

Performance Management In Practice – the Norwegian Way

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UNIFOB AS

NOVEMBER 2005

Working Paper 8 - 2005

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Preface¹

This paper is written as part of the research project «Regulation Control and Auditing» funded by the Norwegian Research Council. An earlier version of the paper was presented the EGPA study group on productivity and quality in the public sector – Public sector performance measurements, EGPA conference, Bern, August 31–September 3 2005. We wish to thank Åge Johnsen the other participantes at the study group for valuable comments.

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¹ Paper prepared for the EGPA study group on productivity and quality in the public sector – Public sector performance measurements, EGPA conference, Bern, August 31–September 3 2005.

Summary

This paper examines how the Norwegian system of performance management, Management-By-Objectives-And-Results (MBOR), works in practice in civil service organizations. To do this it focuses on the formulation of goals and performance indicators, performance reporting and performance steering. The empirical basis is a broad survey of Norwegian state agencies carried out in 2004. Using variables derived from a structural-instrumental, a cultural-institutional and an environmental approach, we analyze the variations among agencies in their use of MBOR. While the general ideas of MBOR have been widely adopted in the Norwegian central government, the practical application of MBOR differs considerably from the ideal performance-management model and has been transformed and translated by the various agencies. This variation can primarily be attributed to cultural and environmental factors. The MBOR model seems to work best for agencies that are young and large, that are subject to some form of market competition, and that report a very high level of mutual trust between the agency and the parent ministry.

Sammendrag

I dette notatet undersøkes det hvordan mål- og resultatstyring fungerer i praksis i norsk sentralforvaltning. Det fokuseres på målformulering, resultatindikatorer, resultatrapportering og resultatoppfølging. Det empiriske grunnlaget er en større spørreundersøkelse til alle statlige forvaltningsorganer som ble gjennomført i 2004. Med utgangspunkt i et strukturelt-instrumentelt perspektiv, et kulturelt-institusjonelt perspektiv og et omgivelsesperspektiv undersøkes variasjoner mellom forvaltningsorganene i bruk av mål- og resultatstyring. Studien avdekker at de generelle ideene i mål- og resultatstyringen i stor grad har blitt adoptert i norsk sentraladministrasjon, men også at den praktiske tilpasningen av mål- og resultatstyring varierer betydelig fra den idealtypiske modellen og har blitt omformet og tilpasset av de ulike forvaltningsorganene. Denne variasjonen kan særlig knyttes til kulturelle faktorer og omgivelsesforhold.

Mål- og resultatstyring synes å fungere best for forvaltningsorganer som er unge og store, som fungerer under markedslignende forhold, og som rapporterer om høy grad av gjensidig tillit mellom forvaltningsorganet og overordnet departement.

Introduction

Over the past two decades there has been a significant increase in the use of performance-management systems in the public sector internationally. These systems are widely used, but also criticized (De Bruijn 2002, Bouckaert and Peters 2002, Holzer and Yang 2004, Johnsen 2005, OECD 1997). While there is a lot of performance management going on, there is rather little performance-based strategic steering (Pollitt 2005a). Performance measures and reporting are now widely used within public sector organizations but there is a lack of evidence regarding their usefulness (Propper and Wilson 2003, Talbot 2000). The performance-management systems are primarily used by senior managers, while ministers are less interested in performance measurement. The main challenge seems to be at the interface between political executives and managers (Christensen and Læg Reid 1998). It also seems to be more difficult to report on results than to formulate goals and objectives, and most difficult of all to use performance information as an incentive, whereby good results are rewarded and poor results punished. In practice differences in polity features, cultural factors and tasks seem to produce a lot of variation in the use of performance management (Pollitt 2005a). After two decades of experience with performance management systems the responses vary from 'true believers', via 'pragmatic sceptics' to 'active doubters' (Norman 2002).

In this paper we will examine how the Norwegian system of performance management, Management-By-Objectives-And-Results (MBOR), has been adopted in civil service organizations. We will give a brief outline of the Norwegian context and the development of MBOR in Norway and examine how it is practiced by analyzing data from a comprehensive survey of state agencies conducted in 2004. The main research questions are first, how the agencies perceive the performance-management system in practice, and second, how we can explain variations in performance-management practices between different agencies.

While MBOR systems may be seen as based on technical and objective evidence, our view is that they are characterized by political processes (Aucoin and Jarvis 2004, Christensen, Læg Reid and Stigen 2004). Performance-management systems are embedded in a political-administrative context, where decisions taken and their practical implementation stem from a complex combination of environmental factors, cultural traditions and diverse, organizationally based interests (Christensen and Læg Reid 2001). There are differences between the ideals and theories informing such systems and how they work in reality – in other words, it is difficult to implement the systems' goals or intentions in practice. Measuring performance is a politically complex task, and the search for a single best performance measure is thus a futile one. Public goals are often broad and vague «mission statements» (Boyne 2003: 213), providing scope for ambiguity. Public managers have «room for interpretation», and strict business measurement methods are difficult to use (Noordegraaf and Abma 2003). What is more, measuring performance may shape behaviour in both desirable and undesirable ways (Behn 2003).

We will look at MBOR as a type of regulation within the state. There is a growing focus on self-regulation *inside* government used by a variety of public agencies that set standards and use different forms of performance management and compliance measures to audit government organizations' work (Hood et al. 1999, James 2000, Power 1997). Regulation inside government addresses the ways in which government officials oversee the work of other bureaucrats using rules on how public bodies should operate formulated within the government. The idea is for the ministries to exercise arm's length control using performance management – a new and emergent regulatory form within the public sector often linked to quasi-contractual arrangements in relations between agencies and ministries. For the agencies themselves deregulation may imply more freedom from the central ministries in such areas as personnel, finance, and management. But while the agencies may have more autonomy from the ministries, they also face an expansion in oversight from ex-ante authorization to ex-post control, management-by-objectives-and-results techniques, and performance audit (Hood et al. 1999, Christensen and Læg Reid 1998). Thus we face parallel processes of increased use of the semi-autonomous agency form and performance management.

In this paper we will first discuss some central concepts related to performance management. Second, we will present some main aspects of the Norwegian way of using performance management. Third, we will outline three theoretical perspectives, focusing on different explanatory variables, and formulate hypotheses on the relationships between these independent variables and how performance management is perceived and practised by state agencies. Fourth, we will briefly describe the database and methodology. Fifth, we will present the empirical results. Finally, we will discuss the findings and draw conclusions.

What is performance management?

Performance measurement and management is a main component of the New Public Management movement (OECD 1994, 1997), but it has a long history in public administration and its focus has changed over time (Bouckaert and van Dooren 2003, Sundström 2004). A distinction can be made between a broad concept of MBOR as a general, result-oriented steering idea or principle that has to be adjusted to the individual agency, and a narrow concept focusing on MBOR as an economic and quantitative steering technique with a strong foothold in performance budgeting (Læg Reid 2001a). In this paper we will lean towards the narrower definition of MBOR.

A basic feature of performance management is the assumption that a distinction can be drawn between a politically dominated goal-formulation process and a technical/administrative implementation process involving considerable freedom for the agency in question to select appropriate means. MBOR is a performance-management tool encompassing three main components (Christensen and Læg Reid 1998, Læg Reid 2001a). First, the leadership must formulate clear goals and targets and give subordinate bodies more leeway and discretion in their daily work. This technique is based on the requirement that the objectives are precise, concrete, specific and hierarchically structured with primary and secondary objectives followed by performance indicators.

They must be operational, consistent and stable in order to function as concrete and binding criteria for evaluation. Second, subordinate agencies must report on results using a well-developed system of performance indicators. More emphasis is given to the measurement of performance and in reporting information relating to the functions of the agencies. Improved methods for monitoring results and for measuring efficiency and goal achievement are needed. This includes quantitative performance indicators and increased emphasis on evaluation of the functioning of the agencies. Third, executives must use the reported results to reward good performance and punish bad. Information on the results achieved is supposed to have consequences for resource allocation as well as for how the agencies are organized. The MBOR concept is based on the principle that subordinate bodies should be controlled through contractual arrangements, which would give greater access to resources when results are satisfactory, and, conversely, reduced access when the desired results are not achieved. Thus MBOR is a rather complex technique that is likely to be complex to implement (Pollitt 2004b).

The main MBOR hypothesis is that this model will enhance efficiency and improve performance without having a negative effect on other goals and values (Pollitt et al. 2004). Our argument is that this is a hypothesis and not an evidence-based fact and therefore needs to be examined through empirical studies (Christensen and Læg Reid 2004b).

MBOR is not built on a consistent theory. It reflects the fact that performance-management systems are double-edged swords or hybrids that assume both autonomy and control. On the one hand, they are derived from economic organization theories, like public choice or principal-agent models, which are based on the assumption of distrust (Boston et al. 1996). Public-sector agencies and companies are assumed to be self-interested bodies that need to be controlled through specified performance contracts, performance control and assessments. Thus there is an element of distrust and centralization and the slogan is «make the managers manage».

At the same time, MBOR is also derived from management theories whose basic assumption is mutual trust. According to these theories, subordinate units and superior bodies have common interests and the only way to increase the efficiency of public bodies is to give operating managers more discretion and leeway in deciding how to use allocated resources. The best way to improve organizations is supposedly to allow more autonomy and flexibility. Thus there is an element of decentralization and the slogan is «let the managers manage».

One of the main doctrines of New Public Management is managerial discretion combined with transparent targets and ex-post control by result or performance (Hood and Bevan 2004). In setting targets, evaluating output information and applying rewards and sanctions represents a specific type of regulatory system. Performance management allows a lot of autonomy and flexibility in the use of allocated resources and in choosing the means and measures. However, the price public bodies have to pay for their increased freedom is to accept a more rigid performance-management system, which includes performance indicators and performance monitoring and assessment. The system is thus a mixed one that prescribes both centralization and decentralization, and it is an empirical question in which direction it will tip in practice.

Performance management: The Norwegian way

We will analyze how the MBOR system works in practice by focusing on the case of Norway, where this system is now widely used in the public sector (Christensen and Læg Reid 2002). The chief features of Norwegian-style NPM have been the pragmatic introduction of a formalized performance-assessment regime – labeled «management by objectives and results» (MBOR). A main tool for regulating relations between ministries and agencies is the performance-management system. One part of this system is the establishment of a quasi-contractual steering model, whereby the parent ministry allocates resources and specifies targets and goals for the various agencies by means of an annual steering document. The agencies, in turn, are expected to report on performance through formal reports and a formalised steering dialogue. The idea is to make the managers manage by use of steering and reporting documents, formal steering procedures and dialogues, performance-management techniques and agency steering meetings.

When the management-by-objectives technique was launched in the Norwegian central government at the end of the 1980s, there was considerable emphasis on the formulation of goals and objectives, while later modifications have focussed more on the results aspect. This shift was expressed in the relabelling of the concept *Management-by-objectives* to become *Management-by-objectives-and-results*.

The Management-by-objectives concept was put into practice through three reform measures. The first, *budget reforms*, was introduced in 1986 and was intended to make the state budget system more productivity-oriented. Increased emphasis was to be given to objective management and framework management, with greater freedom in the delegation of tasks and the allocation of the budget at the agency level, within the given budgetary limits. The price for increased devolution was that the agencies were required to pay closer attention to the systematic reporting of results and evaluation.

Second, *activity planning* required all state agencies to compile an annual operations plan covering objectives and the allocation of resources to reach these goals. The first NPM-related reform to be implemented in the civil service was MBOR, which was made mandatory in 1990 with the introduction of an annual activity plan for each public-sector unit. The aim of this reform was to strengthen political control by making goals and means less ambiguous, focusing on results, introducing a monitoring system and making greater use of incentives. A central feature of this arrangement was the development of a hierarchy of primary and secondary objectives. At the same time, considerable priority was given to following up results, through requirements concerning registration, systematisation and analysis of cost information in the agencies. A certain amount of restructuring has taken place in state activity planning since 1994, involving the forging of closer links to budgeting procedures and an increased focus on the measurement of results. This has brought about closer linkage between activity planning and the specific tasks, objectives and special characteristics of the individual state agencies.

The third set of reforms was *salary reforms*. In the early 1990s a new salary system was introduced for some 450 administrative leaders in ministries and state agencies. These officials were removed from the collective salary negotiations and general salary scales based on positions and seniority and instead received salaries based on individual contracts and pay-for-performance elements. In addition, an annual assessment of director-generals and secretary-generals was introduced. This system was implemented more reluctantly than anticipated, partly because of cultural resistance. It proved particularly difficult to involve politicians in the performance assessments. Pay for performance is now more differentiated than before, but still less differentiated than in other countries, and it is unclear how tight the connection is between pay bonuses and individual performance (Læg Reid 2001b).

MBOR has been further developed in recent years and more broadly applied. It is now more closely connected to the state budget and audit system, less rigid and more adapted to the special features of different state organizations. Increased flexibility of MBOR tends, however, to weaken it as an overall control device. Performance auditing has been developed and strengthened in the Norwegian central government since the mid-1990s (Christensen, Læg Reid and Roness 2002), and a comprehensive model for performance management was introduced into the new Government Financial Regulations in 1996 (Helgesen 2001). This includes a Letter of Allocation, which is a contract-like arrangement between the parent ministry and subordinate agencies concerning resources, objectives and performance indicators, and also a formal steering dialogue that takes place between the ministries and agencies throughout the year. Thus performance budgeting and performance management are central features of MBOR.

MBOR entails more flexibility, leeway, autonomy and discretionary power for subordinate agencies. Yet, it also gives rise to a more formal and rigid control regime because of the extensive use of performance management, contracts or contract-like arrangements. The idea is deregulation and less management by rules. Political executives are supposed to specify targets and objectives more clearly, and performance is supposed to be controlled by the use of quantitative indicators for monitoring results and for measuring efficiency. They are expected to act as strategic managers by formulating clear goals and assessing results.

Theoretical approaches

One potential problem with MBOR is that political executives will lose control and that it will be difficult to maintain trust. The performance-management model is partly based on distrust. Agencies pursue their own interests based on local rationality and institution-specific goals, which are not necessarily consistent with the goals of political executives. They thus need to be controlled through formal contracts and management systems, monitoring and assessment. Overall these changes seem to have resulted in political executives' losing control and in administrative leaders in state agencies and companies gaining influence (Pollitt and Bouckaert 2004). This has prompted efforts by political executives to regain control – in other words, deregulation and increased autonomy for subordinate units has been followed by attempts to introduce re-

regulation and more central control, in an attempt to reduce ambiguity about when political executives may intervene and to develop a variety of performance-management systems (Christensen and Lægreid 2004c, Gregory 2003). In practice MBOR is not an alternative to rule steering but an adaptation of it – a sort of «rule-oriented goal-steering» (Christensen and Lægreid 1998).

Obviously, there is a dynamic interplay between increasing autonomy for agencies and the political-administrative control of those units. In prescribing both enhanced autonomy and more control and re-regulation, MBOR reforms perpetuate an enduring tension and conflict. On the one hand, subordinate agencies are to gain more autonomy, both from political executives and from other actors. On the other hand, central political control is to be enhanced by strengthening frame-steering and regulatory power. Political authorities are to abstain from involvement in individual cases, while at the same time strengthening their role as general regulators through the formulation of laws and rules or by the use of other general control instruments. In practice, however, this is not easy, because political executives are constantly confronted by individual cases, often of a problematic nature, leading to controversial attempts to intervene and also to the development of performance-management systems that may potentially give them more control. Often political executives operate according to a reactive political logic that may be at odds with administrative-economic logic and technical systems (Christensen and Lægreid 2002).

Owing to the intensification of the reform process over the past few years, there is a need for a more detailed empirical scrutiny of how reforms are implemented and what effects and implications they have. While certain effects are expected and often promised, they are seldom reliably documented (Christensen, Lægreid and Wise 2003, Pollitt and Bouckaert 2004).

In this paper we set out to challenge the official practitioner model by applying a broader theoretical approach (Pollitt et al. 2004, Christensen and Lægreid 2005). We will distinguish between three perspectives on organizations: a structural-instrumental perspective, a cultural-institutional perspective, and an environmental one, which stresses the importance of external pressure (Lægreid, Roness and Rubecksen 2005a).

The structural-instrumental perspective

A main feature of many approaches to organization theory is the concept of bounded rationality (March and Simon 1958), which implies that decision-makers have limited time and attention and cannot address all goals, all alternatives, and all consequences. They face problems of capacity and understanding and have to make some selections. The formal organizational structure represents one important selection mechanism. Formal structures and procedures organize some actors, cleavages, problems, and solutions into decision-making processes in the public sector, while others are excluded.

Gulick (1937) argues that there is a rather close connection between the formal structure chosen and the practice within and between organizations, underlining that the way formal authority is distributed among hierarchical levels is important for autonomy in practice. In a system characterized by independent agencies this distribution is biased

against the political executive and we will thus generally expect to find a rather high level of autonomy in the agencies. The formal instruments of steering are diluted, the distance between administrative levels increases, and political signals are generally weaker in independent bodies (Egeberg 2003). Whether agencies are specialized according to process, purpose, clientele, or geography will also affect their behaviour.

Decision-makers act on behalf of formal organizations. A structural-instrumental approach presumes that one has to study how the public sector is organized in order to understand how it works. It makes a difference whether central government is an integrated system under ministerial responsibility or a disintegrated system of autonomous or semi-autonomous organizations, whether it is centralized or decentralized, and whether it is specialized according to the principle of geography and/or other principles (Christensen and Lægreid 2005).

According to this perspective formal structure matters, but it is not the only organizational feature that may be instrumentally designed. It is not enough to focus on the narrow internal organizational structure of the agencies, for the division of tasks as well as their external organization may play an important role in their behaviour. Thus, explanatory factors include formal structural features both within and between public organizations as well as polity features (Christensen and Lægreid 2003, Pollitt and Bouckaert 2004).

Based on this general perspective we will adopt four structural variables: form of affiliation, type of agency, existence of an executive board, and character of tasks.² *Form of affiliation* represents the external organization, or form and degree of structural disaggregation from the parent ministry. Our main distinction will be between ordinary agencies and agencies with various forms and degrees of formal autonomy. From earlier studies we know that MBOR seems to work better the further away the organization is from the political executive (Christensen and Lægreid 2002). Our general hypothesis (H1) will be that the most structurally disaggregated organizations practise MBOR according to the ideal model to a greater extent than agencies that are formally closer to the ministries.

The term *type of agency* refers to the internal organization of the agencies. Based on Gulick's principles of specialization we will distinguish between: 1) agencies organized on the principle of purpose, process, or clientele at the national level without any regional or local branches; 2) agencies in which the main principle for organization is geography (area), with one agency in each region or district but without a central agency between the local bodies and the ministry; and 3) organizations with purpose, process, or clientele as the main principle of organization at the national level, but with sub-organizations (branches) in various territorial areas. We will expect the existence of a geographical component in agency specialization in addition to specialization according to ministerial sectors to increase the autonomy of subordinate bodies. Agencies organized according to geography will be more embedded in regional or local networks, which will tend to increase their autonomy from their parent ministry. In Norway, most ministries are organized according to purpose, a few have elements of process or

² For a description of the independent variables, see the Appendix.

clientele, while none are specialized according to geography at the ministerial level. Thus, our hypothesis (H2) will be that agencies organized according to geography in combination with another principle will have more problems implementing the MBOR model than agencies without a territorial component.

The third structural variable is the existence of an executive *board*. We will expect that having a board between the agency and the ministry will blur the hierarchy and authority relations and make it more difficult to have clear and consistent objectives as well as an integrated performance-reporting channel and also make accountability relations more ambiguous. Thus our hypothesis (H3) is that MBOR will be easier to adopt in agencies without a board than in agencies with a board.

The fourth structural variable is the character of *tasks*. Studies of state agencies reveal that there are significant variations in their behaviour according to what their primary tasks are (Pollitt et al. 2004). Not only the degree of vertical specialization and type of horizontal specialization but also the task structure is of importance when it comes to how autonomy is exercised in practice. Here, the basis of categorization is their own perception of what kind of tasks they have. We distinguished between regulatory tasks, other ways of exercising public authority, policy-formulation, and service-providing or producing tasks. According to current regulatory and administrative policy doctrines, regulatory agencies should be at arm's length from ministries in order to enhance credibility and reduce political uncertainty, and political executives should not interfere in the activities of service-providing and producing agencies, because this could disturb free and fair market competition. We will also expect agencies with tasks more similar to private sector organizations generally to adopt MBOR more easily than agencies with other tasks. Performance measurement will also be most feasible in product-oriented organizations (De Bruijn 2002). Thus, the hypothesis (H4) is that agencies with service-provision or production as their primary task will adopt MBOR more easily than agencies with other primary tasks.

We will also expect not only the type of primary task but also the number of tasks to make a difference when it comes to the adoption of MBOR reforms. Our main argument is that MBOR will be easier to adopt in single-purpose organizations than in organizations with many tasks, since the former may formulate consistent goals and objectives more easily than the latter. The hypothesis (H5) is that agencies with one primary task and no secondary tasks will have fewer problems implementing the MBOR model than agencies with multiple tasks. The type of primary task and the number of tasks may also supplement each other. Agencies with only service-providing or producing tasks may thus adopt MBOR more easily than agencies with other primary tasks and also one or more secondary tasks.

A cultural-institutional perspective

A second set of factors concerns the historical and cultural traditions of political-administrative systems (Selznick 1957). According to the institutional approach, informal norms, identities, and the logic of appropriateness are more important than interests and intentions and the logic of consequentiality (March and Olsen 1989). The

point of departure is that a certain style of controlling agencies has developed over time. Norms and values within agencies and central government and internal dynamics are important. Path dependencies constrain what is appropriate and possible to move to agency status and how agencies will operate. The reform road taken reflects the main features of national institutional processes, where institutional «roots» determine the path followed (Krasner 1988). Change is characterized by historical inefficiency and incrementalism. What happens in one agency is not a blueprint for developments in other agencies. Regulatory reforms reinforce underlying distinctive agency-specific or sector-specific trajectories and historical legacies, and the effects of formal structure are mediated and constrained by contextual factors (Thatcher and Stone Sweet 2002). Administrative traditions represent «filters» producing different outcomes in different sectors, and agencies.

Certain styles of controlling agencies have developed over the years, whereby agencies are seen as strong and integrated instruments of political development serving particular political goals. For a long time this was a dominant feature of the Norwegian administrative model (Grønlie 1999). Over the past years, however, this model has been challenged, and the culture has changed towards giving agencies more leeway and autonomy and allowing for looser coupling to political goals, and it has gradually come to be taken for granted that agencies should be at arm's length from the political executive. The extent of this cultural change will probably vary between policy areas, tasks, and agencies. In some administrative cultures well-established informal contacts and networks between ministries and agencies may undermine their autonomy and create stronger integration between ministry and agency than expected from the formal model (Jacobsson 1984, Pierre 2004).

We will distinguish between four indicators of administrative culture. First, *agency age*. Normally, the development of a distinct culture and tradition takes some time. Older organizations will tend to have developed a stronger identity than younger ones, and the potential for socialization of their members into a common culture is higher. Generally we will assume that the traditional rule-oriented culture is stronger in older agencies and that modern results-oriented managerial techniques will be easier to adopt in agencies without a long and well-established administrative culture. Thus, we will expect (H6) older agencies to have more problems with adopting the MBOR model than younger agencies.

Second, *agency size*. Agency size is normally connected to a structural-instrumental perspective, but in this paper we will use this variable as an indicator on cultural homogeneity. Small agencies may generally have a more homogeneous culture and a more distinct identity than large agencies, and are thus more able to live up to the assumptions of clear, stable and consistent goals and to score higher on means-ends relations than more heterogeneous and complex organizations. At the same time, they may have less administrative capability to exploit and utilize the MBOR model. Thus, assuming the primacy of homogeneous identity one may expect (H7a) small agencies to adopt MBOR more easily than large agencies. If, on the other hand, we assume primacy of capacity we may expect (H7b) large agencies in practice to be more able to implement the MBOR model than small agencies.

Third, we argue that *mutual trust* also makes a difference (Pollitt 2005b). There is an inbuilt tension in the performance-management model between the economists' low trust approach of tight performance monitoring and the managerial trust-based model of common identity. If there is a high level of mutual trust between an agency and the parent ministry there will be no cultural collusion between them, and thus no particular need for a formalized MBOR model for steering and control. The need for a well-functioning MBOR model is higher for low-trust relationships than for high-trust relationships, but at the same time it is more difficult to put the model into practice in low-trust situations where, for example, reporting of performance may become biased and strategic. Thus MBOR might be less useful in low-trust systems, even if the need for control and scrutiny is high (Johnsen 2001). Our hypothesis (H8) will then be that a high level of mutual trust between the agency and parent ministry will reduce the motivation to adopt MBOR models but increase the possibilities for implementing the model. Thus it is an open empirical question what the combined effect of these different forces will be. The effects of MBOR in a high-trust system will, however, be smaller because of shared identity, a high level of socialization, and similarities in problem definitions and solutions at the different administrative levels.

Fourth, we will expect internal *agency culture* to affect how MBOR is perceived and practised. Agencies with a culture underlining customer orientation will have fewer problems with adopting the MBOR model than other agencies (H9a). Also, agencies with a strong service-quality culture will have fewer problems than other agencies (H9b).

External pressure

A third set of factors describes the autonomy and control of agencies primarily as a response to external pressure (Olsen 1992). The importance of the environment may be of two kinds (Christensen and Læg Reid 2001). In the first instance there may be an adaptation to internationally based norms and beliefs about how an agency should be run and steered simply because these have become the prevailing doctrine in the institutional environment. New Public Management, with its strong focus on performance-management models, has been taken for granted and become ideologically dominant. Thus, there will be pressure for all agencies to engage in similar practices. The hypothesis (H10) will be that there is generally a high degree of adoption of the MBOR model and low variation between agencies. What will be reported, however, is not necessarily practice, but interpretations of practice (Sahlin-Andersson 1996).

In the second instance, performance-management models may be adopted to solve widespread problems created by the technical environment, such as performance under economic competition and market pressure in a global economy. Even if some of its origin comes from the military (Offerdal and Jacobsen 1993), MBOR is mainly a management technique developed for private-sector firms (Drucker 1954), and we will, therefore, expect agencies that are subject to competition and operating in some kind of market to adopt the MBOR model more easily than other agencies (H11). Generally it will be easier to specify performance indicators and report on efficiency for organizations that have one primary goal of economic performance. The argument is

that MBOR promotes economy and efficiency and will be chosen because it is the most efficient managerial technique.

In addition to the pressure of the market, agencies also encounter pressure from their political environment. Studies have shown that the political salience of their tasks plays a major role for how agencies are steered and managed (Pollitt et al. 2004, Læg Reid, Opedal and Stigen 2005). Agencies in policy areas involving cases and tasks with a high level of political conflict and cleavages will normally have problems in adopting an MBOR model. This model is not particularly suitable for handling conflicts, because it more or less assumes consensus on goals and objectives (Læg Reid 2001a). Thus our hypothesis (H12) is that agencies that to a large extent have been subject to criticism from other public organizations, political actors or the mass media for lack of conformity or correspondence with political objectives or preferences will have more difficulty implementing the MBOR model than agencies that have not been criticized.

Blending the perspectives

We will argue that the environmental, cultural, and structural contexts constitute transformative preconditions and constraints that in a complex and dynamic way affect the trade-off between autonomy and control (Christensen and Læg Reid 2001). Cultural factors can modify the effects of formal structure, but cultural factors can also support structural devolution and amplify its effects. In the same way, external pressure ensuing from market competition or political criticism may be enhanced or tempered by structural features or administrative culture and tradition (Christensen and Læg Reid 2004a). A main assumption is that formal organizational structures constrain organizational behaviour, but also that the adoption of the MBOR model cannot be traced to one single factor such as formal structure. The type of formal structure is normally a broad category, which gives some direction but also allows for a great variety of actual behaviour.

Summing up, the complexity of the context matters, task-specific factors are important and the extent to which the MBOR model is adopted is the result of a blend of external pressure, path dependencies, and structural constraints (Olsen 1992, Pollitt et al. 2004). Instead of assuming that organizational forms determine the implementation of MBOR or that MBOR is totally determined by external pressure or internal administrative culture, we will argue that we have to combine these features to understand the scope, level, and variation of MBOR. This will be done by focusing on the degree of freedom that exists within different organizational forms and on the great variety of situations arising both in administrative culture and in the environment.

Database and methodology

In the formal structural arrangements of the Norwegian state apparatus the form of affiliation is a crucial organizational feature for classifying whether an organization is part of the civil service or not. At the national level the civil service is divided into quite

small ministries with directorates/central agencies, other ordinary public administration bodies, agencies with extended authority, and government administrative enterprises, all outside the ministries but reporting to a ministry. Civil service organizations at the regional or local level may report either directly to a ministry or through an organization at the national level. All civil service organizations are, legally speaking, government entities subject to ministerial directions and subordinated to ministerial control. In contrast to state-owned companies, civil service organizations are regulated through the state budget, the state collective wage agreement, the state pension scheme, the Freedom of Information Act, and the administrative law. Some agencies and all government administrative enterprises are given enhanced budgetary leeway (Lægreid et al. 2003). In short, the form of affiliation grants different sets of formal constraints or freedom of action in the interplay with general governmental regulative frameworks. In this respect, the level of agency autonomy and political steering and control, at least to a certain degree, formally follows as a consequence of form of affiliation.

In Norway, agencies outside the ministries represent the largest share of the civil service. In 2003 only a small percentage of civil servants were employed by ministries (about 3,900). In comparison, about 120,000 civil servants (including those at the regional and local levels) were employed by directorates/central agencies, other ordinary public administration bodies, agencies with extended authority, and government administrative enterprises. This number decreased from 185,000 in 1990, mainly due to the transformation of some large agencies and administrative enterprises into state-owned companies outside the civil service (e.g. the Norwegian State Railways, the Norwegian Power Company, Telenor, the Norwegian Post, the airport administration, and the road construction administration).

The database used in this paper is a survey addressed to all organizations in the civil service outside the ministries in 2004 – i. e., organizations that are state legal entities and report to one or more ministries. It excludes ministries, local government, state-owned companies and governmental foundations. The civil service organizations are divided into *sub-forms of affiliation*. As of 2004 there were 57 directorates/central agencies, 125 other ordinary public administration bodies, 28 agencies with extended authority, and 5 government administrative enterprises (Lægreid, Roness and Rubecksen 2005a).

The population of organizations consists of three different *agency types*: First, all single *national* civil service organizations without subordinate units, comprising 107 bodies (e.g. the Norwegian Competition Authority, the Directorate for Nature Management, and the Data Inspectorate). Second, *integrated* civil service organizations consisting of a national unit as well as subordinated regional or local branches (e.g. the Norwegian Tax Administration, Norwegian Customs and Excise, and the National Police Directorate). All of these 40 national units are included in the population, and they were asked to answer on behalf of the whole organization. Third, all single *regional* units in groups of similar civil service organizations in different geographical areas reporting directly to one or more ministries (e.g. the County Governors, colleges etc.), comprising 68 bodies covering specific parts of the country.

Given these criteria, the population adds up to 215 civil service organizations. One questionnaire was sent to each agency, and a central manager was asked to answer on behalf of the whole organization. The questionnaire was an adaptation of a similar

survey carried out in Belgium (Flanders) in 2002–2003 (Verhoest, Verschuere and Bouckaert 2003).³ It was rather comprehensive, covering organizational characteristics, autonomy dimensions, steering and control relationships, and organizational culture (Læg Reid et al. 2004). A total of 150 organizations answered the survey, which constitutes a response rate of 70%. There were only small variations in the response rate according to sub-form of affiliation and type of agency and between different ministerial areas. For half of the ministerial areas the response rate was over 80% and none was below 50%. Thus our conclusion is that the respondents are quite representative for the population of Norwegian state agencies.

The dependent variables we will use in this paper are different dimensions of MBOR, as perceived by the civil service organizations. We will distinguish between four phases of the MBOR process. First we will address the *formulation of goals and objectives*. Is the formulation of goals and objective a top-down process, a bottom-up process or the result of joint cooperation? What characterizes the annual Letter of Allocation, which is supposed to specify the objectives and allocate financial resources to the agencies? What kind of objectives and signals are formulated? How specific and stable are they?

Second, we will focus on the *performance indicators*. What kind of indicators exist? Are they quantitative, qualitative, activity-focused, output-oriented or outcome-oriented? How many indicators are there? How stable and comprehensive are they? Have there been changes over time? Third, we address the problem of *performance reporting*. To what degree are the performance indicators used for reporting performance? How do agencies report to their parent ministry? Who takes the initiative for reporting results? What is the role of the formal agency steering meetings? How many meetings are there and what do they focus on? Finally we focus on *performance steering*. Are the performance reports used for future resource allocation or just for information? To what extent are there rewards for good performance or sanctions for poor performance? What kind of rewards and sanctions exist? Are there performance-based pay systems?

To describe and explain how MBOR is perceived and practised we will primarily use univariate frequencies, bivariate correlations of all relevant relationships (summed up by measures like Pearson's r), and multivariate analysis of independent variables having significant bivariate correlations (summed up by standardized beta coefficients in linear regressions). While univariate frequencies of dependent variables include all categories, in the bivariate and multivariate analyses we use additive indexes for formulation of goals, performance indicators, performance reporting and performance steering.

³ The questionnaire is part of the «Comparative Public Organization Data Base for Research and Analysis – Network» (COBRA). More information on the COBRA network is available on the Internet: <http://www.publicmanagement-cobra.org/>

The dependent variables: Different dimensions of MBOR

Formulation of goals and objectives

We asked the agencies to what degree they were involved in setting the general goals for their agency. 20% of the agencies reported that they set their goals alone, 45% said that the goals were formulated by the agency in cooperation with the parent ministry, 27% reported that the parent ministry set the goals in cooperation with the agency, and 8% of the agencies said that the goals were formulated by the parent ministry alone. This picture reveals that the goal-formulation process to a large extent is a cooperative effort between the agency and the parent ministry, and that, as perceived by the agencies at least, it is more a bottom-up process than a top-down process. This finding confirms similar patterns revealed in a comprehensive study including agency leaders as well as political and administrative executives in the ministries (Christensen and Læg Reid 2002). Thus, the hierarchical element, according to which goals should be exogenous and externally decided by the parent ministry, is much weaker than assumed by the official practitioners' model of Management by Objectives and Results.

MBOR is a steering technique that favours quantitative goals and objectives. In Norway the normal pattern is a combination of quantitative and qualitative formulations of goals. One fourth of the agencies, however, have only qualitatively formulated goals, while no more than 3% of the agencies report that the goals have a purely quantitative character. Thus the Norwegian way of formulating goals and objectives is more flexible when it comes to allowing qualitatively stated goals than prescribed by the ideal MBOR model.

In Norway the annual Letter of Allocation from the ministry to the agencies is an important document in the MBOR model. In this document the parent ministry presents the objectives and performance indicators for each agency and allocates financial resources for the coming year. It is a quasi-contractual arrangement in which the agency has to report on performance and achievement of the stated objectives during the year through reports and a formal steering dialogue. To work as a binding contract that makes it possible to assess performance the Letter of Allocation should remain unchanged during the budget year, it should not be a long, detailed list of non-prioritized demands but rather a relatively short document oriented towards providing general lines and concrete and testable criteria for goal achievement. In addition, it should specify efficiency targets.

Few agencies live up to such an ideal. One half of the agencies report that the Letter of Allocation is subject to change during the budget year. For 80% of the agencies the document represents a description of goals and activities, while some general signals on prioritizing are also common. Concrete and testable criteria for goal achievement are only reported by half of the agencies, and the same proportion report signals on how to use their professional discretion. Estimates of efficiency or productivity are rather uncommon in the Letter of Allocation. The document is generally characterized as long and oriented towards general guidelines rather than short and oriented towards details.

Over the past five years there has been a tendency towards making the contract shorter, more general and more binding.

For the rest of the analysis we use an additive index for the formulation of goals and objectives.⁴ The index ranges from 0 to 4. Few agencies (10%) report that all criteria for formulation of goals and objectives are fulfilled or that none of them are (12%). The majority (57%) report that they fulfil 2 or 3 of the preconditions for formulation of goals and objectives specified by the MBOR model.

Summing up, after 15 years of MBOR it is still difficult to live up to the ideal of stable, operationally and measurable quantitative goals and objectives formulated for the agencies by the parent ministries. For the majority of state agencies the goal-formulation process is more a bottom-up or a cooperative process than a top-down process. The objectives are more qualitative than quantitative, they tend to change during the budget year and they are typically presented as descriptions of goals and activities and general signals on prioritizing rather than as concrete and testable criteria for performance and efficiency.

Performance indicators

The MBOR model is not only supposed to measure output, activities and resources used, but also outcome and effects on users and clients. As we see in Table 1, the performance indicators first of all give some quantitative information about use of resources and activities and task achievements.

Table 1. To what extent do the performance indicators measure the following factors? Percentages

	To a large extent	To some extent	To a small/ no extent	N=100%
Societal effects	15	45	40	142
Quality of services	24	56	19	144
Use of resources	48	39	14	140
Activities and task achievements	46	46	8	143
Quantitative results	50	41	9	143
Qualitative results	33	57	10	144

There is much less information on quality of services, and outcome (societal effects) is measured to a rather limited extent. 4 out of 10 agencies report that their performance indicators give little or no information about outcome. Thus it seems to be difficult to

⁴ The index is constructed by counting occurrences of agencies reporting that the goals and objectives are formulated by the ministry alone or together with the agency, that some goals are quantitatively formulated, that the Letter of Allocation presents concrete and testable criteria for goal achievement, and that the Letter of Allocation specifies efficiency targets.

move from output and activity measures to outcome measures (Helgesen 2001, Ørnsrud 2001, Ramslien 2005). For many civil service organizations it is difficult to observe and measure their outcome (Wilson 1989) and the nature of their tasks makes it difficult to get reliable information on the societal impacts of their efforts.

It is also of interest how many indicators there are in the steering documents. According to MBOR there should definitely be some indicators but not too many, because the documents are supposed to prioritize objectives and not just list all kinds of performance indicators. Using too many or too few measures can limit the scope for assessing the quality of an organization's performance (Aucoin and Jarvis 2004). Almost all agencies have some performance indicators, normally fewer than 10. Some agencies (22%), however, report more than 20 performance indicators, implying that there is not much prioritization of goals and objectives.

A well-functioning MBOR model should have performance indicators that cover all important aspects of the activities of subordinate organization. However, only one third of the agencies report that the performance indicators to a large extent embrace the central aspects of their operations and work. For the majority the performance indicators cover central aspects to some extent. Hence the performance indicators are biased and report on some parts of the operations more than others; moreover, they do not always concentrate on the most vital or important activities of the organization.

Stability in the performance indicators over time is also necessary in order to obtain comparable data about the development of performance and provide meaningful benchmarks in the long term (Lonti and Gregory 2004). 4 out of 10 agencies report that performance indicators have remained stable over the past five years, while the normal situation is that there are some changes in the indicators over time. A large amount of instability in the indicators is unusual, however. This observation implies that there is some robustness in the system of performance indicators, which should allow for some information about changes in performance over time. That said, there is also a trend towards more qualitatively oriented performance indicators, which might decrease the opportunities for obtaining comparable data on changes in performance over time.

We have constructed an additive index for the performance indicators which will be used for the rest of the analysis.⁵ The index ranges from 0 to 4. Few agencies (7%) report that all four criteria for performance indicators are fulfilled or that none of them are (11%). The majority (60%) report that they fulfil 2 or 3 of the preconditions for performance indicators specified by the MBOR model.

Performance reporting

A third main component in MBOR is performance reporting. The introduction of ICT-based reporting systems has made systematic reporting of performance information easier, and two-thirds of the agencies report that they use ICT-based systems to

⁵ The index is constructed by counting occurrences of agencies reporting that the indicators cover societal effects to some or a large extent, that the indicators cover quality of services to some or a large extent, that the performance indicators to a large extent cover important aspects of the agency's work, and that the performance indicators remain stable during the budget year.

document results and performance. Performance indicators are normally integrated into such systems, and they are used to varying degrees in the relationships between the agency and the parent ministry. 38% of the agencies report that the performance indicators are used to a large extent in the steering relations between the agency and the parent ministry, while they are used to some extent by 43% and to a small or no extent by 19% of the agencies. There are thus some variations with regard to what extent performance indicators provide information that can actually be used as a steering tool. The main picture is that such information has some value, but also that the information is more useful for some agencies and ministries than for others.

There are a variety of channels for reporting performance information from the agency to the parent ministry. Almost all agencies report to the parent ministry through annual reports, and quarterly reports are also common. Added to this, there are reports through budget proposals and other kinds of reporting. The normal situation is that the parent ministry alone or the agency and the parent ministry together take the initiative for reporting on results and achieved goals and objectives. It is rather uncommon for the agency to introduce reports on performance and goal-achievement on its own initiative.

In addition to the formal reports there are also formal meetings as part of a steering dialogue between the parent ministry and state agencies. Almost all agencies report that at least one such meeting takes place each year. Normally there are 2–3 steering meetings during the year, but 17% report more than three meetings. The steering meetings focus primarily on the reporting of performance and achievement of results, but financial and administrative matters are also discussed. Professional matters, such as how experts in the agencies use their professional discretion and leeway, are addressed to a lesser extent.

Table 2. To what extent are the following factors focused on during the steering meetings? Percentages

	To a large extent	To some extent	To a small/ no extent	N= 100%
Financial/administrative matters	62	32	6	142
Professional matters	53	41	6	142
Achievement of results and performance	72	26	2	142

For the rest of the analysis we will use an index for performance reporting or measurement.⁶ The index ranges from 0 to 3. 27% of the agencies report that performance indicators are used to a large extent in steering relations between the agency and the ministry, that reporting on performance and results is a main issue in the steering meetings, and that they use ICT systems to report on performance, while 14%

⁶ The index is constructed by counting occurrences of agencies reporting that the performance indicators are used to a large extent in the steering relations between the parent ministry and the agency, that they use ICT-based systems in performance reporting, and that the steering meetings are used for reporting on results and performance.

of the agencies report that none of the three preconditions for performance measurement and reporting are used. In 28% of the agencies one criterion applies and in 31% two criteria.

Performance steering

MBOR prescribes that performance indicators should be used to reward good performance and to punish bad. Performance management or steering is thus about acting upon performance information (Bouckaert and van Dooren 2003). This seems to be the Achilles' heel in the MBOR model. MBOR has been hard to implement in practice owing to difficulties in isolating outcomes and rewarding good performance (Helgesen 2001, Ørnsrud 2001). Only 49% of those agencies that use performance indicators in steering relations with the parent ministry say that the information is used as a basis for future resource allocation, while 46% report that it is primarily an informational basis for organizational learning. In cases where it is used for future resource allocation, normally more than 10% of the total budget of the organization is linked to this type of allocation. Overall, as many as 63% of the agencies report that the agency is rewarded to a small extent or not at all for good results (i.e., for reaching targets), while 26% report that they are rewarded to some extent and 11% to a large extent. The normal way of rewarding good performance is to increase resource allocation, while increased autonomy with regard to superior units or regulations, increased discretion for individual employees, or wage increases and bonuses are only used in rare exceptions. 90% of the agencies do not use pay for performance or bonus pay as a way of rewarding performance, and if such measures are used it is more common for managers than for other employees. When it comes to using sanctions in case of bad performance this happens to a small extent or not at all for two-thirds of the agencies, 24% report that this happens to some extent and 9% to a large extent. Punishing bad performance is thus rarer than rewarding good performance, but the normal method of applying sanctions is to reduce future resource allocation.

For the rest of the analysis we will use an additive index to measure use of rewards and sanctions.⁷ The index ranges from 0 to 3. For 36% of the agencies there are no rewards or sanctions in use that can be connected to performance measurements or reporting. 18% report that they fulfil all three preconditions, 17% fulfill two and 29% one feature.

Summing up, in practice MBOR seems to work quite differently to what the ideal model of performance management prescribes. It is not easy to live up to the ideal of formulating exogenous goals that are stable, quantitative and measurable; in order to develop outcome-related performance indicators that cover all important aspects of the agency's activities and prioritize between different objectives. Neither is it easy to build such performance indicators into comprehensive information-reporting systems that

⁷ The index is constructed by counting occurrences of agencies reporting that performance information based on indicators are used in the steering relations between the agency and the parent ministry as basis for future resource allocation, that the agencies are rewarded for good results, and that they are sanctioned for poor results.

provide systematic feedback to the parent ministry; or to use such information to reward good performance and punish bad.

In reality the goals are formulated in cooperation between the agency and the parent ministry, they are often unstable and non-operationalized; and the performance indicators cover some but not all important aspects of the agencies' activities. The extent to which performance indicators are actually used in systems of information-transfer between agencies and ministries varies, and the reported information is used only to a minor degree for rewarding agencies for their performance or imposing sanctions.

Generally it seems easier to develop goals and objectives than performance indicators. Performance indicators are developed for some objectives but not for all. There is systematic reporting on some performance indicators and in some agencies but not on all indicators or in all agencies, and the weakest link in the performance-management system seems to be the use of performance information to issue rewards or punishment.

The relationship between the MBOR dimensions.

In an ideal MBOR model there should be high positive correlations between the different phases of goal formulation, development of performance indicators, performance reporting and performance steering. If the correlations are not significant or negative, the MBOR model is not a coherent steering tool. What we see in Table 3 is that there are some tight ties and some loose ties. There are strong positive correlations between performance reporting on the one hand and rewards and sanctions on the other. Performance indicators are tightly coupled to performance reporting, but not to the formulation of goals or to the issuing of rewards and imposition of sanctions. Thus the weak coupling seems to be between objectives and performance indicators, and also between performance indicators and rewards and performance steering. The challenges are to develop performance indicators that are more clearly derived from the goals and objectives, and to strengthen the link between performance indicators and rewards and sanctions.

Table 3. Intercorrelations between objectives, performance indicators, performance reporting and performance steering. Pearson's r

	<i>Formulation of goals</i>	<i>Performance indicators</i>	<i>Performance reporting</i>	<i>Performance steering</i>
Formulation of goals	-	.05	.32 **	.22 *
Performance indicators		-	.28 **	.06
Performance reporting			-	.51 **

** : Significant at the .01 level; * Significant at the .05 level

Bivariate and multivariate analyses

The next question on which we focus is how the scores on the different independent variables, i.e. our indicators of structural, cultural, and environmental features, correlate with the different dimensions of MBOR. We first examine the bivariate relations between each set of variables and the different MBOR dimensions, and then do a multivariate analysis of the relative importance of the various variables for formulation of goals, performance indicators, performance reporting and performance steering.

Bivariate analyses

Structural features. Are there any differences in perceived autonomy and control according to the structural features of the agencies? Table 4 reveals that form of affiliation does not have any significant effect on the different dimensions of MBOR. This means that agencies that are structurally disaggregated from the parent ministry do not adopt the MBOR model to a greater extent than agencies that are closer to ministries: thus our hypothesis H1 is not supported. Autonomy received through greater structural devolution is not compensated for by stronger use of MBOR.

Table 4. Bivariate correlations between independent and dependent variables. Pearson's *r*

	Formulation of goals	Performance indicators	Performance reporting	Performance steering
Structural variables				
Form of affiliation	.12	.15	.08	.11
Agency type	-.12	-.08	-.25 **	-.19 *
Board	.06	.12	.04	-.21 *
Tasks:				
- Primary tasks	.04	.02	.11	.27 **
- Number of tasks	-.22**	.03	-.11	-.05
Cultural variables				
Agency age	-.01	.00	.10	.30 **
Agency size	.31 **	.07	.36 **	.40 **
Mutual trust	.03	.28 **	.25 **	.02
Agency culture:				
- Customer orientation	-.07	.07	-.06	-.17 *
- Quality of services	-.06	.11	-.07	-.24 **
Environmental variables				
Market competition	.15	-.06	.31**	.45**
Criticism	-.04	-.07	.08	.09

** : Significant at the .01-level; * : Significant at the .05-level

Agency type makes a difference when it comes to performance reporting and the use of rewards and sanctions. Reporting on performance and the use of rewards and sanctions is less common among national agencies than among integrated or regional agencies. In contrast to our hypothesis (H2), agencies without a regional branch normally adopt performance reporting and performance steering to a lesser extent than other agency types.

When it comes to the existence of boards we see a tendency for agencies with boards to be more accustomed to issuing rewards and imposing sanctions than agencies without boards. In contrast to our hypothesis (H3) – that boards would make performance- measurement systems more difficult to implement – the existence of a board actually increases the use of rewards and sanctions in steering relations between the agency and the ministry. Thus it looks as if boards make it more necessary for the

ministry to use performance information more actively to issue reward and sanctions on the agency.

Agencies with service provision or production as a primary task tend to use the rewards and sanctions component of MBOR to a greater extent than agencies have other primary tasks, as we expected from our hypothesis (H4), but primary task has no significant effect on the other dimensions of MBOR. It also seems to be less difficult for agencies with a complex task structure to specify goals and objectives in accordance with the MBOR model, in contrast to what we expected (H5).

Cultural features. In line with our stated hypothesis (H6) agency age has a significant effect on performance steering, meaning that rewards and sanctions are easier to use in younger agencies than in older ones. However, age has no effect on the other dimensions of MBOR. Agency size is more important. Large agencies practise the formulation of goals, performance reporting and performance steering to a greater extent than small agencies, indicating that MBOR is easier to adopt in large agencies than in small ones. Thus agency capacity seems to make a difference as we expected (H7b). As we expected from our hypothesis (H8), a high level of mutual trust also makes it easier to develop performance indicators and to use them to measure and report on performance. Thus trust enhances the adoption of the performance-indicator and measurement components of the system. This leads to the paradoxical situation that a system based on distrust needs strong trust to be implemented. Performance-measurement systems and trust-related systems are not necessarily alternative but rather supplementary systems (Christensen, Lægveid and Stigen 2004). This finding is, however, more true for performance indicators and performance reporting than for the formulation of goals and the use of rewards/sanctions.

Agency culture does not seem to make any difference for the three first phases of MBOR. There is a correlation between the two indicators of agency culture and rewards and sanctions, but in contrast to what we expected (H9a, H9b), a high level of customer-orientation and service-quality makes it more difficult to use performance steering. This finding may indicate that an MBOR-related culture in the agencies tends to reduce the need for performance steering.

Environmental pressure. Based on the idea of an institutional environment we would expect performance-measurement models to have been taken for granted and become a dominant management model. Thus strong symbolic pressure from the environment would tend to result in a high level of adoption of the MBOR model and low variation between agencies. What we see is a rather high level of adoption of this performance-management model, but also that it has been translated to fit into different local settings. Some parts of the model, such as the formulation of goals and targets and the formulation of performance indicators, have been implemented to a greater degree than others, like performance steering. We also see little variation between agencies when it comes to the formulation of goals and performance indicators, but quite a lot of variation when it comes to performance reporting and steering. So our hypothesis H10 is partly confirmed. MBOR is certified as a «best practice», and the ideal model has been modified and adjusted to fit the local circumstances in the different agencies. This

elasticity enhances flexibility and makes it easier to adopt the concept locally. In particular, the formulation of goals and performance indicators has been ritualized in the agencies, and is now taken for granted and widely accepted.

The more specific hypotheses regarding the importance of environmental features, market competition, tends as expected (H11) to encourage performance reporting and also to mean that performance information is used to reward good performance and punish bad. Being in a competitive environment does not, however, have any significant effect on the formulation of goals and performance indicators. External pressure in the form of criticism in the media or from the parliament does not seem to have any effect on how MBOR is practised. Thus the last of our stated hypothesis (H12) is not confirmed. This indicates that MBOR is loosely coupled to external political pressure but more strongly affected by normative symbolic pressure and market pressure.

Summing up, the general picture in the bivariate analysis is, first, that our independent variables have more effect on variations in performance steering and in performance reporting than in the formulation of goals and performance indicators. Second, cultural features seem to be more important than structural and environmental features. Third, while for cultural and environmental features most of the significant correlations are in accordance with our hypotheses, for structural features most of the significant correlations are in the opposite direction to what was expected.

Multivariate analysis

We now turn to the question of the relative explanatory power of the different independent variables on the four dimensions of MBOR.⁸ The multivariate analyses, summed up in Table 5, generally confirm the main pattern revealed in the bivariate analyses.

First, when controlling for the other significant bivariate correlations, the independent variables still mainly make a difference for the last two phases of MBOR. While the independent variables explain a substantial part of the variation in performance reporting and in performance steering, they do not explain much of the variation in the formulation of goals and performance indicators. Second, while most of the relevant relationships between cultural variables and MBOR are still significant, the importance of structural variables is heavily reduced when other independent variables are controlled for. Third, for cultural and environmental features the significant correlations are in accordance with our hypotheses.

When it comes to cultural variables agency size has a significant effect on most phases of MBOR, in accordance with what we expected assuming the primacy of capacity related to size (H7b). Without sufficient administrative capacity it seems to be difficult to put the rather complex MBOR model into practice. Agency age makes a difference for performance steering, but not for other dimensions of MBOR. The mutual trust between agency and ministry is the only independent variable that has a significant effect on performance indicators, and it is also important for performance

⁸ Only variables with significant bivariate correlations are included in the analysis.

reporting. Aspects of agency culture, such as customer orientation and quality of services, does not seem to influence MBOR to any significant extent. However, in total, the cultural-institutional perspective has greater explanatory power than the other two perspectives, particularly the structural-instrumental perspective. Of the environmental variables, market competition has a significant effect on performance reporting and performance steering when controlling for structural and cultural variables, while political criticism does not make a difference for MBOR.

Table 5. Summary of regression equations by structural, cultural and environmental features affecting different dimensions of MBOR. Standardized Beta coefficients. Linear regressions

	Formulation of goals	Performance indicators	Performance reporting	Performance steering
Structural variables				
Form of affiliation	-	-	-	-
Agency type	-	-	-.15	-.07
Board	-	-	-	.01
Tasks:				
- Primary tasks	-	-	-	-.01
- Number of tasks	-.16*	-	-	-
Cultural variables				
Agency age	-	-	-	.18 **
Agency size	.27 **	-	.21 **	.24 **
Mutual trust	-	.28 **	.23 **	-
Agency culture:				
- Customer orientation	-	-	-	-.02
- Quality of services	-	-	-	-.10
Environmental variables				
Market competition	-	-	.26 **	.40 **
Criticism	-	-	-	-
Summary statistics				
Multiple R	.34	.28	.50	.61
R2	.12	.08	.25	.37
Adjusted R2	.10	.07	.23	.33
F Statistics	9.277		11.700	9.779
Significance of F	.000	.010	.000	.000

** : Significant at the .01-level; * : Significant at the .05-level; - : not included in the analysis

Summing up, the structural-instrumental perspective does not seem to have much explanatory power, and the type of tasks, as far as we are able to measure, does not seem to have a major impact, in contrast to other findings (Pollitt 2005a, 2005b). There

seems to be a convergence across tasks in using MBOR. The only significant effect is that, in contrast to our assumption, multi-task organizations formulate goals in accordance with the MBOR model to a higher degree than other agencies. This indicates that agency status is an uncertain predictor of steering relations (Pollitt 2004a), especially when it comes to variations between the different sub-forms of agency focused on in this paper. We have revealed little difference between the sub-forms, but the picture could have been different if we had included a broader range of public sector reforms (Lægreid, Roness and Rubecksen 2005a, 2005b). We might face a situation in which the variations within each sub-form are more significant than variations between different sub-forms. The legal status and formal powers of the agencies represent broad categories that allow for huge variations in actual behaviour within each category. Added to this, MBOR is a plastic model that can be modified and adjusted to fit different structural forms. This flexibility might imply that the content and practice of MBOR can vary between agencies with different structural features even if they all report using various components of MBOR.

Conclusion

In this paper we have shown, first, that the general ideas of MBOR have been widely implemented in the Norwegian central government. The general doctrine of this reform rhetoric has been adopted in the agencies and become a dominant management «solution» for all agencies that want to be modern and efficient. Some elements of the specification of objectives, formulation of performance indicators, performance reporting and performance steering can be observed in the majority of agencies. The performance-management model is not a fad that will soon pass, but rather exists in many different versions.

Second, as reported by the agencies, MBOR differs to a significant degree from the ideal performance-management model. The model has been around in the Norwegian state administration for 15 years, but its main premises are still proving difficult to implement as a coherent and tightly coupled system. Instead there has been a lot of translation and modifications. There has been a long period of adaptation and adjustment, which has resulted in significant variations between agencies in the interpretation and implementation of the MBOR system. The way the different components of the model are mixed varies considerably. One size does not fit all and there is not a standardized solution. What we see is less a narrow product-oriented performance measurement and more a broad process-oriented version that focuses more on qualitative aspects, and is more dialogue-oriented and more trust-based (De Bruijn 2002). There is a lot of goal formulation going on, but in accordance with the Norwegian collectivist and consensus-oriented administrative culture the goals are not imposed externally from the top of the hierarchy, but are formulated jointly by the ministry and the agency. The agencies make a strong effort to formulate performance indicators, but the coupling between objectives and performance indicators is rather loose (Modell 2004). There is a loose coupling and lack of coherence within the performance measurement system (Lawton, McKeivitt and Millar 2000). The indicators

cover only some of the main aspects of the agencies' work, and they tend to measure activities and output more than outcome. There is a lot of performance reporting and increased formalization of the information system. But the Achilles' heel seems to be performance steering. The great challenge is to use the information obtained to make decisions and formulate policy, but «steering by indicators» is rather unusual in the Norwegian case, as has also been revealed in other countries (Pollitt 2005b, Ingraham et al. 2003). The agencies invest a lot in systems of performance measurement, but subsequently make limited use of them (De Bruijn 2002). Overall, the majority of agencies are not rewarded to any great extent for good results or punished for poor results. Pay-for-performance systems only introduced for a small minority of the agencies.

Third, we have been able to explain a fair amount of the variance in performance reporting and performance steering, but less when it comes to formulation of objectives and performance indicators. This might imply that formulation of objectives and performance indicators is a generally applied practice in the agencies while performance reporting and performance steering are less common and also vary to a greater degree between agencies with different cultural and environmental characteristics. The cultural-institutional perspective has relatively strong explanatory power, and agency age, agency size and mutual trust, in particular, seem to make a difference. Large agencies comply with the model more than small agencies when it comes to the formulation of objectives, performance reporting and performance steering. Performance steering is also easiest to apply in young agencies. Added to this, a high level of mutual trust tends to make it easier to formulate performance indicators and to practise performance reporting. The environmental perspective also has some explanatory power, especially when it comes to performance reporting and steering. Agencies that operate in some kind of market competition tend to use performance reporting and are also more exposed to performance steering than other agencies. The variables derived from the structural-instrumental perspective have little influence on variations in the application of the performance-management system when cultural and environmental features are controlled for.

Fourth, a lesson from this study is that there is no one-factor explanation for variations in the application of performance-management systems in the public sector. One has to look instead for explanatory factors in the administrative culture and traditions and in the task environment of the agencies. Thus there is a need to blend the perspectives and to take contextual factors into account.

What, then, are the practical and theoretical implications of these findings? Overall, the MBOR technique seems to work best for agencies that were established in the 1990s or later, that have more than 200 employees, that are subject to some kind of market competition and that are in situations where mutual trust between the agency and the parent ministry is high. For old and small agencies that have no competition and report relatively low mutual trust between the agency and parent ministry the conditions for developing a performance-management system are rather poor. One implication of these findings is that trust and performance monitoring and steering are more supplementary strategies than alternatives. To fine-tune performance measurement and

make performance reporting and steering more sophisticated is unlikely to be very successful unless there is also a high level of mutual trust.

We also find that there is no dominant performance-management model in the Norwegian public administration. There seems to be a lot of leeway for different agencies to apply their own variants of MBOR, which can deviate to a large degree from the ideal model of performance management. This is not necessarily a bad strategy. It might make it easier to implement a «performance management model» and make it compatible with the existing administrative culture and procedures, but it might also produce dysfunctions and create new problems (Bouckaert and Peters 2002). Here we face a broader concept of performance management systems in which performance questions are shifting from quantity to quantity and quality, from efficiency to service quality, and it is not only a question of rewards and sanctions but also of learning and making improvements. A major challenge is to strengthen the link between performance and resources and to move from reporting on activities and output towards societal performance.

Performance information can be used for different purposes (Bouckaert and van Dooren 2003). One is to use it in the policy cycle to evaluate, learn and improve policy. This is done to some extent in the Norwegian case, but there is a long way to go before there is an evidence-based policy cycle, and one probably often has to go beyond performance measurement to get the necessary information. Results-based reporting will not disappear, but expectations must be revised and become more realistic.

Performance measurement can also be used to increase accountability. In this paper we have primarily focused on the accountability of decentralized or devolved agencies to parent ministries. Performance information is essential in the steering of autonomous agencies, and MBOR is primarily a tool for steering between governmental bodies at different administrative levels.

Accountability is not only about using performance measurement as an internal control device within the administration. The question of the accountability of the administration towards citizens and politicians is also crucial in a representative democracy. The performance-management system has been dominated by a technocratic and mechanistic logic, but in practice it also has political implications (Lonti and Gregory 2004). Thus there is a need for a more open dialogue between agencies, professionals, managers, political executives, parliament and the general public. The accountability problem cannot be reduced to a kind of technical pathology but has to be seen in the wider context of political legitimacy and mutual trust not only between managers on different levels but also between political and administrative executives and between citizens and government.

One general lesson learned from introducing MBOR in to the public sector is that it is possible but difficult to implement and the result is not always what the reform agents intended. MBOR is not a panacea for problems of economy, efficiency, effectiveness and accountability in the public sector, but a reasonable use of the method adjusted to the complex political and administrative context of central agencies might be a way to move forward.

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APPENDIX: Independent Variables

Form of affiliation

In the Norwegian State Administration Database we distinguish between four sub-forms of affiliation for civil service organizations outside the ministries: a) directorates/central agencies, b) other public administration bodies, c) agencies with extended authority, and d) government administrative enterprises (cf. Læg Reid et al. 2003). The first two types are also often called ordinary civil service organizations (or ordinary agencies), and are most closely linked to the ministries and subjected to general governmental regulative frameworks and regulations encompassing virtually all aspects of their activity. Government administrative enterprises represent the opposite end of the continuum, and are primarily state organizations engaged in governmental business management. As such they are given a high degree of economic latitude. A civil service organization with extended authority is a sub-form in which the organization is formally granted some professional and financial leeway in relation to political steering/control and regulative frameworks. This sub-form lies somewhere between ordinary civil service organizations and government administrative enterprises.

Owing to the relatively small number of agencies with extended authority, and particularly of government administrative enterprises, we will only distinguish only between ordinary agencies and other agencies.

Table A1. Form of affiliation. Percentages

1. Other agencies	15
0. Ordinary agencies	85
N=100 %	150

Type of agency

We distinguish between three types of agencies with regard to their territorial coverage: a) *National agencies* have no subordinate units and are the only state organization of their kind in the country (51%); b) *Integrated agencies* have a central unit and one or more subordinate units located in different geographical areas (19%); c) *Regional agencies* are units covering a specific territorial area, reporting directly to one or more ministries (30%). The data on type of agency is taken from the Norwegian State Administration Database.

We use a dichotomous variant of this variable:

1: Agencies without a geographical component (national agencies)

0: Agencies with a geographical component (integrated agencies and regional agencies)

Task

In the survey, questions were formulated in order to gather information on both primary (main) and secondary (additional) tasks of various kinds that an organization can attend to. We divided tasks into five categories a) regulation and scrutiny (23%), b) other modes of exercising public authority (25%), c) general public services (45%), d) business and industrial services (5%), and e) policy formulation (3%). *Regulation and scrutiny* was singled out as a separate category from other modes of exercising authority, owing to the specific and circumscribed nature of these tasks. For *service provision and production*, a distinction was made between tasks carried out primarily on a non-profit basis (general public services) and those involving some form of market (business and industrial services). The category policy formulation includes policy shaping as well as policy formulation.

We use a dichotomous variant of the categorization of primary tasks:

- 1: service provision and production (general public services and business and industrial services)
- 0: other tasks (regulation and scrutiny, other modes of exercising authority, and policy formulation)

In the survey, we also asked about agencies' secondary tasks. As for primary tasks, a predefined set of tasks was used, and the agencies could choose up to two secondary tasks. A large majority of the agencies reported having secondary tasks (81%), mostly general public services (27%), but many agencies also reported regulation (25%) and other modes of exercising public authority (25%). A smaller number of agencies reported having secondary tasks in the field of business and industrial services (17%) or policy formulation (16%). For the purpose of this paper, we again use a dichotomy:

- 1: no secondary tasks
- 0: one or two secondary tasks

Board

The survey also formulated several questions relating to whether or not the agencies had a board, and if so, the characteristics of the board. In this paper we distinguish only between the existence or non-existence of a board:

Table A2. Existence of a board. Percentages

1. Do not have a board	53
0. Have a board	47
N=100 %	146

Agency age

The data on agency age is taken from the Norwegian State Administration Database, which provides detailed information on year of establishment. In this paper we use a dichotomy: agencies established before 1990, and agencies established in 1990 or later. The distinction was based partly on the fact that the scope and intensity of the NPM movement gradually increased from 1990 onwards (Lægneid et al. 2003).

Table A3. Agency age. Percentages

1. Established 1990 or later	39
0. Established before 1990	61
N=100 %	150

Agency size

In the survey, agency size was established according to a predetermined set of categories for the number of employees (including subordinate branches): a) fewer than 20, b) 20–49, c) 50–199, d) 200–499, and e) 500 and more. In this paper we use three categories, as shown in Table A6.

Table A4. Agency size. Percentages

2. 200 employees and more	40
1. 50–199 employees	34
0 Fewer than 50 employees	26
N=100 %	147

Mutual trust

In the survey we asked about the extent of mutual trust between the agency and the parent ministry. The question originally gave the respondents the opportunity to choose between five different categories: a) very high mutual trust, b) rather high mutual trust, c) high and low mutual trust, d) rather low mutual trust, e) very low mutual trust. Fewer than 8% reported having a level of trust in category c) or lower, while a majority reported a very high level. Thus, in this paper we used the dichotomy very high mutual trust vs. rather high mutual trust or lower.

Table A5. Mutual trust between agency and parent ministry as seen by the agency. Percentages

1. Very high mutual trust	53
0. Rather high mutual trust or lower	47
N=100 %	146

Administrative culture

One set of questions in the survey was aimed at assessing different aspects of the prevailing administrative culture in the agency: «Assess the agency as it exists today. How well is (each of the following 16 aspects) attended to in the agency? Try to see the agency from a distance.» For each aspect there was a scale: very bad, bad, average, good, and very good.

In this paper we have selected two aspects as indicators of administrative culture: customer orientation, and quality of services. Only a small portion of the agencies gave an assessment below average for customer orientation (8%) and quality of services (1%). A large majority assessed customer orientation as very good (15%) or good (52%), while the score on quality of services was even higher (14% very good and 71% good). For both aspects we use a dichotomy.

Table A6. Assessment of customer orientation in the agency. Percentages

1. Very good or good	67
0. Average or less	33
N=100 %	145

Table A7. Assessment of quality of services in the agency. Percentages

1. Very good or good	84
0. Average or less	16
N=100 %	145

Market competition

Several questions were related to the extent of competition perceived by the agencies. First: «Taking the primary task of the organization as the point of departure – are there any other organizations carrying out the same or similar tasks and/or services within your field of work?» Here 44% of all agencies answered yes. They were then posed a follow-up-question: «If yes, is the agency in a market or a quasi-market characterized by competition?» Some of them (37%) answered no, while the majority answered yes to some extent (45%) or to a large extent (18%). Here, we only distinguish between whether the agencies are in a market or a quasi-market position characterized by competition or not.

Table A8. Is the agency in a market or a quasi-market position characterized by competition? Percentages

1. Yes	30
0. No	70
N=100 %	150

Criticism

The relevant question was formulated as follows: «To what extent has the organization during the past 5 years been subject to criticism from other public units, political actors or the mass media owing to lack of conformity/correspondence with political objectives and preferences?» Here 25 % reported that this had not occurred, 44% that it had occurred to a very small extent, 27% to some extent, and only 4% to a very large extent.

Table A9. Has the agency been criticized during the last 5 years? Percentages

1. To a small or no extent	69
0. To some or a very large extent	31
N=100 %	147

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