Title
Performance Management’s Role in the Steering of Executive Agencies: Layered, Imbedded, or Disjointed?

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Abstract
The article analyses the Norwegian state administration’s performance management practices, based on a study of performance contracts between 77 Norwegian executive agencies and their parent ministries. The results show that most performance objectives target agencies’ outputs and outcomes, suggesting that the “right version” of performance management is practiced. Two perspectives are developed to hypothesize about performance management’s relationship to legal, fiscal, legal and direct behavioral steering. The layering perspective assumes ministries use performance management to repair gaps left by limitations in the other control instruments. The imbedding perspective assumes ministries develop performance management practices that uphold intentions for delegated autonomy. The layering perspective receives some support, but overall, it seems decisions about how to use each governance instrument are quite disjointed, without much concern for harmony with how other instruments are used. The article also shows that performance management practices are influenced by contextual factors like the number of tasks an agency performs, organizational heterogeneity, and whether an agency was established before or after the general introduction of performance management.
Performance Management’s Role in the Steering of Executive Agencies: Layered, Imbedded, or Disjointed?

Introduction

Understanding the relationship between agency conditions and the dynamics of performance management is an ambition of much recent performance management research (Pandey, Coursey, & Moynihan, 2007; Moynihan et al., 2011; Van Thiel, Verhoest, Bouckaert, & Lægreid, 2012). Performance management has undoubtedly gained in importance (Moynihan & Pandey, 2005), but performance management remains one among several instruments used to steer state agencies by the executive branch of government. Importantly, various instruments of control interact; they influence each other’s development and effects (Greve, Flinders and Van Thiel, 1999; Pollitt, Talbot, Caulfield, & Smullen, 2004; Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010). The ambition of this article is to improve understanding of how performance management practices are entangled in wider executive governance (Whitford & Yates, 2003). More specifically, we explore the relationship between ministry-agency performance management on the one hand, and fiscal, legal and direct behavioral steering on the other.

The article helps fill a gap in public administration research, by providing empirical research on the relationship between two of the past decades’ major trends, performance management and “agencification” (Pollitt, 2006). Empirical evidence stems from analysis of governance relations between ministries and 77 executive agencies in Norway. Performance management is measured as the number and contents of performance objectives imposed on agencies, based on document analyses of ministry-agency performance contracts from the year 2012. The study hence focuses on the first stage of performance management, the setting of objectives, or goals. Performance contracts specify performance objectives ministries
expect the government agency to fulfill within a given period in return for funding (Nordegraaf & Abma, 2003; Greve, 2008). Studying performance contracts has proved a useful research strategy for cross-sector studies of performance management and other governance practices (Binderkrantz, Holm, & Korsager, 2011; Martin & Smith, 2005). Performance contracts, now a widespread phenomenon, are primary carriers of executive governance by performance – the same way laws and regulations carry legal steering and budgets and financial management carry fiscal steering.

Instruments of executive governance vary in terms of what they typically enable the ministry to control. The “what” to control can be understood in accordance with the value chain approach (Moynihan 2006, Van Dooren, Bouckaert, & Halligan, 2010; Binderkrantz, Holm, & Korsager, 2011; Koontz & Thomas, 2012; Pollitt & Dan, 2013). Our first question is: Do performance objectives largely refer to agencies’ outputs and outcomes, often considered the home turf of performance management (Verhoest, 2005; Moynihan, 2006), or to inputs or work processes, often considered home turfs of other governance instruments? Output objectives refer to contributions the agency makes (e.g., number of patients treated) to produce desirable societal outcomes (e.g., a better health status in the populace). Objectives that refer to, for example, agency competencies (e.g., qualified personnel) and physical infrastructures (e.g., IT systems) are input objectives. Process objectives refer to, for example, case processing time, whether work in the agency should be done individually or cooperatively, and whom to cooperate with in what way. To the extent ministries emphasize governing inputs and processes by objectives, one can argue that the wrong version of performance management has been poured into the executive governance mix.

In a second step, we explore directly the interface between performance management and other governance instruments: How do performance management practices correlate with fiscal, legal, and behavioral steering in ministry-agency relations? For example, are agencies
with high fiscal autonomy steered with fewer input-oriented goals than are agencies with lower legal autonomy? Two perspectives are developed to inform hypotheses about such patterns in the executive governance mix; one is called the layering perspective, the other the imbedding perspective. These have different assumptions about what role performance management plays in wider executive governance: Do ministries use performance management to repair control gaps left by limitations or reductions in legal, fiscal, and direct control instruments, or, do they use performance management to reinforce intended levels of delegated autonomy? A third possibility is that decisions about how to use each governance instrument are made without concern for harmony with how other instruments are used. Hence the article’s title: “Layered, imbedded, or disjointed?”

To make the analysis of interconnections between performance management and other instruments of executive governance more robust, we control for the effects of agency-level features shown in existing literature to affect performance management practices. These are the number of tasks an agency performs; agency size; organizational heterogeneity; political salience; and whether an agency was established before or after the general introduction of performance management. Results of these analyses should also be of general interest to scholars interested in the relationship between agency conditions and the dynamics of performance management.

The article proceeds as follows. The next section develops the theoretical expectations. The research setting section outlines relevant aspects of Norwegian performance management practices. The methodology section describes the data, operationalizations and methods. Then the results and conclusions are presented and discussed.

**Theoretical framework: The executive governance mix**

Agencies are neither departmental units nor (wholly or partly) state-owned companies; they are rather directorates, inspectorates, and other entities that are legally part of government but
still operate at arm’s length from the government to carry out policy implementation, to regulate, and to perform other public tasks (Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010). Delegating autonomy to agencies can have advantages for the ministry in charge. Delegation frees up capacity to focus on political and strategic tasks (Moe, 1984; Christensen, 1992) and may enable ministries to blame agencies for undesirable policy effects (Hood & Lodge, 2006). “Agencification” reduces ministerial control and may may allow state agencies to develop interests that diverge from those of their principal ministries (Eisenhardt, 1989; Pratt & Zeckhauser, 1991; Binderkrantz & Christensen, 2009b; Moe, 1984; Dunleavy, 1992). To ensure that agencies behave in the ministries’ interest, ministries use various control instruments. Fiscal control instruments used by a ministry (e.g., constraints on an agency’s budgetary flexibility) target agency inputs; legal control instruments (e.g., decision rights) target agency work processes; and direct behavioral control instruments (e.g., instructions in individual cases) target agency inputs and processes.

Reforms that reduce ministries’ control over subordinate agencies tend not to be pushed through by principal ministries but rather by ministries with cross-cutting responsibilities, like ministries of finance, by strong professions, and by subordinate agencies themselves (Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010). Ministries are often reluctant to let go of fiscal, legal, and direct behavioral control measures. At the formative moment when performance management becomes available to them as a supplementary control instrument, we can assume that ministries have different starting positions in terms of the control they have over subordinate agencies. Some have given in to pressure to delegate and may feel they have too little control not only over agencies’ outputs and outcomes, but also over their inputs and work processes. Similar to Hood & Lodge’s (2006) reasoning about “public service bargains”, we assume different starting positions to influence ministries’ performance management practices.
Seen, first, from what we may call a layering perspective, we can expect ministries with limited extant control to shape performance management practices that do two things: First, they reduce agencies’ overall results autonomy by formulating performance demands on agencies’ outputs and outcomes. Second, more importantly, ministries retrieve control over agencies’ inputs and work processes, by formulating performance demands on those aspects of the value chain. As elaborated in succeeding paragraphs, the deduced executive governance pattern will be a negative one: Lower extant control will be associated with higher performance control. The reasoning is that the ministry wants to control as much as possible of the agency’s activities but that certain means of control are unavailable to them due to a combination of agency resistance to control and social appropriateness.

Alternatively, we can apply what might be called an imbedding perspective, and expect ministries to develop performance management practices that uphold patterns of delegated autonomy as intended by the extant configurations of legal, fiscal, and direct control instruments. The resulting executive governance pattern will be a positive one: Lower extant control will be associated with lower performance control, and vice versa. The reasoning is that a ministry is either willing or not to delegate autonomy to an agency and that this manifests itself in both performance management practices and in other configurations of control.

What are the deduced hypothesized patterns between fiscal autonomy and performance management at agency level? Fiscal autonomy measures the agency’s autonomy from ministerial steering on financial matters. An agency’s fiscal autonomy increases if the agency is allowed to supplement ministerial funding with external funding (e.g., client fees) and to use that funding to produce goods and services. Fiscal autonomy also increases if the agency is allowed to transfer surpluses and deficits between fiscal years, and if the ministry leaves it up to the agency to decide how much funding should be used for operations and investments,
respectively (Moynihan, 2006; Pandey, Coursey, & Moynihan, 2007). The fiscal autonomy of agencies varies, but has overall increased substantially in Norway (as elsewhere) over the past 20 years (Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010; Lægreid, Roness, & Rubecksen, 2006a). From an *imbedding* perspective we would hypothesize higher fiscal autonomy, in essence freedom from key input controls, to be associated with fewer input-oriented policy objectives. That way, fiscal autonomy is upheld by the performance management practice. By contrast, from a *layering* perspective we would hypothesize higher fiscal autonomy to be associated with more input-oriented objectives. That way, the parent ministry uses performance management to recapture input control over the agency.

The *legal autonomy* of a state agency is here understood as something else than the agency’s immersion in “red tape” (Pandey, Coursey, & Moynihan, 2007; Bozeman & Feeney, 2011). Instead, legal autonomy is understood as decision rights (Verbeeten, 2008), defined here by the presence or absence of a mandate for the agency to make decisions that determine rights or obligations for specific persons, and by the presence or absence of a mandate for the parent ministry to instruct the agency to make specific decisions in individual cases. Both items vary among state agencies. Officially, the main model in Norway is for the ministry to maintain authority to instruct agencies on individual cases, but several agencies have been granted exemptions (The Directorate for Public Management and e-Government, 2012). From an *imbedding* perspective, we would hypothesize higher legal autonomy, in essence freedom from key process controls, to be associated with fewer process-oriented objectives. That way, legal autonomy is upheld by the performance management practice. By contrast, from a *layering* perspective we would hypothesize higher legal autonomy to be associated with more process-oriented objectives. That way, the ministry uses performance management to recapture control over the agency’s work processes.
**Behavioral autonomy:** In addition to governing via controls based on performance objectives and via fiscal and legal steering, ministries can govern subordinate agencies directly. Ministries that have retained authority to instruct their agencies’ decisions *ex ante* or reverse decisions *ex post* can use this authority often or seldom. Also, ministries can use performance contracts not only to define performance objectives, but also to instruct agencies to perform various tasks, thereby placing input and process controls on the agency (Christensen, Lægreid, Roness, & Røvik, 2007; Binderkrantz & Christensen, 2009a). From an *imbedding* perspective, we would hypothesize higher behavioral autonomy to be associated with fewer input- and process-oriented performance objectives. That way, behavioral autonomy is upheld by the performance management practice. From a *layering* perspective, by contrast, we would hypothesize higher behavioral autonomy to be associated with more input- and process-oriented objectives. That way, the ministry uses performance management to recapture contextual control over the agency.

**Contextual factors**

To make the analysis of interconnections between performance management and other governance instruments more robust, we control for the effects of agency features that have been shown in existing literature to affect performance management practices.

First, the number of *tasks* an agency performs can be expected to influence performance management (Drucker, 1976; Lægreid, Roness, & Rubecksen, 2006b). Since agencies that perform several main tasks have more output and outcome variables, we expect larger task portfolios to be associated with more performance objectives in general and with more output- and outcome-oriented objectives especially.

Second, organizational *size* is often assumed to influence performance management, but the relationship between the two is not well understood. Some argue, or demonstrate, that the use and effectiveness of performance management correlates positively with size,
explained, e.g., by management capacity. Others argue that the correlation is negative, explained, e.g., by organizational heterogeneity (Chenhall, 2003; Verbeeten, 2008, Lægreid, Roness, & Rubecksen, 2006b). Based on these assertions, size is included as a control variable.

Third: The structure of state agencies varies. Some agencies consist of only one office while other agencies have sub-divisions or offices, structured to specialize by task or by geography. Seen from the perspective of the ministry in charge, it is easier to keep tight oversight over single-office agencies than over structurally diverse agencies (Lægreid, Roness, & Rubecksen, 2006b). Activities “out of view” for the principal are less “observable” and hence less manageable (Wilson, 2000). The implication for ministry-agency performance management is not obvious. Ministries may respond to a disadvantaged information position (which is a probable result of structural heterogeneity) by imposing fewer performance controls, trusting agency headquarters to control their subdivisions. Alternatively, ministries may respond by imposing more performance controls, in order to maintain some level of oversight.

Fourth: The political salience of tasks agencies perform varies considerably. Some tasks have constantly high political salience due to either their importance to society (e.g., defense and policing), their sensitivity in relation to political ideologies (e.g., immigration), or their high budget weight (e.g., health and education). Furthermore, all tasks (and therefore the agencies that perform them) can experience fluctuations in political salience. Sudden parliamentary and media attention, following some ad hoc crisis, may temporarily place a task on the political agenda, forcing ministers to take control. We generally expect higher political salience to be associated with lower overall autonomy for the agency (Pollitt, 2003; Pollitt, 2006; Lægreid, Roness, & Rubecksen, 2006; Christensen, Lægreid, Roness, & Røvik, 2007). The implication for performance management is that we expect higher political salience to be
associated with more objectives in general and with more input- and process-oriented objectives especially.

Fifth, age: Governance relations between principal and agents, like most other organizational features, can become institutionalized over time. We can expect agencies (and by implication their relations to parent ministries) that pre-date the general introduction of performance management to be relatively less receptive to goal-based steering than are newer ones (Lægreid, Roness, & Rubecksen, 2006b). Established governance relations will tend to be already locked into a path characterized by governance by other means, like direct behavioral steering. We therefore expect pre-performance management agencies to have fewer objectives in their performance contracts relative to agencies established in the era during which performance doctrines strongly influenced public management.

**Research setting: Performance management in Norway’s state administration**

Norway is a parliamentary, unitary state with 18 ministries and 178 state agencies that are part of national government in legal terms (Norwegian Social Science Database (NSD), 2013). Reflecting the international trend (Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010) Norwegian agencies are structurally disaggregated from their parent ministries and face less hierarchical and political influence on their daily operations than ministerial departments do. State agencies have been part of Norway’s civil service for more than a century, today employing more than nine out of ten civil service employees (Lægreid, Roness, & Rubecksen, 2012).

Broad definitions of state agencies even cover organizations outside government, legally defined, as long as “political executives have ultimate political responsibility for their activities” (Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010). A further 123 Norwegian organizations fall within this broader definition, including regional health authorities, special statute enterprises, public enterprises, and government-owned limited
companies. This article focuses primarily on state agencies that are legally part of government. Among these, the smallest, like The Biotechnology Advisory Board, have fewer than ten employees. Most agencies have 200–400 employees (NSD, 2013). Each agency performs one or more of the following functions (in order of declining frequency): service provision, public authority execution, regulation and control, policy development, conflict resolution, and for-profit activities (NSD, 2013).

Each state agency sits politically under one ministry (the parent ministry), and the principle of ministerial responsibility is strong (Grønlie & Flo, 2009; Bezes, Fimreite, Le Lidec, & Lægreid, 2013). The governance relation between agency and parent ministry, the locus for this study, is therefore important for developing and implementing policies. As has been the case in most countries, Norwegian state agencies have been established in waves (Grønlie, 2009; Grønlie & Flo, 2009). Some agencies were established more than 150 years ago (e.g., The Public Roads Administration) and predate the establishment of their current parent ministry, many were established in the postwar years (e.g., The State Educational Loan Fund), and many in the NPM-era of the late 1990s and early 2000s (e.g., The National Police Directorate).

Performance management has not been implemented in the state administration by one big reform but rather through incremental steps. A reform of the state budget system in 1986 first introduced performance management elements in ministry-agency relationships. Further elements were introduced by, respectively, a reform of agency planning routines in 1990, a reform of remuneration and personnel policies in 1991, a reform of economic planning in 1997, and finally, a reform of the governance of state agencies in 2003. Today, the Financial Rules for the Central Government defines performance management as the Norwegian state administration’s “fundamental steering principle” (The Norwegian Ministry of Finance, 2010).
A main textual vehicle for performance management is the *Letter of approbation* a ministry makes for each agency. This document – which we define as a performance contract – is a publically available document. All agencies receive one such contract per year, following the passing of the state budget in parliament. Performance contracts have been used for several decades by ministries to manage some state agencies, but were made mandatory for all agencies in 1997. The 2003 revision of the *Financial Rules* gave performance contracts a more central role in the performance management of state agencies. This regulation is administered by The Ministry of Finance and The Norwegian Government Agency for Financial Management. Based on experience from several countries, we should expect performance contracts to document not all performance objectives but rather only the objectives considered to be of immediate importance (Binderkrantz, Holm, & Korsager, 2011; Meier, O’Toole Jr., Boyne, & Walker, 2007). In Norway, the state budget may contain more objectives, for example, but the performance contract cannot contradict the state budget. The contract should rather be a distillation of the most important goals; it is supposed to focus on the “prioritized [rather than] all objectives and areas of activity” (The Norwegian Government Agency for Financial Management, 2011, p. 4). Ministries are furthermore encouraged to focus objectives towards agencies’ outcomes and outputs rather than towards their inputs and processes.

Cross-sectorial compliance with performance management regulations is not closely evaluated or sanctioned, however, partly because the regulations in fact explicitly encourage variance between agencies: “Steering, oversight, control and administration must be adapted to the agency’s uniqueness” (The Norwegian Ministry of Finance, 2010, § 4).

Formally, the parent ministry formulates the performance contract, but in reality, as in other countries, most Norwegian agencies have some or substantial say in the contracts’ formulation (Lægreid, Roness, & Rubecksen, 2006b). Each agency reports its overall
performance in its Annual Review. These reviews vary across agencies in structure and level of detail and in how well they reflect performance contracts (Tverstøl, 2013). Agency performance is discussed most systematically in governance meetings between ministries and individual agencies. Most have annual governance meetings; some have more. Unlike in, for example, Denmark (Binderkrantz & Christensen, 2012), linkages between agency performance contracts and agency directors’ individual management contracts are formally weak and in reality virtually nonexistent.

**Methodology**

*Data*

The study analyzes performance contracts between Norwegian state agencies and their parent ministries for the year 2012 – the latest year for which performance contracts were available at the time of this study. Most contracts were collected from websites of ministries and from agencies’ websites. Some were collected by mail from ministries.

One of the independent variables and most control variables use data from Norwegian Social Science Data Services (NSD). NSD annually collects data on ministries’ and state agencies’ budgets, employees, tasks, organization, etc. (Rolland & Roness, 2011). Their data are perceived as reliable and are frequently used by Norwegian social scientists.

*Agency sample*

The study covers 77 Norwegian state agencies (see appended Table A.1). The sample represents a balance between the need for a number of observations sufficient for statistical analysis, research economy, and an ambition to have a sample representative of the relevant universe of agencies. Seventy-three of the 77 were sampled from the universe of 178 agencies that are legally part of government (NSD) – a 41-percent coverage. The 73 were sampled to
represent variation on parent ministry, tasks performed by the agency, and on three variables whose operationalizations are detailed below: agencies’ size, age, and fiscal autonomy. The remaining four out of the 77 agencies were sampled from the 123 organizations that are self-standing legal entities but are still seen as state agencies in a broad sense: two “special statute enterprises” and two “public enterprises”. Note that sampling (almost) only agencies that are part of government in legal terms excludes substantial parts of non-ministry central government at large. For example, we omit regional health authorities, which in turn own hospital trusts, which in turn own hospitals.

**Measuring performance management (dependent variables)**

We collected data for variables used as dependent variables in the regression models by document analysis of state agencies’ 2012 performance contracts. Some contracts have one level of performance objectives; other contracts have in addition up to three subsidiary levels of objectives. We constructed all five dependent variables so that they disregard the levels and treat all performance objectives equally.

The first dependent variable, denoted “Goals” in tables and figures, is a count of all performance objectives in a performance contract for a given year. We counted all formulations in performance contracts explicitly denoted performance objectives (mål) as objectives even though some objectives may read as imprecise or underspecified. It would be no less problematic to exclude seemingly non-significant objectives, based on judgments by a researcher who is not an expert in the fields covered by a cross-sector study, than to include all objectives in the count.

The further four dependent variables break down the total performance objective count to measure numbers of objectives targeting different parts of the value chain. Each objective in a performance contract was recorded as a measure of either organizational inputs, processes, outputs, or outcomes. A sub-count was recorded for each type of objective (denoted Input
Oriented, Process Oriented, etc.). Table 1 provides descriptive statistics of the five dependent variables. Categorizing objectives according to the value chain is not straightforward, especially not for researchers who are non-experts in the many policy fields covered by this cross-sector study. Measurement reliability was strengthened by extensive review of the coding amongst the members of the team behind the study.

[Table 1 about here]

*Measuring agency autonomy (independent variables)*

To operationalize fiscal autonomy, we use a variable from NSD that categorizes state agencies according to the form of their structural and financial “affiliation” to their parent ministries (Rolland & Roness, 2011). All agencies categorized by NSD as “core administrative units” (e.g. most directorates) or “ordinary administrative units” (e.g. The Higher Prosecution Authorities) are under tight ministerial fiscal control. The remaining agencies make up a second group, with autonomy on most or all fiscal items mentioned in the conceptual section above, such as freedom to transfer surpluses and deficits between budget years. Some of these agencies are categorized by NSD as “administrative units with special autonomy” (e.g., universities), others as “public sector administration companies” (e.g., The Directorate of Public Construction and Property), “special statute enterprises” (e.g., The Norwegian Public Service Pension Fund) or “public enterprises” (e.g., Enova SF). Compared to the first group of agencies, the second group contains more internal variation in fiscal autonomy (e.g., public enterprises have higher fiscal autonomy than have state universities). However, the study does not cover enough agencies to distinguish meaningfully the six sub groups in the regression analysis. Therefore, a dummy variable has been constructed for the analysis documented in Table 2. The first group (core and ordinary administrative units) were designated value 0 (lower fiscal autonomy) and all other agencies were designated value 1 (higher fiscal
autonomy). Variation between sub groups is illustrated in the appended Figure A.2, which shows the relationship between performance objectives and fiscal autonomy as a continuous variable.

The *legal autonomy* variable is based on survey data from a study covering all Norwegian state agencies, done in 2012 by The Directorate for Public Management and e-Government in collaboration with leading legal scholars from University of Oslo (The Directorate for Public Management and e-Government, 2012). The data were released for use in this study. We constructed an additive index based on three binary variables from that study. The first variable measures whether or not the agency has authority to make decisions that determine rights or obligations for specific persons (no = 0, yes = 1). The second measures whether or not that authority is mandated by law (no = 0, yes = 1), and the third whether or not the parent ministry can instruct agency decisions on individual cases *ex ante* (yes = 0, no = 1). The appended Figure A.3 shows the relationship between the number of performance objectives and legal autonomy as a continuous variable. This bivariate analysis, and initial attempts with a continuous variable in the regression analysis gave little reason to expect a linear relationship. The index was therefore reduced to a dummy variable in the regression models. Index scores 0–1 were designated value 0 (lower legal autonomy), while index scores 2–3 were designated value 1 (higher legal autonomy).

*Behavioral autonomy* is measured with data from document studies of state agencies’ performance contracts. Demands to perform specific activities are also communicated in formal and informal meetings. Our variable, measuring the number of activity demands in a performance contract, is not a perfect measure for ministry-agency direct behavioral control, but it should be considered an important proxy. Values vary between zero (e.g., The Maritime Authority) and 135 (The Climate and Pollution Agency), with 18 as mean (see Table 1). High value (many activity demands) indicates low behavioral autonomy. Examples of activity
demands are instructions to perform various tasks, like to strengthen a specific area of
competence or technical infrastructure, to initiate a specific project, or to build a specific
building. Activity demands clearly vary in their specificity, but as for performance objectives,
it is problematic for outsiders and non-experts to judge whether demands are trivial or not.
Therefore, no attempt at distinguishing trivial from significant demands was made in this
study. The appended Figure A.4 shows the relationship between the number of performance
objectives and behavioral autonomy.

Measuring contextual factors (control variables)

Number of tasks: NSD (2013) denotes agency tasks as follows: service provision, public
authority execution, regulation and control, policy development, conflict resolution, and for-
profit activities. NSD codes each agency according to which of these tasks it performs, and, if
the agency performs more than one, which tasks are considered primary and secondary.
Modeling with a continuous variable returns weaker results than modeling with a dummy,
where agencies with only a primary task are given value 0 (narrow portfolio) and agencies
with one or two subsidiary tasks are given value 1 (broader portfolio). This suggests that the
relationship is not linear; the important distinction appears to be whether the agency has one
task or more. The latter operationalization is therefore used in the analysis documented in
Table 2.

The size variable is measured as the number of full-time equivalents (FTEs) an agency
employs (NSD, 2013). The smallest state agency in our Norway sample, The Biotechnology
Advisory Board, employs fewer than ten FTEs; the largest, Norwegian University of Life
Sciences and The Wine Monopoly, employ more than one thousand FTEs (see Table 1).
Other units in the sample have even more employees if regional offices are included. In the
statistical analysis (Table 2), the size variable has been log transformed due to right skewness.
Organizational structure: As explained above, our interest here is in whether an agency is structured as a single-office entity or as a headquarter with subdivisions. Examples of the latter include The Norwegian State Railway, which has subdivisions specialized by task, and the Labour and Welfare Administration, which has subdivisions specialized by geography. Our measure is a dummy variable, based on data from NSD (2013). Agencies categorized by NSD as “single-standting organizations” are designated value 0, while agencies categorized as “headquarters of units that comprise functional or geographical sub-units” are designated value 1.

Political salience: Following Epstein & Segal (2000), we operationalize political salience as the media attention a state agency receives. This is admittedly not a perfect measure of political salience, but media attention is well-known to guide political attention (Jennings & Miron, 2004). The assumption here is that an agency under tight media scrutiny is high up on a ministry’s agenda while an agency under less media scrutiny is further down on the agenda. Media attention is measured as the number of times an agency’s name featured in an article in Norwegian printed or online news outlets between January and December 2011 (which is the year when agencies’ performance contracts for 2012 were written). Data were collected from Nordic media monitoring company Retriever’s A-press database. As shown in Table 1, the number of times a state agency featured in the press varied from almost 30,000 (The Labour and Welfare Administration) to 44 (The Housing Rent Disputes Tribunal). The variable has been log transformed in the regression analyses due to skewness.

Age: NSD provides data on the year each agency was established. As explained above, the age variable is not meant to measure agency age as such, but rather whether the agency, and by implication its relation to a parent ministry, was established prior to or after the general introduction of performance management. We designate 1995 as the relevant cut in a Norwegian context, representing a year shortly after the 1990 and 1991 reforms that
introduced performance management to agency management, and right before the 1997 reform that introduced performance management to executive governance. Agencies established in 1995 or later were designated value 0 and agencies established earlier were designated value 1 (pre-performance management era agencies).

**Statistical modeling**

Five models, corresponding to the five dependent variables, are in Table 2 estimated using a negative binomial regression method (NBRM). This method is suitable here, since the dependent variables are based on counts; they are integer-valued frequencies (they can i.e. be written without a fractional or decimal component, and are not negative). NBRM is suitable also because the conditional variance is greater than the conditional mean in the dependent variables (overdispersion; as seen in Table 1, the variance (sd*sd) is greater than the mean for all dependent variables). The regression models include 77 valid cases and eight independent variables, including control variables. Table 2 shows a stepwise introduction of independent and control variables for each of the five models (Model 1a shows a regression of the independent variables on the dependent variable Goals, while Model 1b also includes control variables, and so forth).

The fairly high number of variables relative to the number of cases might inflate model fits but should not bias the effects of individual variables. Coefficients from the NBRM models are interpreted as a change in the expected number of Y by a factor of exp(coefficient), holding all other variables constant (Long, 1997). To evaluate the change in expected number of objectives corresponding to a one-unit increase in the independent variables, the exponential of the coefficient denotes the relative change in objectives. An exponential score above one equals an increase in the expected number of objectives, and an exponential score below one equals a decrease. Substantial interpretations of important coefficients are given below.
Theta parameters in Table 2 test for overdispersion. That all models in Table 2 return significant Theta values above zero (the null hypothesis) confirms overdispersion. Such overdispersion indicates that the assumption of equal mean and variance is unattainable (poisson). Table 2 also reports log likelihood values. A lower log likelihood value indicates better model fit, but comparing these values is most relevant when comparing nested models on the same dependent variable.

The appended Table A.2 reports results of OLS regression of the same models. Results from that analysis are not commented upon in the text. NBRM is better suited to estimate the models; Table A.2 was included merely to demonstrate that OLS returns coefficients with the same direction and with similar significance levels. This indicates that the models are robust across estimation techniques.

Results and discussion

The size of agencies’ goal sets

As shown in Table 1, the mean score on the main dependent variable “Goals”, the total count of performance objectives, is 21. The number of performance objectives varies between three (The Patients’ Injury Compensation Board) and 121 (The Directorate of Health). The appended Figure A.1 illustrates the variance and shows that most (in fact two out of three) agencies cluster in the lower 0–20 range of performance objectives. Many have more, though, and outliers face around 100 performance objectives. Our main purpose here is not to evaluate but rather to explain the size and composition of agencies’ goal sets. Nonetheless, the results invite a short reflection on whether the Norwegian state administration’s performance management practices appear to serve as a vehicle for reducing complexity in the running and steering of agencies, as intended (Moynihan, 2006), or if it instead reflects or even increases complexity. It is however hard to say on the basis of these results whether Norwegian state
agencies’ goal sets are inflated. Few international coordinates exist, although Binderkrantz and Christensen (2009a, 2009b, 2010) found fewer performance demands in a similar study from Denmark. In addition, as mentioned in the methods section, the measurement treats all performance objectives equally; it disregards the fact that while some performance contracts have one level of objectives, others have up to three subsidiary levels. A separate analysis showed that the average number of first-level performance objectives was five. Positive outliers, and possible cases of goal inflation, included The Directorate of Health, with 45 first-level objectives, and The Climate and Pollution Agency with 31.

Performance management in the executive governance mix

To understand how performance management is embedded in wider public sector executive governance let us first see if ministry-agency performance objectives largely refer to agencies’ inputs, work processes, outputs, or outcomes. We know from previous studies that performance management practices, e.g. explicated in agency contracts, in some instances focus primarily on agency outputs and outcomes; in other instances they focus on agency inputs and processes (Eisenhardt, 1989; Verhoest, 2005; Binderkrantz, Holm, & Korsager, 2011). Table 1 shows that most objectives in the 2012 performance contracts refer to outputs (mean score of eleven) and that numbers of output objectives vary considerably between agencies. The average number of outcome objectives is four, while process and input objectives average five and one, respectively. Output and outcome objectives are hence far more frequent than input and process objectives in Norwegian agencies’ performance contracts. Since steering late in the value chain is the home turf of performance management (Verhoest, 2005; Moynihan, 2006) we can argue that the “right version” of performance management has been poured into the executive governance mix. A reading across to the size of goal suggests, however, that there are cases where perhaps too much of the “right version” has been poured in. Even in the case of an agency as big as a the national directorate of health
there is reason to believe that 45 top-level performance objectives are too many. A critical report from the Office of the Norwegian Auditor General (2013) and changes made by Conservative government that took over in 2013 testify to that. When presenting new policies for the steering of the health sector, Secretary of Health, Mr. Bent Høie, said “We have almost halved the number of steering signals (…) We have prioritized the most important things” (speech January 7th 2014, published in a press release by The Ministry of Health).

[Table 2 about here]

In a second step towards understanding performance management’s entanglement in executive governance, let us see how performance management practices correlate with ministries’ financial, legal, and direct behavioral steering of state agencies. The regression analysis (Table 2) shows that agencies with higher fiscal autonomy generally face neither fewer or more performance objectives than other agencies do, but the composition of their goal sets are different: All else being equal, higher fiscal autonomy increases the number of input-oriented performance objectives imposed on agencies by ministries by 174 percent ((exp(1.007)) is 2.737; that means a one-unit change from zero to one on the independent variable – fiscal autonomy – equals a 174-percent increase on the dependent). This corroborates the expectation from the layering perspective.

*Legal autonomy* also affects performance management practices. Once again, it is the composition rather than the size of autonomous agencies’ goal sets that stand out. As expected from the layering perspective, higher legal autonomy increases the number of input-oriented performance objectives imposed on agencies by ministries (significant at 0.1 level). Higher legal autonomy also reduces the number of output-oriented performance objectives
In an undocumented analysis, a composite fiscal and legal autonomy variable was found not to significantly affect the size or composition of agencies’ goal sets.

*Behavioral autonomy* also affects the composition rather than the size of goal sets imposed on agencies by ministries. A high value on this variable means many activity demands and i.e. low behavioral autonomy. The interpretation of the results is therefore that higher behavioral autonomy – being less exposed to direct steering from the ministry – increases the number of process-oriented performance objectives (coefficients significant at 0.1 level) and reduces the number of outcome-oriented performance objectives. Inversely, each consecutive increase in activity demands leads to a 1.2-percent increase in the number of outcome-oriented performance objectives an agency faces (exp(0.012)).

The results hence show a limited number of significant covariations between performance management and other steering instruments. Configurations of legal, fiscal and behavioral ministerial controls seem to influence the composition but not the size of state agencies’ goal sets. Some results fall into patterns hypothesized from the analytical perspective called *layering*. We discuss theoretical implications in the conclusion.

*Contextual factors*

Turning to the control variables, the findings corroborate a conclusion from Lægreid, Roness, & Rubecksen (2006b) that task portfolios matter for goal-setting. The size of an agency’s *task* portfolio has significant and consistent effects in four of the five models. Having a broader task portfolio, all else being equal, increases the expected number of performance objectives imposed on agencies by approximately 110 percent (exp(0.743)). Having a broader task portfolio also increases the number of performance objectives oriented towards an agency’s work processes (significant at 0.1 level), outputs, and outcomes.

The controlled effect of agency *size* on agencies’ goal sets is weak. The only significant effect is that larger agency size increases the number of output-oriented
performance objectives agencies face (significant at 0.1 level). Across the models, the effects are not strong or consistent enough to illuminate the puzzling effect size appears to have on performance management (Verbeeten, 2008). This being controlled effects; some influence of size might be captured by the influence of task portfolios, since larger agency size will tend to correlate with larger task portfolios. It might also be that size has contradictory effects on performance management practices, increasing the number of performance controls in some cases and reducing it in others (Lægreid, Roness, & Rubecksen, 2006b). If that is the case the two effects might cancel each other out in a cross-case study such as this.

Whether agencies are structured as single-office entities or as headquarters with subdivisions do influence agencies’ goal sets. Table 2 shows that having a heterogeneous structure, as compared to being a unitary agency, increases the expected number of performance objectives by 47 percent (exp(0.384)). The number of output-oriented performance objectives also increases with higher structural heterogeneity. These findings may suggest that when put in a disadvantaged information position (Lægreid, Roness, & Rubeckesen, 2006b) ministries respond by imposing more performance controls, in order to maintain some level of oversight, rather than trusting agency headquarters to control their subdivisions. Note, however, that the patterns are made less clear by structural heterogeneity’s negative effect on the number of outcome-oriented performance objectives agencies face (significant at 0.1 level).

Agencies’ goal sets also vary depending on when agencies were established. As expected, agencies established before the general introduction of performance management face fewer performance controls, relative to agencies established later. Being a “performance-era” agency, all else being equal, increases the expected number of performance objectives by 60 percent (1/exp(-0.469)). The direction of the effects of this variable is consistent across models 1-5, but the results suggest that output- and outcome-oriented performance controls
are particularly more common among younger agencies as compared to pre-performance era agencies. The results hence corroborate the expectation that agencies that pre-date the introduction of performance management are relatively less receptive to goal-based steering than are newer agencies (Lægreid, Roness, & Rubecksen, 2006b). That older governance relations rely less on steering by performance objectives than newer ones do can be interpreted to support Eisenhardt’s (1989) argument that long-term governance relations can effectively rely on “thick”, dialogue-based, direct steering. Information asymmetry decreases over time, and so one becomes less reliant upon what performance management delivers: “thin” indications of the agency’s loyalty to the principal.

Surprisingly, the political salience of an agency does not seem to influence the aspects of performance management under study. We expected higher agency salience to be associated with more ministerial control, and that this would manifest itself in more performance-based control. The fact that this pattern did not materialize may suggest that the isolated effect of political salience is weaker than expected. It might also suggest that political salience affects other aspects of performance management than the goal-setting aspects studied here. A study of performance reporting practices, for example, would perhaps show stronger effects of political salience. Finally, it is possible, as evidenced by scientific disagreement on the matter (Epstein & Segal, 2000), that media attention is a poor measure of political salience.

**Conclusion**

It has been said that we live in “an era of government by performance management” (Moynihan & Pandey, 2005). Performance management *can* make agencies focus on solving their critical tasks and achieving desirable societal results, but capitalizing on this potential hangs on ministries’ willingness and ability to allow managerial freedom and capacity to achieve results (Moynihan, 2006; Verhoest, 2005). The word “can” is important, because
certain executive governance behaviors may inhibit the capacity to achieve results. One potentially inhibiting type of behavior is formulating performance objectives early rather than late in the value chain. Results from this study show that performance objectives oriented to agencies’ outputs and outcomes are far more frequent in Norwegian ministry-agency performance steering than are objectives oriented to inputs and work processes. We can therefore conclude that, at least on this measure, the “right version” of performance management has been poured into the executive governance mix.

Performance management remains one among several instruments of executive governance. Capitalizing on performance management’s potential may therefore also depend on its relationship with other instruments of executive governance, such as fiscal, legal and behavioral steering. The article developed two perspectives to inform hypotheses about what role performance management plays in the executive governance mix. One, called the layering perspective, assumed that ministries use performance management to repair control gaps left by limitations or reductions in legal, fiscal, and direct control instruments. The other, called the imbedding perspective, assumed that ministries develop performance management practices that uphold intentions for delegated autonomy. No results fall into patterns hypothesized from the imbedding perspective, but the layering perspective receives some support. We find traces of the deduced negative pattern in executive governance: Lower extant control is associated with higher performance control. Seen from the outside, and possibly from the agency’s perspective, the result will be an “autonomy paradox” (Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010, p. 8): intended autonomy is reduced by introducing performance controls. The Norwegian case may furthermore indicate that Hood was right when predicting that attempts at approaches of a more “managerial” nature to public service provision may produce a “double whammy” pattern whereby new controls are added without reduction of the old ones (Hood, 2004, p. 16). However, a better test of
whether that pattern emerges would obviously be a longitudinal analysis of the relevant instruments of executive governance.

Overall, however, patterns in the Norwegian executive governance mix are inconsistent. The third scenario mentioned in the introduction may therefore well be the true story: decisions about how to play the performance management instrument are made without much concern for harmony with other instruments. Such disjointed decision-making may be harmful for good overall executive governance, since the autonomy of an agency is essentially a product of all main instruments of governance (Pollitt et al., 2004; Verhoest, Roness, Verschuere, Rubecksen, & MacCarthaigh, 2010). The disharmony might not be surprising, though. Meta-governance is unregulated, and decisions about configuring steering instruments are made at different times, possibly by people with differing professional trainings and differing decision criteria: legal experts discuss legal autonomy, fiscal experts discuss fiscal autonomy, managers discuss performance management, and politicians and case experts discuss direct behavioral steering.

There is also a political reason why we should not be surprised by disharmony between performance management and other instruments of executive governance. The setting of goals serves purposes beyond that of controlling agencies, it also signals policy commitments, and is a convenient way for politicians to hand out “side payments” to stakeholders (Cyert and March, 1992). We should therefore probably expect performance management practices, and especially the size and composition of agencies goal sets, to fluctuate and possibly deviate from other manifestations of ministry-agency control. Future research should study how decisions about various interdependent instruments of executive governance are made, and especially study whether or not such decisions are coordinated.

We have also studied the effects of contextual variables on performance management practice, not only because that makes the analysis of interconnections between governance
instruments more robust, but also because the role of agency features is of general interest to performance management research. The analysis shows that goal sets are influenced by the number of tasks an agency performs, organizational heterogeneity, and whether an agency was established before or after the general introduction of performance management. Surprisingly, agency size and political salience appear not to influence the aspects of performance management studied here.

Finally, two limitations of the study merit mentioning. One is that we discuss the role of performance management without actually studying the quality of performance controls. The study focuses exclusively on the size of goal sets and what parts of the value chain goals target. These features tell us interesting things about performance management, but conclusions about interconnections in executive governance would be more valid and robust if the present evidence was coupled with evidence on the precision and political relevance of goals, and, not least, with evidence on subsequent stages in the performance metrics: performance measurement, performance reporting, and performance steering. Assembling reliable and valid information on, e.g., goal relevance and feedback dialogues requires in-depth studies, however, something that was out of scope for this broad cross-policy and cross-agency study.

A second limitation has to do with possible country idiosyncrasies, which are evident in both performance management and “agencification” experiences (Pollitt, 2006). A cross-sector study in a setting where performance management is a mature, institutionalized practice, as in Norway, has its strengths. Future research on performance management practices should nonetheless compare country experiences, thereby enabling robustness tests of existing knowledge about the dynamics of performance management.
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