

Policy Brief

Performance Agreements in Denmark, Ontario and the Netherlands

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Several countries have gained experience with some form of performance agreements in higher education. The Center for Higher Education Policy Studies (CHEPS) of the University of Twente has conducted a review of the performance agreements found in three countries: Denmark, the Netherlands and Ontario (Canada)¹. The lessons learned in these three countries may be used as inputs for discussions on the future of the performance agreements in Norwegian higher education. The full report describes the three systems in more detail (Jongbloed & de Boer 2020)². This Policy Brief summarises the findings and provides guidance for the design of performance agreements.

Performance agreements

Performance agreements are agreements negotiated between government and individual higher education institutions. The agreements set out an institution's objectives in terms of its future performance and may be tied to (parts of) the institution's grant received from the government.

Performance agreements can have different rationales. Often, a mix of these rationales is chosen:

- i. to improve performance, in the sense of increasing the quality and efficiency of education and research;
- ii. to strengthen the strategic dialogue between the higher education institutions and the ministry responsible for higher education;
- iii. to encourage institutions to strategically position themselves in the higher education landscape (also known as institutional profiling);
- iv. to improve the accountability and transparency and thus legitimizing the public investments in higher education.

The rationale is important for the design of the agreements, how they are executed and how one assesses their effectiveness. Various design choices and dilemmas may manifest themselves, and the three countries have all made their own choices.

The first dilemma relates to the issue of how to embed the performance agreements in the overall governance framework (the policy mix) for higher education. The second issue is about how to safeguard the autonomy of the institutions when it comes setting goals and targets. A third, contentious issue is whether an institution's success in delivering on its performance agreement should have consequences for the public funding it will receive. Then, there is the wish to keep an eye on the transaction costs and bureaucracy surrounding the system. Finally, design decisions that have to be made are about the parties and stakeholders dealing with preparing, monitoring and evaluating the agreements, and decisions about the number, type and choice of goals, targets and indicators included in the agreement.

Diversity reigns

Table 1 shows how the three countries compare in terms of the rationale and design of their performance agreements. In the three cases, performance agreements are a means for higher education institutions to express their own ambitions, strengths and areas for improvement – all of this within the broader goals set by the government. This allows for a more flexible type of governance/steering in the higher education

sector. However, each of the countries has its own way of designing the contracts. The table illustrates that there are more differences than similarities between countries. Other studies have also shown that policy-makers from different countries may make use of similar instruments, but each country will give its own interpretation.

Table 1: Comparison of the performance agreements in the three countries

	Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements (SMA)
<i>Rationale</i>	Strengthen the strategic dialogue between ministry and institution	Strengthen institutional profiling; improve student success and teaching quality; Alignment of institutional goals with national higher education agenda	Increasing trust and accountability through transparency and improved performance outcomes
<i>Duration of agreement</i>	4 years	4 years	5 years (SMA3 – to be implemented in 2022)
<i>Number of goals</i>	Goals are limited in number and differ per institution	Three broad goals: (1) improve education quality & student success; (2) institutional profiling & programme differentiation; (3) strengthening knowledge transfer & societal engagement	Goals for SMA3: (1) incentivizing positive economic outcomes; (2) alignment with labour market outcomes; (3) incentivizing differentiation and specialization
<i>Goal setting / process of concluding the agreement</i>	Ambitions set jointly by ministry and institutions. Contracts contain institution's own goals. Renegotiation of goals and indicators possible during contract term.	Institutions set their own ambitions and goals (including quantitative ambitions). An independent Review Committee discusses ambitions with the executive board of the institutions and advises the ministry about the consequences for the institution's performance funding.	Institution representatives negotiate with ministry on basis of agreed plans and framework (including indicators/metrics) for higher education. SMA3: Institutions set their (annual) goals for each of ten metrics. Targets are based on an institution's historical data & established criteria and presented along with a narrative.
<i>Indicators in agreement</i>	Indicators determined in negotiations. Goals and indicators are of general and broad nature.	Seven mandatory indicators focusing on education (student success; quality). Institutions can choose to incorporate additional (non-mandatory) indicators to express further ambitions.	SMA3: 10 mandatory performance metrics (9 system-wide and one institution-specific), plus two reporting metrics.
<i>Monitoring of progress on agreements</i>	Yearly dialogue, based on the institution's annual status review. Also reporting in annual report. Bilateral meetings (stocktaking/progress) can lead to revised action plans. Data are provided by the institution on the basis of jointly agreed data sources.	Each institution reports on progress in its customary annual report. This acts as input for the Review Committee's System Performance Reports (published annually). In a mid-term evaluation meeting between the Review Committee and each institution the institution's progress is discussed. Data are reported by the institution itself but are checked for accuracy by an accountant.	SMA3: Performance on each metric monitored and evaluated annually on basis of streamlined reporting process based on annual reports. Data for the metrics are predominantly from existing data collections.

Table 1: Continued

	Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements (SMA)
<i>Final evaluation of agreements</i>	<p>Goal achievement assessed upon expiry of the contract, followed by ministerial overall assessment.</p> <p>Overall ministerial assessment is done in broad terms – is more about strategic direction than about ‘nitty gritty’ target achievement.</p>	<p>Review Committee advises the Minister about each institution’s goal achievement. The minister then takes final decisions about performance budget.</p> <p>After contract period: Review Committee published its final system performance report and its advice on the future of the performance agreements.</p>	<p>SMA3 to be evaluated each year on metric-by-metric basis. This will have funding consequences.</p> <p>Evaluation takes place against the targets set by the institutions themselves (no inter-institution comparisons).</p>
<i>Link to budget</i>	<p>Funding attached: 1,25% of basic educational grant as potential penalty for underperformance.</p>	<p>7% of the basic operational education grant for the period 2013-2016 is tied to goal achievement. This consists of two parts:</p> <ul style="list-style-type: none"> - 5% is tied to the seven mandatory indicators; - 2% is tied to the institution’s plans for profiling and differentiation. <p>Based on the advice of the Review Committee, the minister decides on consequences for funding.</p>	<p>SMA3: Explicit link between each metric and an institution’s budget. Metric weightings will impact the share of an institution’s notional funding that can be received for successful performance related to a particular metric. Metric weightings are set by the institution. Performance is evaluated using a pass/fail approach, with bands of tolerance and scaling for under-achievement.</p> <p>At end of SMA3, 60% of the institutions’ total operating grant funding will be tied to performance.</p>
<i>Consequences for non-compliance</i>	<p>Potential financial penalty seen as symbolic, given its moderate size.</p> <p>In case of underperformance, the naming and shaming of the institution in question is seen as more effective than the financial consequence.</p>	<p>A reduction in the institution’s future budget (i.e. after the contract period) to be potentially applied (by Minister) in case of underperformance. Final financial consequence depends on outcomes for the mandatory performance indicators and the advice of the Review Committee.</p>	<p>Performance assessed on a metric-by-metric basis. An institution will receive 100% of the funding for a metric by meeting or exceeding its target. If target is not met, partial funding, commensurate with actual performance, will be received</p>

When comparing performance agreements across countries it is important to bear in mind the overall governance context – the policy mix. In Denmark, for example, the funding system is already rewarding the students’ performance in terms of accumulated credits, suggesting that, compared to the Netherlands there may be less of a need to further stress degree completions in the agreements. Universities in Ontario-Canada are to a large extent funded through tuition fees, and therefore will be keen to make sure their students receive value for money. Moreover, traditions and the political climate in the country will also affect the design of performance agreements. For example, the Netherlands and Denmark traditionally are characterized by a culture of negotiation and dialogue. In Ontario, the development of the strategic mandate agreements and

the goals pursued were also affected by changes in the political environment.

In all three countries the agreements aim to encourage differentiation and institutional profiling, indicating a belief that bilateral agreements are particularly suited for this policy goal. Yet, there may be additional reasons for using performance agreements or – after a few years – to make adjustments to their goals and practical operation. In Denmark, the *Strategic Framework Contracts* (SFCs) have changed considerably in the past twenty years. Explicit efforts were made to strengthen the strategic dialogue between the ministry and institutions in order to jointly determine the course of higher education, but, at the same time, respecting the strategic goals of the individual institutions.

In the Netherlands, too, the *Performance Agreements* focused on the contribution of the institutions to achieving the goals on the national higher education agenda – such as institutional profiling. Yet, at the same time, a high priority was attached to improving the quality and efficiency of education. In Ontario, the leading principle of the *Strategic Mandate Agreements* (SMAs) is to strengthen accountability and improve performance outcomes. The latter, in particular, stress the contribution of higher education to the economy and linking graduates' learning outcomes to labour market needs.

The way in which the targets included in the agreement are set also differs considerably. In Denmark, the government and institutions jointly set targets, allowing goals to differ from one institution to the other. In the Netherlands, the rectors' organizations representing the institutions have played an important role in the design of the agreements by first defining the priorities in consultation with the government. This led to agreement on a set of seven mandatory indicators that were to be used by the institutions for specifying their targets related to education quality and student success. In Ontario, too, agreements were made on the indicators (metrics) to be included in the SMAs. Similar to the Netherlands, targets are then set in a negotiation process with institutions taking the lead. In all three countries, one may observe a tendency to reduce the number of targets and indicators included in the contracts. This was done to avoid target inflation.

Whether institutions are making progress in achieving the goals specified in the agreements is reported on and reviewed annually in all three countries. In Denmark, the institutions annually provide data on the agreed targets and indicators and discuss these bilaterally with the ministry. The final assessment on target achievement at the end of the contract period is made by the Danish ministry, which uses a fairly global assessment. In the Netherlands, progress was monitored by an independent Review Committee, that met the institutions at the start, the middle and the end of the contract period to discuss progress and listen to their 'story behind the numbers'. In Ontario, the monitoring and evaluation of performance is overseen by a special unit in the ministry that makes use of a streamlined process and a limited number of metrics, based on verified data collections.

Next, the issue of linking the performance agreements to funding. The Ontario system in its first two rounds did not tie the SMAs to the grants institutions received from the government. However, well-developed

plans for the third SMA round (to be implemented in about two years' time) show there will be such a link. The funding at stake will increase to 60% of the basic government grant. In Denmark, the amount of performance agreement-related funding is relatively small; it is primarily perceived as a symbolic link. In the case of the Netherlands, there is relatively more money at stake. This has helped ensure that universities and colleges take the agreements seriously and it is believed this has contributed to goal achievement in terms of improving student success and programme differentiation.

Guidance for the design of performance agreements

From the experiences and assessments made in the three countries, we conclude that performance agreements are a flexible policy tool that has the potential to contribute to more differentiation in the higher education system. The agreements can work as an interactive trust-based type of coordination in the higher education system. The agreements have increased transparency and accountability and contributed to improved performance at system and institutional levels – although firm conclusions about their effectiveness are difficult to make. However, the dialogue about performance and 'what matters' in higher education certainly improved in the three countries (see also Jongbloed & de Boer 2020 for more detailed discussion of these findings).

The three countries' systems illustrate that in the design of performance agreements a balance has to be found between ministry-imposed performance objectives and institutionally-defined ambitions. This is crucial for preventing tendencies towards uniformity resulting from performance-based systems, in particular if these are linked to funding. At the same time, allowing for institution-specific goals to be included prevents the agreements from reverting to steering tools that will diminish institutional autonomy. In this continuum, a variety of design options is possible, where the design is dependent on the overall rationale of the agreements.

There are no blueprints for the design and implementation of performance agreements, because priorities and contexts will differ from country to country. The three countries present different options for the agreements in terms of the choice of goals and indicators and how to shape the dialogue between ministry and institutions.

From the international comparisons some recommendations may be derived for countries that consider introducing or revising performance agreements.

Table 2 shows three lessons per country. These lessons may be summarized into four points that may act as guidance for the design of performance agreements.

Table 2: Three lessons per country

Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements (SMA)
Avoid target inflation: limit the number of goals included in the agreements	Be selective in goal-setting. Keep it simple: Do not overload the system by rewarding activities that are already incentivized (e.g. research) or addressed by other instruments in the higher education governance framework	It takes time (and an open dialogue) to get the indicators (i.e. metrics) right - in terms of rationale, definition, refinement, data source. Allow for a trial run of the agreements
Quantitative indicators may produce calculative behaviour by institutions, so limit the emphasis on indicators	Linking goal achievement to an institution's (future) budget works in incentivizing its behaviour: a financial incentive works	Avoid simplistic performance indicator comparisons of institutions and zero sum games (one institution winning at expense of others). Assess performance against targets set by the institution itself, allowing for some room to employ institution-specific indicators
Agreement on shared goals, indicators and monitoring method is crucial to give institutions a sense of ownership over the contracts	Dialogue on goals builds trust, but accountability is required ('In God we trust; All others must bring data'), and allow institutions room to share their 'story behind the numbers'	Provide clear templates for specifying the mandate agreements and their monitoring. Allow some room for a narrative part, next to metrics

Four recommendations

- *Goals and indicators: be careful what you wish for.* Be selective in terms of the number of goals and associated indicators to be included in the performance agreements. Mutual acceptance about assessment method and data sources used is important. Reliability of and trust in evidence to measure performance is crucial.
- *Dialogue: keep in touch.* Trust building in relationships requires dialogue and respecting each others' positions and preferences. It may take one or two iterations of the performance agreements before a fair and legitimate system is agreed upon. Too much haste in introducing new instruments such as performance agreements can easily undermine trust in the process and its outcomes. Institutions will need a sense of ownership over the agreements; educational authorities will have to respect institutional autonomy.
- *Evaluation: avoid unfair comparisons.* Performance agreements provide an opportunity for institutions to emphasize their individual strengths and position in the system. One has to be careful when comparing the performance of an institution against institutions that work in a different environment or have a different mission. Preferably, an institution's performance would have to be assessed against the targets that has set for themselves.
- *Alignment to overall governance framework.* The performance agreements will have to fit in the overall governance mix – if not, there is a risk of an overload of incentives, tensions, or even contradictory instruments being implemented.

Note on methodology

For these country reviews, data sources included existing studies carried out in this field, academic literature and governmental and institutional documents (such as bilateral contracts and evaluation studies) and websites. In each country a number of higher education experts in the period May-June 2020 were consulted via video and telephone interviews and email exchange. The interview protocol included themes such as the development of the performance agreements, their rationale, goals, processes of goal setting, monitoring and assessment.

References

Jongbloed, B., & de Boer, H. (2020). Performance Agreements in Denmark, Ontario and the Netherlands. Enschede: University of Twente, CHEPS.

Notes

1. This analysis is a part of a larger evaluation of the pilot scheme for development contracts in Norway. The Norwegian Ministry of Education and Research commissioned NIFU to conduct an evaluation. As part of this evaluation, the Center for Higher Education Policy Studies (CHEPS) of the University of Twente did a review of international experiences with performance agreements.
2. The report can be downloaded at [University of Twente](#).



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