets for internal management from 2002 to 2009, their share again increased from 2009 to 2014. This was primarily caused by an increase in targets focusing on financial management and budget compliance, including the precision of the agency spending forecasts. A somehow cyclical development pattern is again observed, in which the purpose of performance contracting is converted over time. In the early years, contracts were used for organisational development. After the MoF withdrew from the negotiations in the following years, performance contracting became more common and was extended to almost all agencies and state institutions in central government; they had to implement it into their existing steering. As one of the informants with many years of experience with performance contracting explained, this resulted in contracts being formulated on the basis of existing steering documents, such as action plans that largely focused on internal management:

‘We didn’t know any better at the time. We used the steering documents they [agencies and state institutions] already had. They were action plans. Then we removed a few things from them and made them into performance contracts. It became very detailed [...] and created a bad steering dialogue, because you end up talking about what you have agreed upon – not what you think is important’ (R2).

In 2003, the MoF recommended that the focus should be on externally directed targets, partly because they are more interesting for stakeholders than internally directed targets (Finansministeriet, 2003: 39). Targets for internal management have been promoted again in recent years, as the MoF and Agency for Modernization have increased their focus on precision in the agency spending forecasts with the project ‘*Sound financial management in central government*’ (Moderniseringsstyrelsen, 2011; 2012; 2013a). This might therefore be interpreted as an adaptation to new MoF recommendations and increasing focus on the importance of financial management. This is further supported by numerous explicit references to the aforementioned ‘[s]ound financial management’ project in relation to targets for spending forecasts in the contracts.

Summing up, the analysis shows how performance contracting – like other institutions – is open for adjustments and is continuously interpreted and recreated by rule makers and rule takers in the light of experiences, new trends and agendas. Changes in the content of the contracts largely reflect recommendations made by

the MoF that appear to be the main driver. The MoF bases its recommendations on experiences from the ministries and agencies, however, some of which appear to be first movers inspiring the MoF recommendations, whereas others might be followers or might be inspired by and imitate first movers. The process by which ministries are inspired by and imitate other ministries is illustrated in this quote from a civil servant responsible for the formulation of performance contracts in a ministry:

‘The new model was presented by the Agency for Modernization [and] there was also presentation of how some agencies worked with this [...] Together with Ministry X [...] which is well ahead on this subject, we were involved in a pilot project from which I got some inspiration. Other [ministries] have contacted us and asked how we’re working with this’ (R1).

## Discussion and conclusions

This paper examined whether and how the content (number and types of targets) of performance contracts have developed over time, including discussion of how the development patterns can be interpreted.

The analysis found a general decrease in the number of performance targets per contract in the period studied. Contrary to dynamics described as a ‘logic of escalation’ or ‘law of mushrooming’ in which performance management systems grow over time, this study has indicated how this dynamic may be reversed and how a de-escalation process might come about.

At the same time, the analysis showed how the relative share of different types of targets changes over time: As the share of outcomes has increased, the share of activities has decreased; whereas the share of targets oriented towards internal management decreased in the mid-2000s, only to increase again more recently.

The study has illustrated how the content of performance contracts is open to adjustments and gradually changes over time. The development pattern of the content is characterised by cycles: from simpler to more comprehensive contracts – and back again towards less comprehensive contracts. It also evolves from an internal focus to abolishing internal targets and back again to a situation where targets for internal management are seen as an appropriate part of the contracts (but only as a supplement to externally oriented targets related to core agency tasks). These cycles occur within an overall path of performance contracting as a well-institutionalised feature of central government management and are combined with a long-term trend towards the further sophistication, professionalisation and standardisation of performance contracting in Danish central government. Thus, through gradual changes, performance contracting in Danish central government has changed over time. The question now becomes whether we are now facing the third generation of performance contracting in central government in Denmark.

In the early 1990s, contracts remained close to the general MoF guidelines. Agencies had to live up to a range of targets focusing mainly on internal matters

and agency production and resources. In return, they were given increased freedom of action accompanied by a budget guarantee ensured by the MoF (Greve, 2000; Binderkrantz & Christensen, 2009). This might be called first-generation contracting.

In the early 2000s, references to freedom of action had almost completely vanished from contracts, and performance targets focused much more on specific target groups; attention to policy demands had risen and new management ideas, such as mission statements, had made their way into the contracts (Binderkrantz & Christensen, 2009: 74-75). This might be called second-generation contracting.

In the late 2000s and early 2010s, the contracts are given a more strategic focus: they include fewer targets and focus more on outcomes and less on activities; internal management has also regained a higher status but merely as a supplement to targets related to core tasks. It would therefore appear as though performance contracting in Danish central government has now entered a third generation. The contracts have moved from negotiated freedom (first generation) to very comprehensive and detailed contracts developed in the shadow of the hierarchy (second generation), towards contracts characterised by a more strategic, long-term approach containing fewer targets.

Changes in the content of the contracts largely reflect the recommendations made by the MoF, which bases its recommendations on experiences from the ministries and agencies in central government. Some of these act as first movers and inspire the recommendations, whereas others follow them or are inspired by and imitate first-mover ministries and agencies. The development process thus seems to be affected by experiences with the existing system. When problems with this have to be fixed, however, policy makers sometimes look for solutions in other ministries and agencies as well as to the institutionalised norms for performance management.

The practical implication of these findings is that the reformers of and actors involved in performance management systems must be aware of these dynamics. A performance management system is not a stable institution; it changes over time, sometimes escalating, at other times de-escalating. It is full of dilemmas that must continuously be considered and acted upon. The numbers of targets must always be considered, as there is a trade-off between having too few or too many. The former might result in measure-fixation or tunnel vision (Smith, 1995; Bevan & Hood, 2006), whereas the latter might lead to red tape, non-use of performance information and a lack of steering due to target- and information-overload. Similarly, the types of targets included in the contracts must also always be considered. Output-oriented targets may be easier to measure but might not provide an adequate picture of the organisation's performance, possibly leading to measure fixation, suboptimisation, myopia and other kinds of unintended consequences (Smith, 1995; Bevan & Hood, 2006). On the other hand, outcome-oriented targets might be very difficult to measure or attribute to the specific activities provided by the organisation. The drafting of performance contracts is full of dilemmas and there will always be disadvantages related to the chosen design, which must be continuously considered and reconsidered.

Theoretically, the analysis contributes to our knowledge about the dynamics inherent to and escalation of performance management systems, as the paper has indicated how escalation processes might be reversed and how de-escalation processes might also appear. This study has focused on escalation and de-escalation processes in the contract content. The other dimensions of a performance management system (e.g. interventions, use of performance information and stakeholders related to the system) might, however, also be vulnerable for such escalation and de-escalation processes and should be uncovered in future studies.

The analysis has its limitations. While great effort has been made to ensure reliability in the time series of data, there is a potential risk for variations in the codes, as different coders have been involved over time. Some of the main findings in the development of the contract content seem, however, to be so significant that they cannot merely be a result of different interpretations of the coding scheme over time. Future studies should further investigate the findings on the basis of more solid sets of data in which data is coded by the same coders. It might also be interesting to adopt a comparative approach in order to investigate whether the performance contracting regime in other (Scandinavian) countries adopts a similar development pattern.

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## Appendix

*Table x: Number of specific types of performance targets over time*

	2002	2006	2009	2012	2014
Case processing time	365	252	33	171	125
Productivity	122	114	99	34	33
Activity	-	-	1491	822	654
Output	1855	1617	320	252	305
Quality	238	428	461	140	264

Outcome	21	136	465	359	295
External development	274	39	84	-	-
Internal management	2076	457	105	207	240
Others	268	338	-	-	-
<b>Total</b>	<b>5219</b>	<b>3381</b>	<b>3058</b>	<b>2002</b>	<b>1916</b>

## Notes

<sup>1</sup> Until autumn of 2011: The Danish Agency for Governmental Management (Økonomistyrelsen).

<sup>2</sup> As different people coded data at different points in time, the coders might have been affected by the MBOR discourse in use at the time. The MoF might also have had interests in presenting the use of performance contracting in a certain way so as to show how their publications had an impact on how performance contracting is carried out. Data from the MoF has primarily been used internally in the ministry, however, and has only been published once (Økonomistyrelsen, 2010). The potential risk for bias in the coding of data in order to present the use of performance contracting in a manner that fits the MoF therefore appears smaller than if data had been published.

<sup>3</sup> The share of activity-oriented targets is statistically significantly larger in 2009 than in 2014,  $z = 8.71$ .

<sup>4</sup> The share of outcome-oriented targets is statistically significantly lower in 2006 than in 2009,  $z = -15.44$ .

<sup>5</sup> The share of productivity-oriented targets does not differ statistically significantly between 2002 and 2014,  $z = 1.88$ .

<sup>6</sup> The share of targets oriented towards internal management is statistically significantly lower in 2009 than in 2014,  $z = -13.39$ .

<sup>7</sup> The share of targets oriented towards internal management is statistically significantly larger in 2002 than in 2009,  $z = 26.13$ .

<sup>8</sup> 'Externally directed targets' refers to targets for products and services provided to the organisation's environment, which is the opposite of targets related to internal relations within the organisation (Finansministeriet, 2003: 222).