

Governing Danish Agencies by Contract: From Negotiated Freedom to the Shadow of Hierarchy

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ABSTRACT

In the early 1990s the Danish Ministry of Finance initiated an experiment where a few ministerial departments negotiated performance agreements with their agencies. Since then internal contracting has spread and is now nearly universally used in central government. However, a close study demonstrates that in this process contract content has changed dramatically. The early contracts were quid-pro-quo agreements. Agencies committed themselves to improve efficiency but contracts at the same time admitted them increased managerial discretion. The mature contracts are quite different. Departmental ministries have exploited their considerable autonomy to set demands that are related to policy and service levels rather than internal management. Here ministries have adapted to the characteristics of their policy tasks and to the presumed concerns of the target groups dominating their political environment. Building on an analysis of all contracts in force in 1995, 2000, and 2005 the paper sees this change as a transformation of an ideal type NPM-instrument into a managerial tool adapted to a system where highly autonomous ministers act as unquestioned political executives.

Key words: *Contracts, New public management, Political executives, Efficiency, Autonomy*

1 Introduction

Over the past decades, management by contracts has become a well-established tool in the governance of public bureaucracies. Beginning in the late 1980s and early 1990s with the wave of New Public Management (NPM) reforms, many countries adopted performance contracts and other forms of performance management. While reforms introduced in different countries may look the same on the surface, the actual implementation often differs depending on the existing institutional context. In the present context two features are of particular importance. One is the extent to which the existing structure of public administration

fits with NPM-ideas of governance. The other is the strength of the core executive vis-à-vis individual ministries in the implementation of public management reforms.

Understanding how performance contracts are adjusted to the real world and how the contents of contracts change over time requires systematic analysis of the development in the use of contracts as well as the balance in performance demands set up. The Danish case is interesting because on the one hand it constitutes an example of a national bureaucracy to a wide extent organized according to the ideas of agencification yet on the other hand with a relatively weak core executive leaving few options for large-scale centrally coordinated administrative reforms. Performance contracts were introduced in this system in the early 1990s on an experimental basis. Fifteen years later they are universally used in central government.

This paper investigates the use of performance contracts in the Danish ministerial bureaucracy from the establishment of a limited number of contract agencies in the first half of the 1990s to the near universal use of performance contracts in recent years. It focuses on the content of contracts and how this has changed over time as contract management developed from an experiment involving a few agencies to an established paradigm for public sector governance. In the Danish setting a developmental approach is of particular interest because of the inherent tension between a two-layered ministerial model prone to the idea of internal contracting and a centrally launched initiative to be implemented by departmental ministries enjoying considerable autonomy in both formal and real terms. The existing agency structure lent itself to an easy spread of contracts throughout the government as no major reorganization was necessary to implement contracts. However, due to the lack of a strong core executive, the policy entrepreneur can only be expected to stay in control of the reform in the initial phase. Over time, individual agencies and ministries will gain control over the content of contracts and adapt these to their situation and needs or simply use contracts as symbolic accommodations to pressure from the core.

Empirically, the paper analyzes performance contracts for Danish ministerial agencies in 1995, 2000 and 2005. These years are chosen in order to obtain a picture of the development of the contract regime from its beginning with a limited number of agencies, through the period where more and more agencies came to have contracts and ending with a year representing the mature contract regime where the use of contracts had become almost universal. The analysis draws on a unique dataset containing contracts for all agencies in the relevant years. Every performance demand in the contracts has been coded and the contracts have been analyzed in regard to both the contents of these performance

demands and the amount of freedoms explicitly granted to contract agencies.

The analysis shows that contracts were first introduced in a gradual, experimental way and subsequently spread throughout the administration as new ministries and agencies adopted the model. The first performance contracts closely mirrored the official statements of NPM and the Danish reform makers. They contained a large share of demands for productivity increases and required agencies to make a wide range of organizational adaptations. In return, agencies were granted budget guarantees and delegated responsibilities related to economic matters and salaries. A decade later, the contract regime had changed in notable ways. References to increased freedoms of actions had almost vanished. Performance demands increasingly focused on well-defined target groups in the agency environment and agencies were often required to perform better on policy related tasks. Further, new management ideas could be seen to have made their way into many contracts. These findings testify to the flexible character of performance contracts. As contracts spread throughout the administration, ministerial departments and agencies incorporated their political priorities in the contracts. During this process the original thoughts of New Public Management were set aside by new waves of management ideas. This development has been reflected in contracts as has their accommodation of ideas and needs within individual ministries and agencies.

2 Literature Discussion and Research Questions

2.1 Contract Agencies in a NPM Perspective

It is useful to note that performance contracts entered between ministerial departments and agencies are really not contracts in legal terms or in the sense implied when the term contract is used in everyday language. A distinction can be made between 'hard' and 'soft' contracting. Hard contracts are an agreement by two parties which is enforceable by law. Soft contracts are less formal agreements between two parties where no third party is involved in the enforcement (Greve, 2000: 154–155). The performance contracts discussed here are entered between two bodies within the public bureaucracy, for example an agency and its mother department. These contracts are best described as soft contracts and can be contrasted with external contracts where tasks are contracted out to private providers. While such contracts might be a matter of judicial interpretation, the enforcement of internal contracts is not an issue to be settled within the judicial system, but rather handled within a hierarchical system (James, 2003: 5). Thus, internal contracts are implemented in

the ‘shadow of hierarchy’ (Scharpf, 1997) and the powers of the superior to ultimately decide on matters relating to the subordinate unit constitutes a set of high-powered incentives to change behavior in the event of a performance contract being entered. At the same time, the soft character of performance contracts embedded in a hierarchy with strong mutuality between department and agency endows them with a relational character that connects the two parties to each other in long-term interdependency (Williamson, 1985: 140–62).

The use of performance contracts and other types of performance measures can be seen as part of a larger movement towards ‘New Public Management’. NPM is a loose term customarily used to describe a broadly similar set of administrative doctrines dominating the bureaucratic reform agenda in many countries from the late 1970s onwards (Hood, 1991: 3–4). Even though the use of most of the specific administrative forms advocated in fact predates the NPM movement, some of the ideas were genuinely new and many reforms were more encompassing than previously seen. NPM addresses both the size of the public sector under the heading ‘how much state’ and the internal functioning of the public sector under the heading ‘which state’ (Klages & Löffler, 1998: 42). Among the central components of NPM is an attempt to set up explicit measures of performance, a greater emphasis on output controls and focus on private-sector styles of management practice (Hood, 1991: 4–5). The NPM movement was inspired by the new institutional economics as well as by management theories. From new institutional economics came an emphasis on clear incentive structures as a means to enhance performance in the public sector; from managerialism came the idea that discretionary power and managerial freedom was necessary to achieve results (Greve, 2007: 7; Hood, 1991: 5–6).

Adopting performance contracts as a means of controlling agencies is a clear example of an NPM practice. From the perspective of new institutional economics, agencies are the preferred organizational form, and the best way to control agencies is through well-functioning contracts (Christensen & Lægheid, 2007: 504). Contracts combine the use of performance measures with a move away from traditional bureaucratic control to contracts signaling a more private sector style type of management. The logic behind performance contracts is the belief that establishing clear performance measures will provide government agencies with the incentive to perform better in the areas emphasized in the contract. Thus, contracts can be seen as a potential solution to the delegation problem where principals are concerned with ensuring that their agents work in the best interest of the principal (Binderkrantz & Christensen, 2007).

New Zealand was among the first countries to introduce large scale reforms of the public sector in accordance with NPM. The ‘New Zealand

Model' introduced in the mid 1980s involved encompassing reorganization, decentralization, and implementation of new financial and budgeting systems. Further, a government wide system of explicit contracts specifying the nature of the performance required from government entities was set up (Boston, Martin & Pallot, 1996: 5). The British 'Next Steps' initiative is another example of an early NPM reform. With the Thatcher administration, attention shifted from input to output as focus on controlling public expenditure – and thus on the question of 'how much state' – intensified. Although the reforming of the civil service into separate executive agencies is typically emphasized, the use of performance indicators was also a central component of the British administration's strategy for reforming the management of government in the 1980s. As argued by Neil Carter, using performance indicators became central in sustaining the agency reform as these could be used by central departments as well as Parliament and the public to ensure that desired services were delivered by agencies (Carter, 1991: 85-87). Agencies were given increased freedom of action and in return were required to deliver certain outputs or services within the available resources. This principle was enforced through a series of 'contracts' specifying freedoms as well as performance demands (Greer, 1994: 60; Wilkinson, 2005: 15).

The OECD has played a particularly central role in the diffusion of these types of reforms to other countries (Mol, 1989; OECD, 2002; OECD, 2005: 62–63). The OECD has generally advocated regulatory reforms involving performance contracts and recommended the introduction of such contracts to specific countries. Across OECD countries there is a strong trend of introducing performance indicators into management and budgeting (Christensen & Lægveid, 2007: 504–505; OECD, 2005: 70). A central part of such reforms is the use of organizational units called agencies to handle distinct central government activities on behalf of ministries. Another common feature of the reforms is the creation of a 'regulatory' framework for each agency specifying performance requirements (James, 2001: 235).

It is well established that performance contracts are used in many countries. However, few analyses systematically investigate the specific content of performance contracts and the development of contract regimes over time. The next section discusses these issues in more detail and presents the research questions to be analyzed in the empirical section.

2.2 Understanding the Use of Contracts

While reforms involving performance management have been adopted in many countries, seemingly similar forms may in fact be institutionalized

in different ways. A distinction can be made between a top-down approach such as the one used in New Zealand and Britain, where measures to strengthen performance management are implemented in the entire administration, and a more incremental approach allowing ministries and their agencies to engage voluntarily in reforms without moving towards full and uniform implementation across government (OECD, 2005: 61–62). The Dutch reform is an early example of a more experimental, stepwise approach to introducing performance management (Mol, 1989). Another relevant example is Germany where the existing system with a high degree of decentralization to the regional governments (Länder) affected the implementation of performance targets (James, 2001: 234; Klages & Löffler, 1998). Even at the federal level, implementation was the responsibility of fairly autonomous departmental ministries (Derlien, 1996; Lynn, 2006).

With these examples a central research question concerns the process in which performance contracts are implemented in specific national contexts. As emphasized in a recent OECD report on the subject: “Reformers do not begin with a blank sheet; performance indicators and targets are introduced into existing and established systems of accountability and control, which have both informal and formal components.” (OECD, 2005: 70). This argument echoes the theoretical literature. Several authors point to the contrast between ideal type or universal NPM and the NPM reforms actually adopted and implemented in different countries. In order to explain the actual implementation of performance regimes it is necessary to pay attention to the institutional characteristics of the country in question (Greve, 2006: 162; Klages & Löffler, 1998: 47). Institutions do not fully determine policies, but they provide constraints and opportunities that reformers have to consider when developing reform strategies (Gregory & Christensen, 2004: 63).

A theoretical approach emphasizing the importance of institutional settings and country specific contexts has been advocated under different headings. Klages and Löffler speak of an ‘institutional contingency approach’, where the universal NPM ideas, on the one hand, and the institutional history of public organizations, on the other hand, support and limit the choices of modernization strategies of administrative actors (Klages & Löffler, 1998: 47). Tom Christensen and Per Lægveid adopt a ‘broad institutional perspective’ emphasizing the interplay between institutional and historical links, conscious and planned reform initiatives, and adjustment to external forces (Christensen & Lægveid, 2007: 504). No matter the exact heading, the basic idea is the same: the country specific institutional context needs to be considered when explaining the implementation of NPM reforms.

Two aspects of the existing institutional context are likely to be of particular importance. First, the degree to which the public administration is already organized in a way fitting with the ideas of NPM and second, whether central coordination is possible in regard to administrative reforms. For example, the British administration needed considerable reorganization in order to adopt the agency model, while the German structure already contained a high degree of decentralization to the regional level as well as at the federal level (Klages & Löffler, 1998; Knill, 2001). The contrast between Great Britain and Germany is also instructive in regard to the potential for central coordination. The British structure allowed for a centrally controlled implementation of performance measures, while the federal and decentralized structure of the German public administration meant that no administrative and political authority could give directions in developing common performance indicators (Klages & Löffler, 1998: 47; Knill, 2001: 86-100).

Here, the Danish case is interesting because it constitutes an example of a national bureaucracy already incorporating the ideas of agencification yet with few options for large-scale centrally coordinated administrative reforms. Thus, already before establishing agencies became internationally fashionable, a gradual development had led to most Danish ministries being organized in a double layer department-agency form when performance contracts were introduced. Further, individual ministers rather than the government as such are responsible for policies and actions within his or her ministerial portfolio, a feature impeding centrally coordinated reforms.

The idea that ministries should optimally be divided into a department closely related to the political executive and agencies reporting to the department has long roots in the Danish history of administrative reform. Subsequent committees on reforming the public bureaucracy advocated such a model and even though reforms were resisted by civil servants, the long-term result was the implementation of a double layer department-agency form, where tasks are split between the department and different agencies. Departments serve as secretariat to the minister and coordinate agency activities, while agencies are responsible for policy implementation (Christensen, 1997). At the time of the introduction of performance contracts, Danish ministries were organized according to the department-agency model. Agencification in the British form was therefore not a prerequisite for implementing performance measures.

A second and parallel trait further emphasizes the form of managerial decentralization inherent in the agency model. So, since the mid-1960s the central government budgetary system has been based on a double-layered form of framework budgeting. At the upper layer departmental ministries have considerable freedom to set their own priorities within

budgetary caps. These caps are set by the government on the basis of Ministry of Finance recommendations. At the lower layer departmental ministries delegate financial management authority to agency heads in the form of budgetary envelopes. The general idea is that agency heads are empowered to spend the money contained in the envelope according to their priorities. But it is an equally important trait of this system of financial decentralization that basic principles are settled at the central level by the Ministry of Finance while departmental ministries can fill in with internal regulations that adapt the rules to local needs and traditions (Christensen, 1982; 1992 and forthcoming).

Both the agency model and the budgetary system underline the importance of a third important trait of the Danish central administration – the high degree of autonomy enjoyed by individual ministers and vice versa the limits on the strength of the core executive in regard to system-wide reform implementation. The prime minister appoints ministers and can abolish ministries or establish new ministries, but once appointed each minister is the supreme head in his or her portfolio. So, ministers are responsible for the actions of the department as well as ministerial agencies, but also have the autonomy to decide on reorganizations or other types of administrative reforms. Although government-wide initiatives for reform are common, there is much room for each individual minister to reorganize his or her own department internally (Greve, 2006: 146; Pedersen, Sørensen & Vestergaard, 1997: 106).

The implications for the introduction of performance contracts are two-fold. On the one hand, the existing organizational structure lent itself to easy implementation of contracts. No major reorganizations were required to establish a structure in which performance contracts could be used. On the other hand, the ministerial organization did not lend itself to a top-down system-wide implementation of contracts. Government-wide initiatives are possible, but the high degree of individual ministerial autonomy encourages a more experimental, gradual approach where participation is voluntary and adaptations possible as different ministries and agencies adopt performance contracts.

These traits have consequences for the overall reform approach expected. Rather than a top-down approach, a more voluntary approach can be expected in the implementation of performance contracts in Denmark. However, due to the existing agency structure, the reform can easily spread to large parts of the central administration granted that individual ministries and agencies find contracts suitable for their needs. While the spread of contracts is in itself an interesting object of analysis, a core issue in regard to contracts concerns the type of performance demands set up. Government agencies cover a wide range of different functions, and performance demands might focus on different aspects of

what agencies do. Further, as public organizations face complex environments, demands from different groups in the agency environment may conflict (Klages & Loffler, 1998: 43). When drafting performance demands there is therefore a choice to be made in regard to both the type of agency functions and activities emphasized and the focus on different target groups such as citizens or other public authorities.

In general, a centrally coordinated reform can be expected to stay closer to official NPM ideas than a reform where more different actors enjoying a high degree of autonomy are involved. With a strong core executive capable of controlling reform implementation, performance contracts are likely to closely reflect the ideas and interests of this policy entrepreneur. If, on the other hand, the balance of power favors individual ministries, the policy entrepreneur can only be expected to stay in control of the reform in the initial phase. In a system like the Danish with high levels of ministerial autonomy, the long-term fate of internal contracting is far from certain. One hypothesis is that a centrally initiated reform is met with opposition and resistance. A possible outcome here is that after a few, short lived experiments the idea fades away. However, the existing agency structure meant that some form of performance contracts could be easily implemented and with the now universal acceptance of performance contracting, a rejection of the reform has evidently not been the case.

Another possible outcome is that departmental ministries seemingly accept the idea and set up systems of performance contracts that, however, lack substantive content and are phrased in ways that do not vary from department to department and agency to agency. An entirely different hypothesis is that departmental ministries gradually accept the idea of internal contracting because after all they see a potential for adapting it to their specific tasks and the political and administrative setting in which they have to operate. Here we should expect contracts to contain substantive demands for agency performance. Specifically, while the ideal type performance paradigm emphasizes the need to increase productivity in public organizations in return for increased freedom of action, it is likely that individual ministries and agencies are more prone to focus on demands raised upon them from different groups in the agency environment.

Our data, covering the period from the early 1990s to 2005, allows us to shed light on both hypotheses. The symbolic action hypothesis gains support if performance contracts are held in broad and non-specific phrases that do not lend themselves to *ex post* evaluation. To the contrary the departmental adaptation hypothesis gains support if new types of demands and new target groups are specified in individual contracts as the reform spreads throughout the administration.

3. *Design and Data*

The research questions raised require a long-term analysis of the development of the Danish contract performance regime. It also calls for a detailed analysis of the specific performance demands phrased in order to investigate which types of demands dominate and whether the balance of demands change over time. With this in mind, three years were chosen as representative of the development in the contract regime and all contracts covering ministerial agencies in these years have been collected and analyzed. First, contracts for the year 1995 are included. These are typically part of the first generation of contracts entered and thus represent the first use of contracts as a management instrument in the Danish public sector. Second, contracts for the year 2000 were collected. By then, performance contracts were no longer seen as an experiment, but were spreading throughout the administration. Finally, contracts for 2005 are considered. In 2005, virtually all agencies had performance contracts and these therefore represent the contracts of the mature contract regime.

In order to collect the relevant contracts, a list of all agencies existing in the years included was compiled. A ministerial agency is defined as a national authority not reporting directly to the minister, but with decision making authority within a specified field of legislation and tasks related to policy advice, development and/or implementation. An agency is distinct from both ministerial departments and state institutions providing particular services like museums, institutions or schools. Although many such institutions were also included in the contract reforms, it is analytically preferable to focus on more homogenous units.

All present-day agencies were contacted and asked for performance contracts from the relevant years. Other sources like respective departments, the Ministry of Finance and the Auditor General have also been contacted to procure contracts from defunct agencies or agencies not able to provide relevant contracts. Especially for the early period, it has been necessary to draw on various sources to establish a complete dataset. Official reports on the contract regime have been consulted to verify the completeness of the set of performance contracts. The result is a set of contracts that is very likely to be complete.

Performance contracts typically consist of general statements as well as specific performance demands. Both are relevant for the analysis. The general statements for example provide information about whether the agency has been given increased freedoms as part of the contract. To the extent the contract is combined with other types of administrative reforms or programs this will also be included in the general statements. In order to investigate these issues, the general statements have been

coded with regard to types of freedom and/or obligations established as well as with regard to references to a list of other management tools.

Other research questions can only be answered by analyzing the performance demands defined in contracts. For example, the extent to which contracts focus on productivity can only be analyzed by coding the demands defined in contracts. Two specific aspects of performance demands have been coded: 1) A target group variable specifying whether the fulfillment of the specific demand would have consequences for a clearly defined group or actor outside the agency and if so, who these groups or actors were. A principal distinction here is demands where the target group is individual citizens and private businesses or corporate groups or actors like local government, other central government authorities, EU and other international organizations. 2) A content variable specifying the activity and/or goal required by the agency during the contract period. The relevant level of analysis here is the individual contracts. However, as the focus is on how the content of performance demands has developed over time the measure used to compare contracts is the average percentage of particular demand dimensions in the contracts.

4. Empirical Analysis: The Development of the Contract Regime

4.1 The Spread of Contracts throughout the Central Administration

The use of performance contracts in Denmark by now spans a period of about 15 years. The first contracts were set up in the central government as a number of 'free agencies' were established. The Ministry of Finance played a central role in choosing these agencies and in setting up the contract regime. Contracts were accompanied by a 'budget guarantee' that explicitly excluded cutbacks in the contract period (Greve, 2000: 157–158). The agencies signed performance contracts with the relevant ministerial department and were presumed to obtain larger degrees of freedom in relation to budgets and employee matters in return for meeting specified performance demands. Official reports emphasized the combination of increased freedoms with performance demands. A quote from a foreword by the Minister of Finance illustrates this dualism:

The idea is to give selected state institutions greater freedom in the choice of methods to reach the goals and deliver the service that society can rightly expect from them. When giving greater freedom it is natural to increase expectations as far as what institutions can deliver. That we have done. We have presented agencies with tougher production and quality demands than normally. (Finansministeriet, 1991: 3).

The initiative was taken during a period with a Conservative-Liberal government, but the subsequent Social Democratic led government

continued the plan. The name was changed to the less ideological ‘contract agencies’, and the balance of emphasis changed slightly towards more focus on results and less on managerial freedoms. Still, the core of the reform remained intact (Greve, 2000: 157; Finansministeriet, 1993). This adoption of a reform endowed in liberal rhetoric by the Social Democrats was mirrored elsewhere:

Those who in the late 1980s and early 1990s thought ‘New Public Management’ was inextricably linked with a particular brand of ‘New Right’ politics were surprised by the capacity of the same basic approach to reinvent itself later as part of a center-left ‘third way’ (Hood & Peters, 2004: 217).

The first seven ‘free agencies’ were established by January 1 1992. The following year another six contracts were added (Finansministeriet, 1993). Among these first contract agencies were, however, both state central government agencies proper and different types of institutions such as the National Museum and a university library. The first two rounds of contracts entered therefore included only a handful of agencies as defined here. Table 1 below displays how many contracts were in place in 1995, 2000 and 2005. As can be seen, in 1995 nine agencies had contracts illustrating the relatively slow development of the contract regime in the first years. Performance contracts were introduced as an experiment and the intention was to evaluate the experience with the first contracts before adopting performance contracts as a general administrative instrument.

By 2000, contracts had become an established way of managing agencies. More than 60 per cent of all agencies had entered contracts with their relevant minister. In 2005, the contract regime covered more than 90 per cent of agencies and can be seen as universally adopted. The few agencies without performance contracts had specific characteristics explaining their exemption from the contract regime.¹

During the ten year period from 1995 to 2005 the number of performance demands in contracts almost doubled. The contracts of 1995 included on average a mere 20 demands, while those covering 2005 had an average of 37 performance demands. The extension of individual

TABLE 1. Overview of contracts

	1995	2000	2005
Total number of agencies	50	56	59
Agencies with performance contracts	9	35	54
Percentage of agencies with performance contracts (rounded)	19	63	92
Total number of performance demands	179	1,103	1,998
Average number of performance demands	19.9	31.5	37.0

contracts with increasing numbers of demands could reflect a development in the approach to performance contracts or simply be a layer-on-layer effect, where performance demands tend to stay in subsequent contracts once defined. The introduction of new demands therefore raises the number of demands.

In terms of the types of agencies covered by contracts, table 2 illustrates that the lion's share of agencies included in the first wave of contracts can be classified as working with economic regulation. This probably illustrates that contracts were seen as most suitable for agencies with a portfolio of relatively well-defined and homogeneous cases and clear target groups for agency actions. Agencies with an interface towards different types of businesses fit this picture well. In 2000 there was still an overweight of agencies concerned with economic regulation among the contract agencies, but by then the whole range of government agencies were represented. In the last year analyzed, the distribution of contract agencies is very close to the distribution of the population of agencies as contracts had become almost universally adopted. It can be seen that the share of agencies working with economic regulation had decreased, while especially agencies responsible for the administrative infrastructure at inter- and intraministerial levels were among the late-comers almost doubling their share of performance contracts between 2000 and 2005. In a comparative perspective it is interesting that contract management was launched and has since been most clearly developed for agencies responsible for core governmental tasks. This is in stark contrast to James' observation that in the UK agency reform has been linked to governance reforms aiming at exposing public sector activities to competition (James, 2003: 50–55).

In conclusion, the development of the contract regime in Denmark took place over an extended period. Rather than imposing contracts by decree, the now universal system was inaugurated by a modest

TABLE 2. General function of contract agencies, percentage of agencies with contracts (rounded)

	1995	2000	2005
Economic regulation	56	40	32
Social regulation	11	17	17
General regulation	–	9	9
Production of collective goods/services	11	6	7
Welfare service	11	14	17
Infrastructure and utilities	11	9	7
Administrative infrastructure	–	6	11
<i>N</i>	9	35	54

Note: – = nil

experiment including a limited number of agencies. It only reached near-universal adoption after 2000. This ‘tortoise approach’ to administrative reform is echoed in other areas (Gregory & Christensen, 2004). After a period of slow adoption, by now contracts is a well-established part of the public management regime in Denmark.

4.2 Performance Demands: What Type of Demands are Defined?

Performance contracts may cover a wide range of objectives. Agencies can be required to increase productivity, to improve user satisfaction or to implement administrative reforms. Performance demands can be directed towards satisfying specific target groups in the agency environment or they can be internally oriented. This section analyzes the content of performance contracts in the three selected years. It investigates first, which target group – if any – is in focus of the demand and second, the content in terms of the activity or result required from the agency.

These questions are of interest for several reasons. The specific performance demands constitute the core of contracts. Analyzing these demands is therefore the key to determining whether contracts in general focus on financial performance and cost efficiency or whether the emphasis is more on quality and service improvements. In terms of the development over time, analyzing performance demands can unveil changes in the use of contracts. Of interest are questions like: Were the first contracts more direct representations of NPM ideas and the thinking of the core executive? Did the content of contracts water out as their use spread to new agencies or did departments and agencies use the contracts flexibly by emphasizing demands central to the performance of different agencies?

Some performance demands can be regarded as directed towards a specific well-defined target group. The target group is the group for which the fulfillment or non-fulfillment of the performance demand is particularly important – although not always in a positive sense. An example would be a demand to lower case work time for applications for disability aid which would benefit the citizens involved or a demand to make a specified number of inspections to food production businesses, which would presumably benefit citizens in general although some businesses might prefer not to be visited by authorities. For other performance demands it is not possible to point to the existence of a target group as demands are either directed towards production and resources in general or concern internal agency matters. Table 3 below illustrates the focus of performance demands in the three periods. Specifically, the table shows the average share of demands with each type of focus in the contracts in the three years.

Several interesting developments can be identified from the results. In the first contracts, it was often difficult to identify a well-defined target group of performance demands. The majority focused on internal matters or on production and resources. Among the remainder, many demands could be seen as directed towards a specific group of users such as private firms or individual citizens more generally. Other target groups such as local authorities and the minister/department were rarely in focus for performance demands.

Over time there is a clear trend towards establishing more performance demands with well-defined target groups. In the 2000-contracts users and citizens are in focus of a third of demands, while the relevant minister/department or other state authorities account for another 15 per cent of demands. On the other hand, attention to production and resources diminishes and fewer demands are directed towards internal matters. These trends continue in the period up to 2005. By then almost 40 per cent of demands target users or citizens, while only 20 per cent of demands focus on internal matters. The development could possibly be either the result of a development in the contract regime per se or of the extension of contracts to agencies with different tasks. In order to investigate this, the same analysis has been made for the group of agencies concerned with economic regulation (these are the most numerous in all years). This analysis shows the same development over time, confirming the shift in the focus of performance demands. There is an increasing focus on well-defined target groups – in particular users and citizens – while fewer demands are directed towards internal matters and production and resources.

The next question of interest is whether the shift in focus is also reflected in the types of activities or goals required by agencies. To

TABLE 3. Distribution of target groups, average percentages in contracts (rounded)

	1995	2000	2005
Demands with specified target group			
- Users/citizens	30	35	40
- Minister/department	2	8	10
- Other state authorities	3	7	8
- Local authorities	2	2	5
- International bodies	5	3	3
- Other target groups	–	0	0
Demands without specified target group			
- Production/resources	21	14	14
- Internal matters	37	31	20
<i>N</i>	9	35	54

Note: – equals nil; 0 equals observations amounting to less than 0.5 per cent

investigate this, performance demands were grouped into six main categories: 1) project initiation, 2) organizational adaptation, 3) policy demands, 4) production demands, 5) productivity demands and 6) other demands. This categorization of demands should be suited to determine the extent to which agencies are required to focus on resource management, policy related activities or changes in the organization as well as how the balance between different types of demands has changed over time. Table 4 displays the distribution of demands on the six main categories. A number of more specific subcategories give more information on the content of performance demands.

TABLE 4. Types of performance demands, average percentages in contracts (rounded)

Type of performance demands	1995	2000	2005
Project initiation	20	31	31
Analysis/evaluation	10	11	9
Working group	0	1	1
Binding document	1	10	10
Non-binding document	3	5	5
Meeting/conference	1	1	1
Project/campaign	6	3	5
Organizational adaptation	29	28	21
IT use	3	6	9
Employee survey	1	2	1
Salary issues	4	2	0
Organizational change	4	3	1
Employee policy	5	5	2
Employee composition	0	2	1
Procedures	8	3	3
Steering systems	4	7	4
Management	1	1	1
Policy demands	17	14	20
User survey	5	4	5
Case work time	5	6	10
Quality and service demands	6	4	5
Satisfaction goals	1	0	0
Production demands	13	13	14
Cost efficiency demands	15	7	5
Reduction of sick leave	1	0	0
Productivity demand	8	4	2
Economic result	6	3	3
Other demands	5	7	9
Assistance to the minister/department	0	2	2
Communication	1	2	2
Cooperation	3	3	4
Other	1	0	1
<i>N</i>	9	35	54

Note: – equals nil; 0 equals observations amounting to less than 0.5 per cent

There is evidence of a clear change in the focus of contracts over time. The 1995 contracts were to a large degree concerned with organizational adaptation and also had a relatively large share of demands for productivity increases. On the other hand, the focus in 2005 is increasingly on initiation of different kinds of projects and on policy related demands.

A first type of performance demands in contracts concern project initiation. This includes activities such as setting up working groups, drafting documents or arranging different kinds of meetings or conferences. In 1995 such demands made up about 20 per cent of all demands, while in 2005 the share had risen to some 30 per cent. These demands are often policy related in the sense that the agency is required to make a binding policy document in a specified policy area.

Demands for organizational adaptation display the opposite development, as the share falls from some 30 per cent to a little over 20 per cent in the analyzed period. The fall over time concerns almost all the subtypes of demands in this category and thus affects areas like salary issues, organizational changes and employee policy. In comparison, demands related to IT use show the opposite development as their share rise over time.

During the period 1995 to 2000 policy demands showed a declining trend, but this was reversed in the contracts from 2005. In particular, demands for shorter case work times make up almost 10 per cent of all demands in the most recent contracts. This type of demand is a prime example of a performance requirement focusing on something that presumably is of great interest to the users of the agency services.

Production demands make up about 13 per cent of demands in the three periods analyzed, while demands for cost efficiency show a marked decline particularly from 1995 to 2000. In the first contracts no less than 15 per cent of demands were related to cost efficiency compared to 7 per cent in 2000 and 5 per cent in 2005. Lastly, among demands coded as 'other demands' it is interesting to note that assistance to the minister and department rises from a diminutive share of demands in 1995 to about 2 per cent in 2005. Even though the number is still low, such demands are nevertheless now an integral part of several contracts.

Summing up, there is evidence of a change of balance in the type of demands defined in contracts.² In 1995, contracts were mainly internally focused with no clear defined targets groups. Agencies were asked to make different kinds of organizational adaptations and there was a marked focus on productivity. This reflects NPM thinking as well as official policies emphasizing that agencies were to perform better in return for increased freedoms, although it remains to be seen to what extent agencies actually got the promised freedoms. In 2005, the contract

regime had changed. By then, performance demands were much more focused on the organizational, political and societal environment of agencies. There were clear target groups for most demands – normally users or citizens generally – and performance demands in areas such as case processing time and preparing policy documents made up an increasing share of demands.

4.3 More than Performance Demands. Increased Freedoms and other Management Programs

Contracts are much more than the specification of a set of performance demands. A typical contract also contains sections with more general statements about the purpose of the contract and the framework within which demands are to be interpreted. Of particular interest are two issues: First, whether contracts in fact give agencies increased freedoms and second, how contracts relate to other types of management programs introduced in the period. Analyzing these issues is well suited to establish whether the contract regime is in close accordance with NPM or flexibly adapted to the rise of new management ideas.

At the introduction of performance contracts much was made of the quid-pro-quo character of the reform. Agencies were to perform better and would in return receive increased freedoms in areas emphasized by agencies themselves as important. Table 5 lists the share of contracts providing the agency with different budgetary and financial management concessions and extended delegation in selected areas. It also lists the cases where agencies received fewer funds and according to the contract had to manage a cutback. Note that the table only reports what is specifically mentioned in the contract, which might not include all freedoms granted to agencies. However, if these freedoms of action are explicitly linked to the performance contract they will presumably be included in the contract document.

TABLE 5. Economic implications of contract, percentages of contracts (rounded)

	1995	2000	2005
Budget guarantees	78	3	2
More funds	67	6	7
Fewer funds	44	6	4
Salary delegation	78	9	–
Economic delegation	56	6	2
<i>N</i>	9	34	54

Note: 0 = observations amounting to less than 0.5 per cent

The 1995 contracts show marked signs of this other side of the contract regime. More than three quarters of contracts provided agencies with a budget guarantee in the contract period and equally many contracts contained delegation of decisions on salary. Two thirds of the agencies received more funds – at least in earmarked areas – as a consequence of the contract and 56 per cent saw their financial management authority extended according to the contract. The flip-side of the coin is that quite many agencies – 44 per cent – had their funding reduced, again in regard to select areas. This is presumably related to the demands for increased cost efficiency found in the contracts and it is worth noting that some agencies both received more funds in one area and fewer in another. This shows how contracts can be used for departmental micro-managing of agencies.

In this respect the 2000- and 2005-contracts are radically different. The frequency with which contracts delegate extended financial autonomy to agencies drops dramatically from 1995 to 2000 and generally is even lower in 2005. In the development of the contract paradigm, the emphasis on providing agencies with these types of concessions in return for their acceptance of performance demands seems to have vanished. This marks a clear step away from the initial thinking of the reformers towards a contract paradigm focusing mainly on substantive policy related demands and – as discussed above – on demands more related to target groups outside of the agency. We will in the conclusion return to a discussion of this remarkable development.

Performance contracts are by no means a static instrument. Rather, central parts of the contracts exhibit marked changes in the period analyzed here. While it has been shown that the original ideas about the character of the contracts are not reflected in latter day contracts another aspect of interest is whether new ideas on good public management are integrated in the contracts. Therefore, references to a number of broad management programs advocated in the period were registered. One trend is the inclusion of a mission or vision statement in every public organization; another related trend is value based leadership. Thirdly, balanced score cards have been advocated and lastly, a more specific Danish management program – ‘clear goals’ – has been developed as a tool for focusing agency attention on certain areas. Here the interest is not whether agencies use the programs, but rather whether an explicit relation between the programs and performance contracts can be identified in performance contracts.

There is clear evidence of the incorporation of different management programs in contracts. As expected, no references were made to any of the programs in 1995. However, in 2000 half of the contracts had statements of agency missions and/or visions and by 2005 almost two

thirds of the contracts contained such paragraphs. Further, a third of contracts in 2000 declared agency values and equally many contracts discussed the use of balanced score cards. However, both numbers drop in the period up to 2005 as references to the new 'clear goals' program found their way into contracts.

These findings speak to the flexibility of the contract regime. As new management ideas come to the forefront, they are not only implemented alongside contracts but are explicitly incorporated in the contracts. Substantially, the increasing number of contracts containing statements of values, missions and visions speak of a softer touch in contracts. Rather than focusing on *quid-pro-quo* in terms of productivity in return for economic freedoms, contracts open up by stating general missions and values of the agencies. Once again, this testifies not only to the flexibility of contracts but also to a move away from the original ideas of reformers towards a more communicative and externally focused contract regime.

5. Conclusion

It is evident from the empirical analysis that the use of performance contracts in the Danish central administration has undergone considerable changes from the initiation of the first contracts in the beginning of the 1990s to the mature contract regime in place by 2005. Contracts were introduced in Denmark in a pilot project involving a limited number of agencies and other types of state institutions, indicating an experimental approach with large-scale reform only scheduled for implementation after a trial period. Over the next decade, contracts spread to almost all agencies and covered agencies with a wide range of tasks. This reform pattern conforms well to expectations. The high degree of individual ministerial autonomy and the lack of a strong core executive capable of controlling reform implementation encouraged an experimental, gradual approach to the introduction of contracts. The dominance of the department-agency model made the subsequent spread throughout the administration possible. The existing institutional framework can therefore be seen as an important determinant of the actual implementation of the 'universal' NPM ideas. Even though NPM reforms have been implemented in many countries, the implementation is likely to vary significantly depending on specific institutional contexts.

At the beginning, contracts stayed close to the general guidelines set out by the Ministry of Finance and were very close in content to similar regimes in other countries. Agencies were to live up to a range of performance demands focusing mainly on internal matters and agency production and resources. In return they were given increased freedoms of action accompanied by a budget guarantee secured by the

Ministry of Finance. A decade later, references to freedom of action for agencies had almost completely vanished from contracts. Performance demands 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 contracts. These developments testify to the flexibility of the contract regime. Rather than being a static reflection of the initial set of contract ideas, contracts are in a continual development as the focus of demands on agencies changes and as new ideas come to the forefront. This fits well with the theoretical expectation of a gradual implementation of the reform making room for adjustments depending on the involved actors and the existing institutional environment.

The development could also be a result of a learning process. One of the difficulties discussed in regard to the introduction of contracts relates to the drafting of demands in all relevant areas (Boston, Martin & Pallot, 1996: 13; Greer, 1994: 68-74). Over time agencies and departments have gained experience with formulating demands related to for example quality and these experiences might be reflected in the changed focus of contracts. There is some support for this explanation in the material as the type of demands dominating the first contracts are – at least at face value – easier to specify than demands related to agency environment and policy that became more dominant with the development of the contract regime. On the other hand, a performance demand asking for a reduction in case work time is not very difficult to set up or evaluate and thus does not require a learning process. A learning process where agencies and departments become more sophisticated in the development and evaluation of demands therefore cannot fully explain the changes found.

More important is probably the central role of the Ministry of Finance in the initiation of the project and the later change in balance in favor of individual ministries and agencies (Greve, 2000). In a system with a high degree of ministerial autonomy, the core executive – in this case the Ministry of Finance – is not capable of continually controlling the implementation of large-scale administrative reforms. At the experimental stage where only a few agencies were involved, the Ministry of Finance did remain in control even to the extent that agencies often regarded the Ministry of Finance as the opponent in negotiations (Pedersen, Sørensen & Vestergaard, 1997: 109). This is reflected in the strict accordance of the first contracts with official program statements. The Ministry of Finance played a less central role when the use of contracts spread throughout the administration. As new ministries and agencies joined the contract regime these actors utilized their autonomy to adapt the general framework to their specific priorities. Over time, this scope of action was used to incorporate new management ideas into

contracts as well as to emphasize performance demands focusing on agency environment and policy matters. The development supports the hypothesis of a gradual departmental adaptation of performance contracts more than the hypothesis that contracts are mere symbolic actions. In conclusion, performance contracts must be regarded as highly political instruments. They reflect central ideas in public management thinking and are open for adjustments as such ideas change and new actors become involved.

Since the introduction of performance contracting in the early 1990s contracting has expanded to be applied not only in ministerial agencies, but throughout central government. Other institutions like universities, research laboratories, and museums have entered contracts with their mother departments or agencies. Similarly, the model has spread to the rest of the public sector, including local and regional government. It is one of several elements characteristic of a long-term, though pragmatic and piecemeal, modernization of Danish public sector governance (Greve, 2006). These reforms non-dogmatically mix different rationales and it is characteristic that performance contracts, here analyzed within a strict hierarchical setting, have recently expanded to parts of the public sector that are removed from the executive hierarchy.

NOTES

1. The exceptions include two agencies within the education ministry, which had not implemented the double-layer model consistently; the agency administering the courts, which in contrast to other agencies has a governing board; and finally two minor agencies, the Agency of Family Affairs and the Data Protection Agency.
2. In order to investigate whether changes could be a result of a change in the type of agencies included in the contract regime, the analysis has been done for agencies concerned with economic regulation alone (the largest group of agencies). This confirms the development over time.

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