

## Management by Objectives and Results



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Structures and practices in the regional policy  
field in the Scandinavian countries and  
Iceland

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**Nordic co-operation**

takes place among the countries of Denmark, Finland, Iceland, Norway and Sweden, as well as the autonomous territories of the Faroe Islands, Greenland and Åland.

**The Nordic Council**

is a forum for co-operation between the Nordic parliaments and governments. The Council consists of 87 parliamentarians from the Nordic countries. The Nordic Council takes policy initiatives and monitors Nordic co-operation. Founded in 1952.

**The Nordic Council of Ministers**

is a forum of co-operation between the Nordic governments. The Nordic Council of Ministers implements Nordic co-operation. The prime ministers have the overall responsibility. Its activities are co-ordinated by the Nordic ministers for co-operation, the Nordic Committee for co-operation and portfolio ministers. Founded in 1971.

Stockholm, Sweden  
2008

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# Preface

The Nordic standing working group on regional policy, EK-R, a body within the Nordic Council of Ministers, established a working group in the spring of 2006 to prepare for and provide a comparative analysis of the national systems of performance management, Management By Objectives and Results Systems (MBOR), in the field of regional development policy. The working group has had the following members: Helena Asp, Ole Damsgaard, Mari Grut (until August 2007), Pål Erik Holte, Hanne Marie Jordell (from June 2007), Stig H.F. Nielsen and Árni Ragnarsson. All Nordic countries but Finland were represented in the working group, as Finland chose not to contribute in the comparative survey. The working group has been chaired by Pål Erik Holte. Nordregio has had the professional secretariat and the Norwegian Ministry of Local Government and Regional Development the administrative secretariat. The working group wants to underline that it has had, at its disposal, very limited resources. Nordregio is responsible for this study. The working group has, however, discussed the whole study and concurs entirely with the recommendations in the Executive Summary and the chapter on Recommendations.

The mandate of the study was from the outset *‘to survey the development of MBOR within the field of regional development at the national level(s) and, based on this, to contribute to increased experience transfer and institutional learning between the Nordic countries. In this context it would be feasible to assess reporting structures and –routines, objectives, development strategies, short-term and long-term development indicators (in terms of activities, effects and processes), input and output requirements (both quantitative and qualitative), benchmarking initiatives, evaluations, arenas for knowledge transfer, governance and administrative control issues’.*

In a meeting on June 22<sup>nd</sup> 2006, the working group specified the initial mandate with the following requirements: (a) the study should focus on policies that combine both territorial and growth dimensions; (b) the study should focus on the performance management systems and policy instruments, not on the actual performance obtained within the systems; (c) the systems should be delimited by national authorities and the management relations between these as well as between the national policy authorities and subordinate administrative or policy implementation bodies (regional authorities, directorates and agencies); (d) the study should focus on the management of territorially based support instruments for business development, innovation or entrepreneurship – instruments that have enterprises and economic organisations as final beneficiaries; (e) for the Nordic countries that are members of the European Union, instruments co-financed by ERDF and ESF (Structural Funds) should be included as well; and (f) Structural Funds specifically aimed at the agricultural and fisheries sectors should *not* be included.

The Nordic Centre for Spatial Development (*Nordregio*) has assisted the working group in developing the questionnaires in order to perform interviews with key informants at both the national and subordinate levels. Senior research fellow Sigrid Hedin and research fellow Jon Moxnes Steineke have contributed from Nordregio. During the period June 2006 – June 2007 the working group held four whole-day meetings to obtain information on and discuss the national systems individually, and to assess preliminary findings assembled by Nordregio. The work has been performed with limited resources, both in terms of personnel and a comparatively brief project period. The generality of main observations, findings and final recommendations are likely to reflect this. The final recommendations have been produced mainly to accommodate for institutional learning in a transnational setting.

Nordregio has been responsible for collecting data from a multitude of secondary sources, such as documents, reports, administrative instructions and other written material produced on a regular basis by national material and subordinate bodies). Nordregio has also performed the semi-structured interviews with key informants (working group members as well as a limited number of representatives of subordinate bodies), and produced a preliminary comparative analysis in a final study. Based on these findings, the working group has identified

recommendations for the continuous improvement of the MBOR in the field of regional development in the four Nordic countries concerned.

# Executive summary

## **New Public Management**

During the last decades, public sector governance has seen rapid change. These public sector reforms are typically assembled under the common term New Public Management (NPM). Central issues in NPM have been de-regulation, de-centralisation and the introduction of management techniques adapted from the private sector in order to make public administration more flexible and cost-efficient. An important dimension of this reform process is the increased focus on decentralised performance management rather than on how hierarchical rules and regulations are being applied. Issues such as accountability in principal-agency relationships, and the balancing of trust/distrust, are brought to the fore.

## **This study**

In this study we have described the performance management system in a specific policy field – that is the field of regional development policy. We have assessed whether there are similarities or structural differences in the way regional development policy is being implemented in Denmark, Iceland, Norway and Sweden by focussing on some specific conditions for performance management by using specific administrative elements – Management By Objectives and Results (MBOR) as the analytical prism.

## **About MBOR**

MBOR is a performance-management tool encompassing three main components. *First*, the leadership must formulate clear goals and targets and give subordinate bodies more leeway and discretion in their daily work. Goals 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 core functions of the agencies.

*Third*, executives must use the reported results to reward good performance and sanction bad. Information on the results achieved is supposed to have consequences for resource allocation as well as for how the agencies are organized.

## **Observations**

Based on the national presentations of the Scandinavian countries and Iceland, the following comparative structural observations can be made:

### *On MBOR in general:*

- None of the Scandinavian countries or Iceland have a performance management system in the regional policy field that comes close to meeting the ideal requirements set up for MBOR systems in the academic literature. In all countries, the current performance management system is a hybrid form of MBOR. In fact, for most practical purposes the systems are in fact closer to MB(O)R than to MBOR forms. In the MB(O)R form, the internal consistency of the objectives – clear goals and targets – are downplayed compared to the ideals set up in MBOR.

### *On the types of indicators in use:*

- In all four countries there is an extensive amount of reporting based on *qualitative* objectives and assessments.
- The use of quantitative indicators in vertical reporting from the regional to the national level is limited to basic socio-economic measures. To an increasing extent these measures are, however, being coupled to programmes, initiatives or activities.

- Activity-based indicators are in extensive use.
- Result indicators are used in evaluations mainly performed by third parties.

*On trust between actors:*

- There is a *high level of mutual trust* between regional and national authorities.
- The specification of regional development goals is typically made in *regional partnerships* and collaborations instituted at the regional level.
- National authorities have only limited access and insights into deliberations taking place at the regional level. There is *significant autonomy* in the national-regional relationships.
- There are somewhat lower levels of trust and more formal reporting/ vertical feedback requirements facing the national/state executive agencies. This is mainly due to the environment of more complex cross-sectoral responsibilities, which many of these agencies are called to operate in. This may be due to the fact that these agencies operate in contexts that in practice combine MBOR and programme management elements.

*On transfer of experience and knowledge:*

- There are currently only few opportunities provided so as to give the regional authorities feedback on operational performance. *Formal arenas* (steering groups and dialogue meetings) are mainly directed at general, strategic policy discussions on a one-to-one basis with central government.
- There is considerable institutional learning taking place within the *regional partnerships*, where regional development objectives are mostly identified by consensus.
- As a part of the management process, many of the informants at the regional and executive agency level stress the importance of maintaining a continuous *informal policy dialogue* on policy beneficiaries and goals with the national policy authority. This is regarded an essential requirement in informing national authorities on regional objectives and priorities.

*On the use of sanctions and rewards:*

- None of the Scandinavian countries nor Iceland appear to impose the management principle of rewarding good performance or dissuading bad performance.

## **Recommendations**

*On the management relations between national and regional authorities:*

The political system is responsible for setting goals and objectives in policy fields. If clearer goal formulations in the regional policy field are deemed a prerequisite for an effective performance management system, the following recommendations can be made:

- The political system should be called upon to identify clear(er) and (more) consistent goals in the field of regional development. It should be possible to transform the objectives to specific actions.
- In terms of strengthening political control of the performance budgeting process – when reporting to the political system, increased focus should be put on evaluating outcomes rather than assessing financial allocation and output items. This would give the central and regional government as well as executive agencies more leeway in terms of selecting appropriate financial tools and funding the various policy objectives. The political systems main concern should be controlling strategic goal attainment, not the detailed, operational execution of policies.
- Ensure that the information called for in annual reports is in a format that allows for strategic, political decision-making. The information available to the political system is

recurrently detailed, quantified and diverse, but does not allow for strategic insights and knowledge on regional development issues.

- In order to provide for such a shift towards an explicit outcome focus in the design and delivery of regional development policies, performance measures and evaluations should be used more focussed to inform budget allocations.

The national surveys have displayed that much of the practical policy-making in the field of regional development is taking place within the regional partnerships. In order to improve the MBOR systems, we recommend

- *Targeted output/outcome requirements.*
  - Make sure that output and outcome requirements are clear, operational and realistic, formulated as ‘real’ goals, that is that they describe an expected societal impact or an expected state at some definite point in the future.
  - Strive to be specific, not only on output (activity) requirements, but also on outcome (effect, impact) requirements.
  - Assess the requirement to include horizontal objectives as general policy goals in the appropriation directions/allocation letters to regional authorities in order to reduce information overloads.
- *Dialogue, information and reporting*
  - Make sure that there are unambiguous requirements with respect to what kind of information and results are to be provided to the superior authorities. Central government should provide guidelines on the definition of outputs and outcomes and other specific items.
  - Strive to reduce the information requirements in the annual reports: The national authorities should consider taking additional steps to avoid information overload. One procedural step could be to reduce the amount of descriptive information required, or to reduce the frequency of reports required from regional or local authorities. Data, reports, etc. should in principle be limited to indicators which have or may result in output or outcome requirements from superior authorities (need to know vs. nice to know).
  - Subnational bodies should, in their reports, include what they have learned and how they will take the results into account in future decision-making.
  - All countries are encouraged to invite other Nordic countries to sit in on steering meetings between national and subnational/subordinate bodies.
- *Monitoring and evaluations*
  - Take steps to enable analyses of outcome (requirements) and the use of evaluations more strategically (see below on monitoring and evaluation).

*On the management relations between central government and executive agencies:*

In the four Nordic countries covered by this study, the executive agencies are increasingly being called to take on the implementation of a policy mix of regional development, business development and innovation policy issues. In order to improve the MBOR systems, we recommend

- *Targeted output/outcome requirements.*
  - Make sure that the goals being formulated are ‘real’ goals, that is that they describe an expected outcome, or an expected state, at some definite point in the future.
- *Dialogue, information and reporting.*
  - Reduce the information requirements in the annual reports.
  - In order to promote organisational learning, national authorities could consider adapting the Norwegian practice of holding management dialogue meetings with executive agencies. While this is currently practiced with

Innovation Norway, SIVA and RCN (in Norway), management dialogue meetings with an assembled group of executive agencies should be considered an option.

A fully functional MBOR system could make a large amount of external evaluations obsolete. In the meantime, in order to provide for more constructive evaluation arrangements in the field of regional development, several actions that may enhance the probability that collective learning and mutual cooperation takes place in the design phase of evaluations might be recommended:

- Make efforts to link evaluations systematically at central, regional and local level. Consider having mutual consultations about key evaluation points both at regional and central levels when preparing calls for tenders. This could enhance the relevance of evaluation findings at different territorial levels, and could facilitate the communication of such findings.
- Make a concerted effort to provide regional authorities with opportunities to participate in evaluation management boards or steering groups when central government calls for evaluations of national regional development initiatives or programmes.
- On regional development issues: organize multi-actor evaluations of core policy aspects and joint responsibilities. Mutual evaluations may facilitate and solidify territorial co-operation, independently of what substantive findings are being made.

# Introduction

During the last decades, public sector governance has seen rapid change. These public sector reforms are typically assembled under the common term New Public Management (NPM). Central issues in NPM have been de-regulation, de-centralisation and the introduction of management techniques adapted from the private sector in order to make public administration more flexible and cost-efficient. An important dimension of this reform process is the increased focus on decentralised performance management rather than on how hierarchical rules and regulations are being applied. Issues such as accountability in principal-agency relationships, and the balancing of trust/distrust, are brought to the fore.

The Nordic countries are welfare states that share several common characteristics in the field of public management. The countries have relatively small ministries, whereas the number of executive agencies and policy implementation bodies is very high in a European context. While all are members of the OECD, not all are members of the EU, which reflects the fact that the countries in question thus are exposed to international influences in political fields in different ways.

All five Nordic countries have well articulated performance management programmes covering virtually all of the public sector (Peters, 2007). Although these systems may appear to be extremely similar, there are important differences in administration in general, so that the implementation of performance management concepts might differ.

In this study, we set out to explore and describe the performance management system in a specific policy field – that is the field of regional development policy. We want to assess whether there are similarities or structural differences in the way regional development policy is being implemented in Denmark, Iceland, Norway and Sweden, and we focus on some specific conditions for performance management by using specific administrative elements – Management By Objectives and Results (MBOR) as our analytical tool.

The study is structured in the following way: first it lays out the basic concepts and analytical dimensions in performance management systems in public administration, in which MBOR is but one approach. It then continues by presenting the national MBOR structures of Denmark, Iceland, Norway and Sweden in separate chapters. Each national chapter follows the same template, first by identifying current regional policy goals and ‘mission statements’, and then by presenting the national regional policy authorities and the sub-national and subordinate bodies of the regional policy cluster. The main autonomy and control issues in the performance management of the regional policy sectors are laid out, and the conditions for organisational learning (knowledge transfer and information feedback mechanisms) at the national and regional level are briefly described. Each national presentation wraps up with a summary of the relations II (between the national authorities and regional authorities) and III (between the national authorities and executive agencies/subordinate bodies).

The national chapters are followed by a chapter where cross-county comparisons are made. Selected issues in performance management and –measurement are identified, and some initial recommendations to increase the implementation of MBOR in the field of regional development policy are made.

## Why cross-national comparisons?

It is difficult to determine the relative influence of various institutional and cultural factors on the structural evolution of MBOR systems in a single policy field, as there are many rivaling explanations available relative to the dependent variable – the MBOR structure. This is particularly evident as the policy field of regional development is not evolving in isolation, but is increasingly being integrated with other policy fields such as industrial and business

development policies as well as innovation policies. By using a comparative design on public management systems that are perceived to be largely similar, it should be possible to reap the advantages premised by the classical ‘most-similar systems design’. The more similar the units being compared, the more possible it should be to identify and isolate the factors responsible for making up the differences between them.

This study has, from the outset, been based on the premise that the Nordic performance management systems are largely similar – at least within the similar policy field(s). In all the Nordic countries the pragmatic introduction of a formalised performance-assessment regime, labelled Management By Objectives and Results (MBOR) has become a staple of Nordic-style New Public Management.<sup>1</sup> Performance-management systems have become major tools for regulating relations between ministries and agencies, and have by now also become an integrated part of the governmental financial regulatory systems (Læg Reid, Roness and Rubecksen 2006a).

MBOR is a common label put on a set of reform tools introduced and applied so as to improve performance management. It consists of quasi-contractual steering systems for subordinate agencies, including letters of allocation; increased flexibility in budget matters; the formulation and operationalisation of goals and objectives; evaluation, performance measurement, and new control and reporting systems; performance steering; quality assessment and control systems; and yearly activity and operational planning (Christensen and Læg Reid 2007).

The literature lists a wealth of administrative reforms under the heading of New Public Management (Homburg, Pollitt and van Thiel 2007: 4-5):

- Lean and highly decentralized structures, like semi-autonomous organisations rather than large, multi-purpose ministries and departments. Thus, Scandinavian countries display a tradition of separating out certain functions and placing them at ‘arms-length’ in executive agencies.
- Increased attention for the management of organisations and the management skills of public servants as opposed to policy advice and legal skills promoted in the classic public administration paradigm. This might even incorporate performance-related systems for recruiting, promoting and rewarding staff.
- A shift in the focus of management systems from inputs (like staff, buildings) and processes (education, auditing) towards outputs and outcomes. The increased performance orientation is combined with strong emphasis on accountability in principal-agent relationships.
- A shift towards more measurement and quantification, in particular in the form of developing systems of performance indicators and explicit standards on the quality of service provision.

In this study we examine how systems of performance management, Management by Objectives and Results Systems (MBOR) have been adopted in civil service organizations within the field of regional development policy in Scandinavia and in Iceland. The main issue is to describe the structure of the performance management systems at the national level, and to explain variations in the national performance management structures. This comparative approach displays how the MBOR systems take on multi-faceted forms, depending on how the national, institutional contexts affects or interferes with performance management reforms.

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

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<sup>1</sup> MBOR has in fact been identified as a coercive ‘super-standard’ made mandatory by the central authorities in Nordic public administration. Although mandatory in Norway since 1990, a 2004 survey among central government administrators found that almost one in seven Norwegian bureaucrats still did *not* report using MBOR tools in performing their daily tasks (Læg Reid, Roness and Rubecksen 2006a).

implementation process involving considerable freedom for the agency in question to select appropriate means. The Scandinavian countries and Iceland share a common feature in that ministries are quite small – their role is confined to policy making. In contrast, most executive functions are performed by hundreds of semi-autonomous agencies. Christensen and Lægheid (2001) have stated that although MBOR may be approached as based on technical and objective evidence, they are embedded in various political-administrative contexts. As such, MBOR is in practice implemented in a context characterised by a complex set of environmental factors, cultural traditions and diverse agency interests. In this study, we set out to identify some of the contextual factors that at first sight might appear as common to, as well as those that separate, the performance management of regional policies in public administration in Denmark, Iceland, Norway and Sweden.

Lægheid et al. (2005) also note that MBOR is not built on a consistent theory. Rather, it reflects the fact that performance-management systems are hybrid organizational forms that assume both autonomy and control. On the one hand, they are derived from economic organization theories, such as public choice or principal-agent models, which are based on the assumption of distrust. Public-sector agencies and companies are thus 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’. In public administration and political-institutional settings, the voluntary use of MBOR may in fact reflect a reverse principal-agent relationship. Johnsen (2005a) argues that in the presence of distrust, the phenomenon where the agents voluntarily monitor themselves may provide the agents with added benefits by letting them take care of some of the performance monitoring themselves. Alternatively, agents may use performance measurement tools to bond with the principals.

At the same time, MBOR is also derived from management theories whose basic assumption is the presence of 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 provide operating managers and executive agencies more discretion and leeway in deciding how to use allocated resources. The best way to improve organizations is then supposedly to allow for more autonomy and flexibility. Thus there is an element of decentralization, and the slogan is “let the managers manage”. Or – perhaps in this setting this could be put as ‘let the regions make the regional policy’.

## Management by objectives and results

MBOR is a performance-management tool encompassing three main components (Christensen and Lægheid 2001). *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 core 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 sanction bad. Information on the results achieved is supposed to have consequences for resource allocation as well as for how the agencies are organized. It then becomes essential that agents perceive that the information they provide to the principal is in fact being used in strategic planning and policy formulation processes.

The MBOR concept is based on the assumption that there exists a principal who formulates the administrative goals and objectives, and then controls their subordinates (their agents) on the results and outcomes being produced. For all practical purposes this principal-agency relationship can be translated as similar to that between central government and regional authorities/executive agencies (Quist 2007). It is further 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.

The rationale of MBOR is that such a managerial approach will enhance efficiency and improve performance without having negative repercussions on other goals and values (Pollitt 2006). At the same time MOR systems assume both subordinate autonomy (based on trust and decentralisation) and supervisory control (based on the presence of distrust and centralisation pressures).

The efficiency of using the MBOR tool may be analysed using different perspectives. In the *structural-instrumental* perspective, focus has been put on issues such as the forms of affiliation, the various types of government agencies, the role and use of an executive board, and the policy tasks attributed to the various agencies. This is a perspective that has proved to be less fruitful in the Nordic context.

In the *cultural-institutional* perspective, emphasis is instead put on organisational ecology themes such as agency age, agency size, the level of mutual trust inherent between the different parts of the system, and the agency culture of the contributing agencies in terms of service-quality and/or customer orientation. This is a perspective that may be particularly productive when assessing MBOR agency efficiencies in the Icelandic, Norwegian and Swedish context. In Denmark, the feasibility of cultural-institutional assessments is being blurred by the recent regional reform processes, introducing new regional institution and agencies.

MBOR is based on management techniques developed for organisations in the private sector, and one could perhaps expect agencies that operate in some kind of market(s) to adopt it more easily than agencies that do not. An additional set of factors describes the autonomy and control of agencies primarily as a response to external pressures. The importance of the global environment may be of two kinds (Christensen and Lægreid 2001). First, there may be an adaption to internationally based norms and beliefs on how an agency should be run and managed simply because it has become the dominant management doctrine. Secondly, the MBOR model may be adopted to solve technical problems created by market pressures in the global economy. The environmental issue is examined more closely in the descriptions of the national MBOR systems.

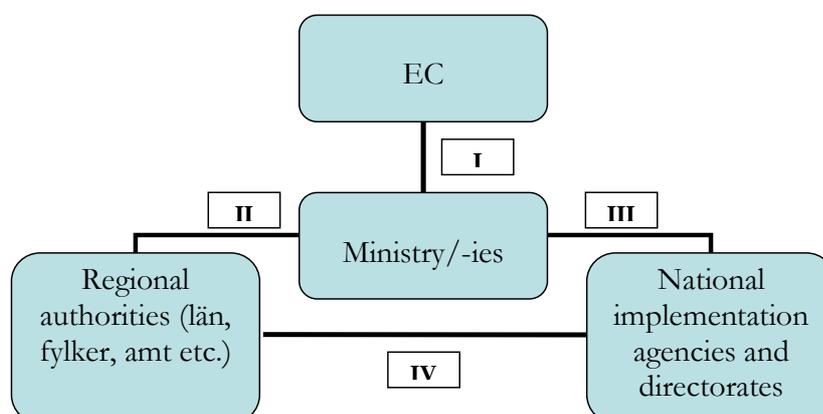
## The regional policy sector as an analytical object

When addressing political and administrative steering mechanisms, the importance of addressing distinctive policy sectors as units of analysis is often stressed. A policy sector comprise “a ‘cluster’ or complex of organizations connected to each other by resource dependency relationships and distinguished from other clusters or complexes by breaks in the structure of resource dependencies” (Benson 1982: 148).

The regional policy sector is both complex and fragmented. The boundaries of the sector are defined by the mandate of this study, that is the national policy authorities and subordinate administrative or policy implementation bodies (regional authorities, directorates and agencies). In this comparative study we delimit the regional policy sector(s) of the Scandinavian countries and Iceland by their administrative structures, that is to say as limited networks of agencies and authorities that are related in resource dependent relationships, in which financial dependencies predominate. The basic, standardised network delimiting the regional policy cluster is as displayed in figure 1. The basic cluster is constituted by four agents: the external environment

(here represented by the European Commission and/or ESA); a national policy authority (typically a ministry), regional authorities; and various agencies and directorates responsible for executing and implementing all or parts of regional policies. In figure 1, the network relationships joining the various agents in the policy cluster are identified by Roman numerals (I, II, III, and IV).

Figure 1: the relations of the organisations and institutions constituting the regional policy cluster



At the national level, the network relationships described above may in fact vary. One of the main differences among the MBOR systems in the Nordic countries is the extent to which the countries emphasize the role of agencies and other autonomous organisations (Peters, 2007). In both Sweden and Norway, ministries are the ultimate policy executive, while in Denmark and Iceland the implementation of the national regional development policy have been delegated to separate executive agencies – EBST and Byggðastofnun. In this sense, the relation III may be described as partly internalised in both Denmark and Iceland.

With the limited resources available and the methodology selected for this project, we are only in superficially able to explore ‘deeper level relationships’ (van Dooren 2006: 143), such as the interest structures and the rules of structure formation that limits and enables actions in the regional policy field. The supply and demand of performance indicators – or rather the absence thereof – may be seen as a method of structure formation. In selecting performance indicators, regional policy actors select policy issues and construct policy requirements.

Sabatier’s advocacy coalition framework (Sabatier, 1999) goes into greater detail in analysing the relations within a cluster of organizations. Administrative agencies, legislative committees, policy analysts, researchers and local and regional levels of government will adopt strategies to further their policy beliefs. The supply and demand of indicators can be interpreted as a way of translating such policy beliefs.

The extent to which policy sectors rely on indicators may differ. In the regional policy sectors of the Scandinavian countries and Iceland, qualitative descriptions prevail, whereas quantitative translations of policy objectives and -beliefs remain scarce. National, sector-bound institutional factors could influence the magnitude of indicator-based policies. With the methodology selected for this study, we have not been able to obtain sufficient information to conclude that the apparent similarity in the application of qualitative rather than quantitative indicators in performance measurement in regional policy assessment in the Scandinavian countries and Iceland has come about through imitative behaviour or mimetic isomorphism (DiMaggio and Powell, 1983), although it would appear to be a feasible hypothesis.

While MBOR systems may be seen as based on technical and objective evidence, they are also characterized by influences from political processes (Læg Reid, Roness and Rubecksen 2005). Peters (2007) has, for instance, argued that parliaments with more articulated committee

structures tend to be more effective in monitoring performance, and in enforcing accountability generally, than do legislatures with more minimal structures.

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 (national and regional), cultural traditions and diverse, historical-institutional and organizationally based interests (Christensen and Læg Reid 2004). 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. In addition, measuring performance is a politically complex task, and the search for a single best performance measure is thus a futile one. Public goals – especially in the field of regional development - are often broad and vague 'mission statements' that provide scope for ambiguity. Public managers have "room for interpretation", and strict business measurement methods adopted from the private sector are difficult to use.

What is more, measuring performance may shape institutional behaviours in both desirable and undesirable ways. Performance indicators have, for instance, different functions for different stakeholders in the regional policy cluster over the life cycle of a particular regional policy, and the search for better or improved performance measures is a continuous process. As Johnsen (2005b) has argued, "performance indicators may effectively create 'creative destruction' of [a] present political or managerial status quo. Thus, [in political competition] performance indicators may be as important as prices in market competition".

## Performance management and performance budgeting

Performance measurement can be used for accountability purposes, but appropriate goals and objectives are a requirement in order to be able to hold agencies accountable (Jules 2003). If goals and objectives have not been developed, it is difficult to tie performance measurement to budget decisions and decisions on financial allocations.

Many European governments have developed procedures to link government budgetary appropriations to some kind of performance targets. This requires good information on the performance of public sector agencies as well as the cost of improving performance, and is one way of linking MBOR to the policy-making process. An increasing amount of steering information is being contained in central governmental regulative systems and related documents, in particular the budget system (Ørnsrud 2002). The annual central government budget thus becomes both the principal fiscal policy document in the public sector as well as a key document in performance management (Joustie 2006). The budget combines fiscal control with the managerial foundations of service production by the central government. Performance targets in different policy fields are explained to the political system (e.g. the Parliament).

All the Scandinavian countries as well as Iceland have – at least to some extent – moved to a performance-related budget system, but there is no legal requirement to present performance-related information in the national budgets. In Sweden the State Budget Act states that the government reports to the *Riksdag* on the objectives for, and the results achieved, in various policy areas of which regional development is one. The State Budget Act article, adopted in 1996, only confirms results-oriented budget practices that were becoming increasingly widespread as from the late 1980s (OECD 2004, p. 363).

In government-wide performance information initiatives towards 'spending ministries' in the Nordic countries, the Ministry of Finance is comparatively speaking the most involved in Norway and the least involved in Denmark and Iceland. In the OECD 2005 questionnaire on performance information, Norway was the only Nordic country that reported having developed high quality output and/or outcome measures for agencies or government organisations within the regional policy sector (table 1).

Table 1: Nordic ministries which have developed high quality output and/or outcome measures (excerpt)

	<b>Sector</b>	<b>Ministry</b>	<b>Agency</b>
Finland	Labour/Employment Health Finance/Treasury	Ministry of Labour Ministry of Soc. Affairs Ministry of Finance	
Norway	Health Education Local Government	Ministry of Health Min. of Research and Education Min. of Local Government	Hospitals HEIs Counties, municipalities
Sweden	Environment Justice/Legal affairs Social Affairs	Min. of the Environment Ministry of Justice Ministry of Soc. Affairs	Nat. Env. Agency Police, prosecutors

Source: Curristine 2005; table 2. HEIs: higher education institutions

In all the Nordic countries, budgetary performance measures have - if at all - mainly been introduced in a limited way in the health and/or education sectors, sectors where client satisfaction is a more prominent element of public policy management. In these policy fields, individuals or groups of individuals are final beneficiaries, and welfare-improving redistributional instruments are applied.

## The nature of assessment and monitoring

Performance management allows a considerable amount of autonomy and flexibility in the use of allocated resources, and in choosing between means and measures in implementing various policies. However, the price executive agencies and regional authorities have to pay for such increased freedom is to have to accept a more rigid performance-management system, which includes performance indicators and performance monitoring and assessment.

As MBOR tools, assessment and monitoring is achieved by establishing a standardised reporting system serving the superior bodies. The reporting system is structured but not necessarily completely standardised for all executive agencies within a policy field. The performance management system requires the national authorities to identify goal attainment expectations in the regional policy field, and in what format and at what frequency sub-national and subordinate bodies are expected to report back to central government on their performance in regional development issues.

Monitoring and assessment may also include more informal, irregular activities. Dialogues between representatives of superior and subordinate bodies, and evaluations, are examples of such less routinised monitoring tools.

# Denmark

## Regional policy goals and 'mission statements'

In 2003, the Danish Government complemented the 2002 National Growth Strategy with a separate 80-page regional growth strategy (*Den regionale vækststrategi*) specifically aimed at promoting growth in peripheral and rural areas, so as to ensure that these territories are not decoupled from the growth processes at the national level. The subordinate regional development objective states that rural settlements shall remain attractive locations both to live and to work in.

The 2003 regional growth strategy identifies fishing communities facing economic restructuring as locations that will be subject to specific support. Strategic support to settlements in peripheral areas will come as initiatives such as

- A more flexible administration of planning legislation,
- A reform of the first phase of the educational system
- Infrastructure investments (roads etc.)

In the 2003 regional growth strategy the current government has also pointed out that the regional growth policy must take on a unified approach. Separate policy fields must be coordinated both by transgressing administrative boundaries, policy area geographies, as well as by promoting private-public sector cooperation.

The expansion of the 2003 regional growth strategy is specified in the 2005 Law on Business Development (*Lov om erhvervsfremme*, Law no. 602 of June 24<sup>th</sup> 2005), which holds the general objective of improving business development in Denmark by promoting the competitiveness and globalisation of Danish enterprises. Regional business development and employment is identified as one of the strategies to obtain this objective, and the Law sets out the formal instructions and requirements for a National Growth Council as well as Regional Growth Fora.

The law also specifies the thematic areas the regional growth councils shall focus on:

- Innovation, knowledge sharing and knowledge development.
- Implementation of new technologies
- New business ventures
- Human resource development
- Developing regional hospitality and tourism industries
- Issues related to developing peripheral areas

These growth fora, which have been in full operation since 2007, are triple helix fora which are not subordinate bodies answering to the regional authorities, but are regulated in partnership agreements established directly with the Ministry of Economics and Business Affairs.

With the recent Danish administrative structural reforms, the regional policy cluster addressing business support issues has been reconstructed. Regional authorities, the regional growth fora as well as the municipalities have been given new tasks.

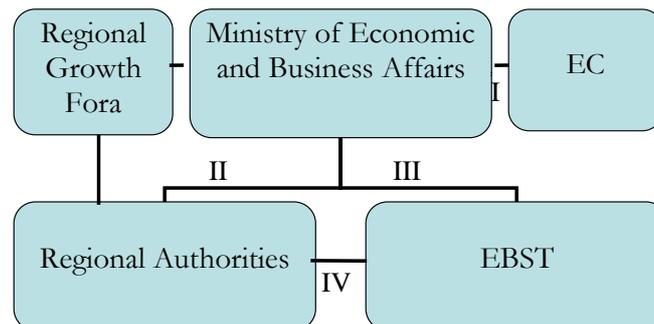
*The regional authorities* are mainly responsible for a) providing administrative services for the regional growth fora, b) developing regional development plans, and c) co-financing business development initiatives. A required part of the regional development plans is to formulate business development strategies. This is one of the tasks of the regional growth fora. Both the

regional development plans as well as the business development strategies are developed for four years.

The tasks of the *regional growth fora* are thus in d) developing regional business development strategies, e) monitoring regional and local conditions for growth, f) determine SF support.

The *municipalities* are responsible for g) providing business support services, h) to implement and finance business development activities, i) to partake in inter-municipal business development co-operation and j) to co-operate with the regional growth fora. A simplified exposé of the current regional policy cluster is provided in figure 2.

Figure 2: the relations of the organisations and the institutions constituting the regional policy cluster in Denmark



As of 2007, regional business development support schemes are operated from five regional service centers (*regionale væksthuse*) in the Greater Copenhagen region, North Jutland, Mid Jutland, Zealand and Southern Denmark. All five regional service centres have at least one local office in addition to the regional head office. The regional business support organisations shall provide services to new business ventures as well as SMEs with growth ambitions. In so doing, the regional service centres cooperate with local and regional actors both in the public and the private sector.

The redistributive objectives of regional development policies stated in 2002-2003 have, however, recently ceded to an universal focus on regional and national growth. The current objectives of regional development in Denmark are based on the current government's Governmental declaration of 2005, and in particular on the Globalisation strategy announced at the same occasion. The Danish Globalisation Strategy is an ambitious 2005-2010 plan for improved education, research, innovation and entrepreneurship, and has four specific aims:

- *Denmark as a leading knowledge society*: to increase resources allocated to R&D so that Denmark by 2010 has R&D expenditures at 3 per cent of GDP.
- *Denmark as a leading entrepreneurial society*: by 2015, Denmark shall be among the societies of the world with the highest number of new growth firms.
- *World class education*: secondary school students shall be amongst the world's best in reading, maths and natural science. All youth shall complete secondary schooling – at least 85 per cent by 2010 and 95 per cent by 2015. At least 45 per cent of all youth shall complete tertiary education by 2010 and at least 50 per cent by 2015.
- *The most competitive nation in the world*: Denmark shall be the most competitive nation in the world by 2015.

The 2006 Danish Globalisation Strategy, *Fremgang, fornyelse og tryghed* (Progress, renewal and security), contains a total of 350 initiatives spanning all policy fields. A specific call is made for strengthening regional partnerships to ensure industrial and business development. All actors – national as well as regional and local – are called upon to engage in embed the globalisation

strategy in Danish society. This call also provides the rationale for the regional partnerships to be set up between the National Authorities and the regional growth fora.

The (as of 2007) five regional councils have by delegation of authority from the national level the responsibility for producing regional development plans. The regional development plans shall contain a vision for the future development of the cities, rural areas and for nature and environment, business, tourism, employment, education and culture. A regional development plan shall express what the region itself regards as the important elements to promote growth and sustainable development.

The national globalisation strategy objectives now permeate a wide range of policies – including regional business development policies. The new partnership agreements established between the government and the regional growth fora in June 2007, displays that the structure of the regional development (growth) objectives are almost identical in all regions on business development and firm-specific issues. On the issues of education and competence, on entrepreneurship and SME development; and on innovation, the growth objectives are distinctly *national* and uniform. In these cases, the regional growth objectives have been adopted directly from the national globalisation strategy.

Specific *regional* objectives have been identified in areas related to the development of soft infrastructures, such as knowledge diffusion, in tourism and place branding, and in transnational cooperation (in some Danish regions). The extent to which the regional development objectives are quantified vary between the regional partnerships.

Table 2: regional growth objectives as identified in the regional partnership agreements

	Regional growth forum					
	South Denmark	Mid Jutland	North Jutland	Zealand	Capital region	Bornholm
<b>Education and labour supply</b>						
At least 95% of youth complete secondary education by 2015	X	X	X	X	X	X
At least 50% of youth in tertiary education in 2015	X	X	X	X	X	X
No. of participants in vocational training increases	X	X	X	X	X	X
<b>Improving growth conditions for new business and SMEs</b>						
New business ventures	Varying objectives; unique for each regional growth forum					
Proportion of growing new business ventures doubled by 2015	X	X	X	X	X	X
<b>Innovation</b>						
Increasing proportion of innovative business ventures	X	X	X	OAO	X	X
Increased funding of innovations as proportion of GDP	X	X	X	X	X	X
Increase in no. of firms/institutions with product/process innovations	X	X	X	X	X	X
<b>Knowledge diffusion</b>						
Increase in prop. of private employees with long formal education	X	X	X	X	X	X
Significant increase in commercial PhD projects 2007-2010	X	X	X	X	X	X
25% increase in no. of 'vitenpiloter' 2007-2010	X	X	X	X	X	
Reg. knowledge agents visit >250 new ventures 2007-2009	X	X	OAO	OAO	OAO	OAO
<b>Place branding Denmark (investments, tourism)</b>						
More knowledge-intensive jobs in the region	X	X	X	OAO	X	
Increased visibility as a tourist/travel destination	X	X	X	X	X, OAO	X
Increase in the no. of overnight stays in the region	X	X	X	X	X	X
<b>Peripheral areas</b>						
> n % of Structural Funds directed towards peripheral areas	X	X	X	X	*	OAO
<b>Cross border cooperation</b>						
	Yes	No	No	Yes	*	Yes

OAO: Other, Alternative Objectives

**X:** (bold types) - quantified regional development objective

\*: to promote the Øresund region as a 'best case' in cross-border cooperation; to improve the organisational efficiency of institutional cooperation in the cross border region.

The regional growth fora are in the process of developing a set of performance indicators so as to be able to assess the performance of the regional growth fora on a regular (i.e. annual) basis.

Funds from the structural funds programs 2007-13 are the main sources of finance to regional industrial development, so the EU membership has a significant impact on the policy objectives in the Danish regional policy (The Danish programmes are made under the

conditions of the regulations from the EU in this respect). The close connections to EU policy determine the focus, as the Structural Funds regulations set some preconditions as to the objectives being pursued. This implies, for instance, a clear connection to the Lisbon Agenda and the condition of additionality, which states that contributions from the Structural Funds shall not replace public or equivalent structural expenditures by a member State. These regulations are having a clear impact on the national regional policy.

Since the structural funds are the main source of financing to regional industry/business development, the aims and indicators being set for the 2007-2013 operational programmes will also constitute an important guideline for the policy practiced by the national regional authority.

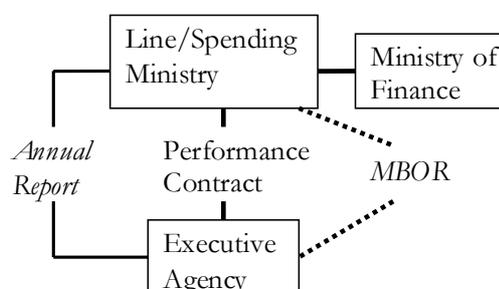
## National regional policy authorities

In Denmark, the main ministry responsible for regional development policies is the Ministry of Economic and Business Affairs (*Økonomi- og Erhvervsministeriet*). A range of other ministries are also partly involved in regional development policymaking with respect to territorial business development schemes and industrial development issues (the Ministry for Employment, the Ministry of Interior and Health, the Ministry of the Environment, the Ministry of Food, Agriculture and Fisheries, the Ministry of Science, Technology and Innovation, and the Ministry of Education).

The responsibility for regional industry and business development is delegated from the Ministry of Economic and Business affairs to the Danish Enterprise and Construction Authority (EBST). The role of the Ministry is to ensure that the work performed by the EBST is in line with the national priorities. MBOR is mainly being applied with respect to managing the relations between Ministries and executive agencies.

The governance principles and relations between performance budgeting and performance management (MBOR) is sketched in figure 3 below:

Figure 3: performance budgeting and MBOR in public administration in Denmark



The MBOR is characterised by objectives and targets being set with respect to the outputs produced by the executive agencies. These requirements are identified in the performance dialogue between the individual agency and the administratively superior ministry. The requirements are formalized in a performance contract.

The performance requirements of the EBST are thus identified in the performance contract (*Resultatkontrakt*) with the Ministry, which has currently been established for the 2006-2008 period. The performance contract states both a common mission as well as a common vision for the EBST activities, and defines strategic objectives in all the EBST's areas of responsibility: in regional development; in Structural Funds operations; in national and international business development policies; and in construction.

Performance contracts are not legally binding and can in principle be revoked by the minister. There are no specific sanctions laid out in the performance contract for target underachievement and failure to meet obligations. The use of performance pay at the director

general level does, however, provide a clear incentive to fulfill contract obligations (Thorn and Lyndrup 2003).

With respect to regional development, the 2006-2008 performance contract states that regional development shall mainly be concerned with developing frameworks for regional growth and managing the EU Structural Funds. The performance contract has identified tri-annual effect targets, the main products, result objectives and annual result requirements:

Table 3: the 2006-2008 regional development objectives of EBST

<b>Main product 1: Framework conditions for regional growth</b>	<b>Output requirements</b>	
<i>Objective 1:</i> The regional growth fora shall focus their activities on promoting the four boosters for growth: knowledge development and – diffusion; entrepreneurship, human resources development and ICT.	Activity	To develop an updated competitiveness model which assesses the performance of the regions and the framework conditions facing them in areas central to business development: ICT; knowledge development and –diffusion; entrepreneurship and human resource development.
	Productivity	-
	Quality	-
	Effect	2 out of 3 growth fora shall apply the competitiveness model in developing their business development strategy.
<i>Objective 2:</i> Structural Funds. In the 2007-2013 period, the focus shall be on support to projects promoting the four boosters for growth (see objective 1)	Activity	1) to develop an unified administrative set-up for the administration of ERDF and ESF. 2) EBST is to supply the EC with arguments on applying ERDF and ESF financing within the delimitations set by the 2005 Law on Business Development.
	Productivity	-
	Quality	On 2) enabling ERDF and ESF financing for projects promoting the four boosters for growth (see objective 1).
	Effect	-

In the EBST performance contract 2006-2008 3-4 basic administrative quantitative efficiency objectives both within objective 1 (Framework conditions for regional growth) and objective 2 (Structural Funds) have been identified and is called for.

## Autonomy issues

### Ex ante management

**Relation II:** No directives have been set for the regional authorities in terms of providing quantitative and qualitative policy objectives. Some of the regional growth fora are actually currently underway in identifying indicators for regional business development strategic outcomes. The Ministry of Enterprise and Business Development has voiced some concern in the indicator identification process.

The use of funds available for regional business development are delimited by the requirements stated in the 2005 Law on Business Development, which states that (*citation*) The funding of regional development activities (programmes, projects etc.) are distributed between the regions due to inhabitants in the municipalities (macro socio-economic indicators).

EU funds are mainly distributed according to similar indicators, that is to the areas facing structural difficulties, such as a low earned incomes and population decline.

In order to receive national funding, the regions are not required to provide measurable and quantitative results, but the national funds are closely connected to the EU funding since a part of the national funds will be used to co-finance the funds from the EU. With respect to the 2007-2013 structural fund programmes, the regional authorities are not asked to provide aggregate results in terms of number of activities or overall effects, but the individual projects (which the regional authorities approve before approved by the national authorities – which the latter always do unless something in the project are deemed illegal) are asked to measure both the number of activities and the effects of the project.

Regional policy objectives, regional (growth) policy field delimitations, budgetary allocations, evaluation and control criteria and outcome requirements are identified in various ways. In general, the Ministries (together with the relevant agencies) identify national objectives which the regional authorities then, by themselves, decide on how (or even if) they will contribute to the national objectives. The funds available for regional business development do set out some limitations on how the regional authorities can implement the objectives of the national growth policy. There is a continuous dialogue with regional authorities about how to implement the policy (evaluation and control), but not to any extent on the policy itself.

At the moment partnership agreements (*partnerskabsaftaler*) have been established between each of the regional growth fora and the relevant ministries. The agreements are based on the national globalization strategy and the regional business development strategies. The agreements shall identify elements from both the national and the regional level which can contribute to the overall objectives of the globalization strategy. The process involves the minister and the chairmen of the regional growth fora.

There are no national requirements for the regional authorities to respond/report to related to industrial or regional business development. Once a year there are, however, two publications which follow the development in the long term objectives in the globalization strategy): the 'Konkurrenceevneredegørelsen', which follows the development at a national level compared to other countries (mainly OECD), and the 'Regionalpolitisk vækstredgørelse', which follows the development in the framework conditions for growth and employment at a regional level.

With the recent establishment of a national growth council as well as regional growth fora, the national growth council follows up the implementation of regional business development strategies. The regional growth fora report twice a year to the national growth council on their progress in implementing regional business development strategies.

## Ex post management

**Relation II:** The regional authorities themselves does not report to the national authorities on obtained results and outcomes from the individual projects, and when the regional authority has approved a given project in Structural Funds programmes the regional authority is no longer involved in a reporting capacity. The individual project reports directly to the National authority two times a year and be the end of the project.

National authorities do *not* provide regional authorities with cases or benchmarks for illustrative purposes.

When there are major discrepancies between expected and actual/reported outcomes, actions may be undertaken at the programme level. Progress will normally be tracked in the semi-annual progress report required from all projects, so projects may be adjusted or funding revised if projects deviate from the initial plans. Related to the national obligations put forward in the Operational Programmes (in the context of Structural Funds), there is the possibility that the national regional authority won't allow a given project if the means are not used as expected. That implies that if more than expected of the means are used on for example innovation and less than expected on for instance the creation of new enterprises, then the

national authority has the opportunity to promote projects related to the creation of new enterprises or try to change the distribution of the means.

## Control issues – assessing and evaluating results

In the new setup the regional authorities have the opportunity to follow the development in the use of funds from the EC structural funds (on the possible framework conditions and on the funds used in the areas facing structural difficulties – the first is agreed on with the EC and the second as defined in the reform of the municipalities) by a national electronic reporting system.

There are limited efforts put into practice in the regional (growth) policy initiatives and programmes at the regional level. At the regional level there is no controlling, as the national authority controls the project directly with the use of the two annual reports from the individual project where they have to measure quantifiable results related to the measures from the application.

In the context of Structural Funds, national authorities will use evaluations per theme during the 2007-2013 period. An evaluation plan has been produced for these activities.

## Organisational learning

As the main source of funds for regional industrial development in Denmark are the Structural Funds it is also the rules and regulations implied from the EC that are the framework for learning loops. So it is mostly single-loop learning.

### Formal feedback mechanisms

In Denmark, there is no formal requirement from the National Authorities to the regional authorities to provide EBST with information or feedback on whether there are conflicting signals with respect to differences in objectives and expected outcomes between national regional policy initiatives and objectives/outcomes set up in transnational cooperation at the regional level. There are, however, administrative procedures in the national EU programme secretariats to avoid co-financing activities from two different EU programmes.

To what extent the regional authorities ask for feedbacks from projects (indicators, results and outcomes) remains unknown to the national authorities.

In general the use of sanctions and rewards in Denmark remains limited. However, in Denmark there is an example of a reward structure being tested. In the *vaeksthus* programme, there is a possibility to get a DKR 5 million reward if pre-set objectives are achieved. A system of points is defined in order to calculate if these objectives have been achieved or not. The bonus has been introduced in order to create competition between the *vaeksthus*.

### The informal dialogue with subordinate bodies and national agencies

The informal dialogue is considered to be an important tool for managing. There is a kind of formalization of the regional policy dialogue through the Operational Programmes and the 2005 Law on Business Development, but it has more of an informal character in the sense of being a dialogue between the regional authorities and the national regional authority (EBST).

In addition, the EBST uses this means as a way to obtain information about what needs to be developed and to grasp new ideas that are coming from the people working directly with the measures. Today there are such meetings between the *vaeksthus* 4-5 times a year. Unfortunately, these meetings are more a one-way communication and rather formal. The hope is now to

establish a more informal procedure. One way is that the EBST representatives are doing field visits at the *væksthus*.

The application of MBOR in Denmark remains rather limited within the regional policy field. The regional business service centres (*regional væksthus*) is considered to be the first attempt to apply MBOR elements more systematically they are being applied in other Scandinavian countries, since it is considered to be important to be able to measure if the ‘policy’ has made any important difference.

Table 4 provides a summary of the characteristics of the MBOR elements in the Danish regional policy cluster. Entries made in brackets ((No), (Yes)) means that the assessment of the presence of the MBOR elements concerned are negatively or positively weaker than those made without brackets.

*Table 4: MBOR relationships in the Danish regional policy cluster*

	<b><i>Relation II</i></b>	<b><i>Relation III</i></b>
Clear goals and targets?	(No)	(No)
Leeway for subordinate bodies (high autonomy)?	(Yes)	(No)
Well-developed performance indicators?	No	No
Quantitative performance indicators?	No	(No)
Reward for good performance and punishment of bad?	No	(No)

# Iceland

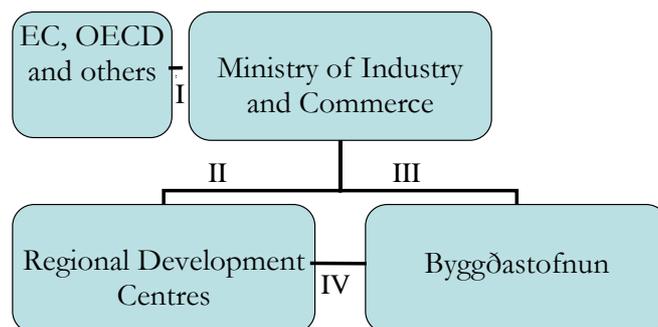
In Iceland, regional policy is a part of the broad portfolio of Minister of Industry and Commerce (Iðnaðar- og viðskiptaráðuneytið). The Ministry is organised in several departments:

- Department of Innovation and Industrial Affairs
- Department of Energy and Environmental Affairs
- Department of Competition and Consumer Affairs
- Department of Insurance, Foreign Exchange and Trade
- Department of Financial Services
- Department of Regional Affairs and Power-Intensive Industry

As in the Scandinavian countries, the Icelandic Government describes their approach to policy making in the field of regional development as holistic, identifying it as a cross-sectorial policy area that calls for broader political visions than in many other policy fields. This also calls for a close co-operation with other ministries and governmental institutions.

In Iceland the term region does not represent an official administrative level, with a separate governmental structure, income and expenditure bases or –responsibilities. There are no regional authorities as such. However, the voluntary organisations of sets of municipalities can be identified as a regional level. There are nine such organisations, mainly identical to the national constituencies 1959-2003. In the capital region there is one organisation but the other eight organisations are in combination mainly identical to the area which is eligible for regional development aid according to ESA-regulations and the focus of the Icelandic government’s National Development Strategy (see below). Each of the eight voluntary organisations of municipalities runs a Regional Development Centre with a relatively big financial allocation of the state. Consequently, although the state is responsible for carrying out regional development policies, the municipalities and their regional organisations are important actors in this area, operating joint projects with various governmental agencies.

Figure 4: the relations of the organisations and institutions constituting the regional policy cluster in Iceland



## Regional policy goals and ‘mission statements’

In Iceland, the rural policy of the state is implemented through the agricultural policy by contract between the government and the Farmer’s Association. National rural policy and national regional policy are presented as a single policy initiative (Aradóttir and Jóhannesson

2007).<sup>2</sup> For the sake of this study, the initiative will be referred to as regional policy. Regional policies are developed in four-year regional development plans that are approved by resolution by the Althing, although regional priorities are in advance jointly identified in close cooperation with the ministries concerned. The 2002-2005 plan focused on economic development in rural areas, singling out education, knowledge-creation, and innovation as key elements.

The objective of the regional plan is to minimize the disparities in the standard of living and earning opportunities of individuals in different parts of Iceland, and specifically to create good conditions for communal development in what in Icelandic terms are rural areas. In the current 2006-2009 regional development plan, passed by the Althing in the spring of 2006, particular emphasis is put on supporting municipalities and ensuring systematic support for industrial development, education, and reliable social services. The intention is to strengthen those peripheral communities that are the most populous, display the strongest attraction to the greatest number of inhabitants and demonstrate the best chances of increased local economic development, schooling, culture and social and public services. The current regional plan also put great emphasis on transportation infrastructures, on communications and on promoting information society initiatives. The current policy thus has three main objectives:

- To strengthen particular regional centres (Akureyri, Ísafjörður, central Austurland) while at the same time finding ways to improve settlement conditions in locations with declining populations.
- To assist communities in rural Iceland in adapting to rapid social development and economic restructuring, and
- To strengthen the rural economy, education, culture and social equality in the '*landsbyggðin*', that is the country outside the greater Reykjavik area.

The three main objectives have been developed into 23 specific measures. These measures aim specifically at harmonizing regional development policy and other national policies (as in Denmark). In many cases the measures aim at strengthening the role and activities of the public sector in the rural areas, without providing any detail or recommendations on the actual implementation of the different measures (with respect to actors responsible, funding/financial allotments etc.)

International obligations does not have any direct impact on the setting of these regional policy objectives, but are significant in setting framework conditions and types of measures. Important examples are the EU (and EEA) inner market and rules and regulations limiting regional investment support. The WTO regulations on fisheries subsidies, the Kyoto protocol and other international agreements and obligation are also significant, with the Kyoto protocol having particular implications for regional and rural development and consequently on the availability of policy measures to alleviate the situation for commercial endeavours located in vulnerable areas.

Regional development policies and strategies are annually identified and revised by the Regional Development Centres. The revisions are monitored by Byggðastofnun. The regional development authority has been delegated by a firm contract between each of the eight Regional Development Centres and Byggðastofnun and through an annual letter of financial allocations to the organisations. Special contracts are made for a part of the contribution, in most cases twenty per cent. Those are for projects that each organisation prioritises each year by an application to Byggðastofnun providing arguments for priorities, goals and targets and there is an obligation to deliver an annual report to Byggðastofnun with descriptions of the projects results.

The fact that Icelandic regional development policies are based on various parliamentary resolutions rather than in the form of a legally binding Act has unfavourable repercussions on the efficiency of policy implementation. As Aradóttir and Jóhannesson (2007:9) states, “[i]n recent years the [regional development] policy has been characterized by diverse and numerous

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<sup>2</sup> A significant part of this and the next section is based on Aradóttir and Jóhannesson 2007.

objectives and measures, often lacking direct measurable indicators or direct linkages to financial planning. This has not only blurred the policy focus, but has also made policy evaluation a challenging task”.

## The national executive agency

Byggðastofnun is the main public body in the field of regional development. The Institute of Regional Development (Byggðastofnun) is an institution under the Ministry of Industry and Commerce, with the aim of contributing to the regional development of Iceland (ref. 1999/2000). The institute co-finances investments, gives grants and assist local authorities in planning issues. The institute is the main national instrument in regional development policy. Byggðastofnun manages loans that are available to commercial companies: investment loans on regular market terms and high-risk loans to highly innovative projects.

In addition, the Iceland Innovation Centre (Impra), a department within IceTec (the Technological Institute of Iceland) plays a role in assisting budding entrepreneurs in evaluating business ideas, to provide counselling for business start-ups and to broker information and knowledge between individuals, business ventures and public agencies. Impra also aims at fostering cooperation between organisations that provide support for economic development at the national level, and to link organisations and companies to the public research, innovation and technological development support system(s).

The eight regional development centres serve firms, organisations and individuals. Business associations, trade unions and other regional organisations in some instances complement the municipalities and Byggðastofnun in running these centres. The role of the centres are somewhat varying, although most focus on facilitating economic development and innovations through specific projects and services to firms, entrepreneurs and local community groups. The centres act as regional lead partners in implementing regional growth agreements and associated development initiatives.

## Autonomy issues

### Ex ante management

**Relations II-IV:** There are no *quantitative* policy objectives set for authorities/bodies at *the regional level*, (the Regional Development Centres), but *qualitative* objectives are defined in the state budget and in the annual allocation letters. There are contract chapters with specific guidelines delimiting the use of funds made available to the regional level. The means shall be used within the target area of regional investment support and only on regional development, places' attractiveness, etc. and regional research and pilot projects, not on compulsory and ordinary public welfare provision like health, education and care of elderly. In addition there are maximum investment support intensities, partly decided by ESA and partly by the Icelandic government. The guidelines also delimit the municipalities' *direct* financial aid to individual enterprises. This is the responsibility of Byggðastofnun.

There are no general performance assessment criteria being applied at the regional level, and the *regional level* is not asked to provide directly measurable and quantitative results to ensure state funding.

Occasionally, the *regional level* is given options of receiving funding following a competitive tendering process. The last time this took place was in 2003, with the states funding of ISK 150 millions to innovation and research and ISK 350 millions to investments in company shares and with Byggðastofnun as the managing authority. In the case of grants each project was obliged to deliver a progress and an annual report.

Regional policy objectives, regional (growth) policy field delimitations, budgetary allocations, evaluation and control criteria and outcome requirements are typically identified in

top-down processes, by decentralization of authority to municipalities and in dialogue with the regional (subordinate) level.

Formalized growth agreements have recently been established between formalized partners, ministries, institutions, municipalities and companies. In most cases the Regional Development Centres are the managing authorities of the growth agreements. From the *regional level* the Regional Development Centres report annually to Bygðastofnun, but because of their recent start information is still lacking on the outcomes of the growth agreements.

The growth agreement strategy appears now to be implemented in most or all of rural Iceland (Aradóttir and Jóhannesson 2007). As of June 2007, five growth agreements have been established for Eyjafjörður, Vestfirðir, Vesturland, Austurland and Sudurland, with at least an additional two agreements in the pipeline.

Each growth agreement has a board and Bygðastofnun has one representative in three of the four boards. In the Sudurland growth agreement a commencement report is a prerequisite, which describes the situation at the start of the growth agreement period. In addition, annual reports where the progress is to be described in relation to the original situation is another requirement. Twelve quantitative indicators tracking regional growth outputs and outcomes have been identified:

1. Population figures for the area
2. Number of employees and the turnover of the participating enterprises
3. Number of tourist in the area
4. Number of participants in the agreements projects
5. Number, size and character of the agreement's projects
6. Number of company visits to enterprises
7. Number of network arrangements on behalf of the agreement
8. Number of seminars on behalf of the agreement
9. Number of international research projects with participation from the growth agreement agents
10. Number of international projects and occurrences with participation from the growth agreement agents
11. Number of innovations, new production solutions, in participating enterprises
12. Number of cases with participating enterprises sharing equipment or facilities

## Ex post management

**Relations II-IV:** Assessments, evaluations and conclusive reporting at the regional level are presented to the national authorities in the context of annual reports. The Regional Development Centres also hold dialogue meetings with Bygðastofnun, a format which also provides opportunities for organisational learning.

In terms of managing specific territorially based industrial or innovation development programmes, most of these initiatives have been developed nationally, without a strong basis in national or international R&D findings. In this field the national executive agency (Impra) regularly runs performance evaluations.

## Control issues – assessing and evaluating results

In Iceland, evaluations are typically commissioned internally to review new initiatives or programmes. There are no systematic following-up or monitoring processes to examine whether the actions or activities recommended by an evaluation is carried out, neither by ministries/departments nor by the national audit body. Spending reviews are performed mostly ad hoc (OECD 2007; 96-103).

With respect to the controls performed by the executive agency, Byggðastofnun call for a irregular dialogue meeting with the Regional Development Centre concerned when they judge project outcomes to be negligible. Once a year Byggðastofnun invites representatives from the Regional Development Centres to a seminar to discuss and evaluate common interests and results.

Table 5 provides a summary of the current characteristics of the MBOR elements in the Icelandic regional policy cluster.

*Table 5: MBOR relationships in the Icelandic regional policy cluster*

	<b><i>Relation II</i></b>	<b><i>Relation III</i></b>
Clear goals and targets?	Yes	(No)
Leeway for subordinate bodies (high autonomy)?	Yes	(Yes)
Well-developed performance indicators?	No	(No)
Quantitative performance indicators?	No	(No)
Reward for good performance and punishment of bad?	No	No

# Norway

The Ministry of Local Government and Regional Development (KRD) was established in 1948, and was originally responsible for issues involving the labour market and local government finance and administration. Over the years, however, the Ministry's sphere of activity has been expanded to embrace work in a wide range of other fields.

The Ministry is currently responsible for housing policy, district and regional development, local government and the administration of elections. Until 2005, immigration/refugee issues were also included in the policy portfolio of the Minister. With a staff of some 190, the Ministry is currently divided into four Departments:

- Housing and Building Department
- Regional Development Department
- Department of Local Government
- Department of Planning and Administrative Affairs

Several other Norwegian Ministries boasts regional development programmes. The Ministry of Trade and Industry co-finances a rural seed capital (equity) scheme, which shall supply early phase projects with both patient capital and relevant professional competence. Innovation Norway (IN) contributes with subordinated loan capital and write-off-funds (loss funds). The funds are *privately* owned and run. Funds are so far located in Nord-Trøndelag (Namsos), Bodø and Tromsø. The Ministry of Food and Agriculture also co-finances a Rural District Development Programme (BU-midler), administered by IN, aimed at commercially-concerned agriculture based business, especially agro-tourism. Prioritised areas are re-organisation, ICT, business and process development. The Ministry of Fisheries and Coastal Affairs is responsible for fish quotas, sea farming licensees etc.

## Regional policy goals and 'mission statements'

The overall objective of Norway's regional policy is to give people a real choice about where to live, to sustain the main feature of the settlement pattern, to ensure equal living conditions throughout the country, and to facilitate economic development in all parts of the country. The most recent White Paper on regional policy (St.meld. nr. 21 (2005-2006)) states that "[T]he overall objective of the Government in regional development policy is to cater for equal living conditions all over the country and to maintain the main characteristics of the settlement pattern".<sup>3</sup> The feasibility of this overall objective remains contested (von der Fehr 2006).

The Ministry for Local and Regional Development has developed a structure for identifying and classifying the strategic regional policy objectives at the national level and the policy is to be implemented in 2007. The structure has presently been implemented. The strategic regional policy objectives are given in the table below and cover state budget category 13.50:

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<sup>3</sup> "[R]egjeringen har som overordnet mål i distrikts- og regionalpolitikken å leggje til rette for likeverdige levekår i heile landet og oppretthalde hovudtrekka i busetnadsmønsteret".

Table 6: Norway's strategic regional policy objectives

<b>Main objectives</b>	<b>Second order objectives</b>
1. Growth: Increased value added, employment and an internationally competitive commercial community by business development, innovations and business start-ups; geographically differentiated and mainly within the area eligible for regional aid.	1.1 Environment/system: Develop local and regional business communities and innovation systems in order to improve the conditions for innovation-based growth. Initiatives should be adjusted to regional challenges.
	1.2 Going concerns: To improve the innovation capacity and speed of existing firms. Initiatives should be adjusted to regional challenges.
	1.3 Entrepreneurship: To improve the number of profitable business start-ups. Initiatives should be adjusted to regional challenges.
2. Framework conditions: Good local and regional framework conditions for the business community and the general population, geographically differentiated and mainly within the area eligible for regional aid.	2.1 Infrastructure: To strengthen the physical infrastructure and reduce the disadvantages of peripherality in territories with few inhabitants and small [local] markets.
	2.2 Competence: To improve the foundations of competence development in the general population both in the public and the commercial spheres. Initiatives should be in line with regional challenges.
3. Attractiveness: To develop attractive regions and centres for the business community as well as the population at large, geographically differentiated and mainly within the area eligible for regional aid.	3.1 Services: Good access to basic local services to the population in territories with few inhabitants and small [local] markets.
	3.2 Development of places: To make smaller centres and small and medium-sized towns more attractive and relevant both as a place of living and a place for locating firms.

Source: St.prp. nr. 1 (2006-2007) KR D table 3.2. Unofficial translation from Norwegian.

The structure has been developed by the Ministry of Local Government and Regional Development in cooperation with representatives of county administration authorities as well as Innovation Norway.<sup>4</sup> While the regional authorities are expected to contribute to all three of the main strategic objectives, the implementation agencies (The Research Council of Norway (RCN), The Industrial Development Corporation of Norway (SIVA) and Innovation Norway (IN)) are mainly expected to assist in obtaining regional growth objectives in general, and to contribute to the improvement of the conditions for innovation-based growth (second order objective 1.2) in particular (see the 2007 RCN/SIVA/IN Allocation letters).

At the regional level, overall objectives and main strategies concerning regional development in each county are identified through county plans processes (*fylkesplaner*). County plans are normally updated every fourth year and imply broad processes, involving municipalities, various state authorities at the regional level, the business sector and different NGOs. The county council approves the plan.

Most counties also have regional development plans (*regionale utviklingsplaner/RUP:s*) and/or activity plans (*handlingsplaner*) linked to the county plans. The regional development plans are discussed in the counties' partnerships and usually updated every fourth year while activity plans are revised each year.

The authority to prioritize and handle regional and business development means is devoluted to the county municipalities, through yearly letters of allocation letters (*tilskuddsbrev*). The county municipalities have to operate within certain framework conditions, defined in the

<sup>4</sup> Åshild Pettersen, April 30<sup>th</sup>.

state budget (objectives, target groups, etc.) and in budget chapter specific guidelines. Contracts are not in use.

## National regional policy authorities

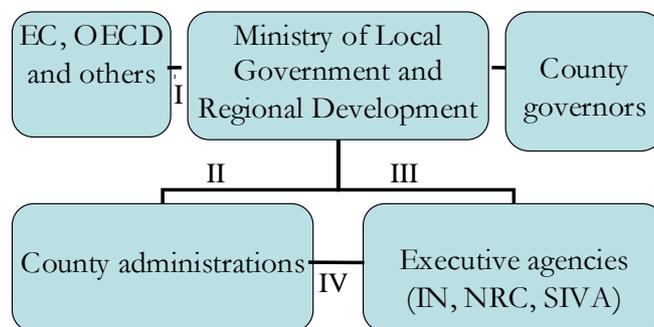
With respect to executive agencies, the most significant regional policy operators besides the regional authorities are Innovation Norway (IN), The Industrial Development Corporation of Norway (SIVA) and the Research Council of Norway (RCN).<sup>5</sup> These three national agencies IN, SIVA and RCN are administratively the responsibility of the Ministries of Trade and Industry and Education and Research. Overall, regional and institution specific objectives and strategies are presented in White Papers while measure and programme specific objectives and strategies are presented in programme documents, letters of award, etc. In addition to these, the institutions also develop, within these frameworks, their own objectives and strategies, both on a general and on a more programme specific level.

The Ministry of Local Government and Regional Development co-finances a range of programmes operated by these three agencies with the objective of promoting regional growth.

The ministry has recently made a specific call for initiatives to Innovation Norway aimed at improving social and economic equality, that is initiatives with women and youths as final beneficiaries. Innovation Norway (IN) has a regional presence in all counties. In fifteen counties these are regional offices, while in seven counties the representation is by local offices. In four counties – Finnmark, Møre & Romsdal, Sogn & Fjordane and Hedmark – IN has both local and regional offices.

The Norwegian Research Council (RCN) has had regional representation in eight counties since 2004. In all of these counties the RCN and IN regional representations are co-located. SIVA has no regional representation.

Figure 5: the relations of the organisations and institutions constituting the regional policy cluster in Norway



## Autonomy issues

In a comparative survey of the autonomy of public agencies in three countries, Norway, Ireland and Flanders, Verhoest et al. (2006) argue that Norwegian agencies in general displays high management autonomy as well as policy autonomy. The key contextual feature of ministry – public agency interactions are that they are displaying high levels of mutual trust. This does not, however, deter the ministries for developing or revising their performance management systems.

<sup>5</sup> Throughout this chapter, both the full name of the agencies and the abbreviations are used interchangeably.

## Ex ante management

**Relation I.** As a member of the ESA, Norway has to comply with EU's state aid guidelines and ESA's interpretations of these, including more specific instructions on geography and aid intensities for operating and investment support. Examples of schemes are the differentiated social security contribution, aid for newly created small enterprises, and regional investment aid area. In addition ESA guidelines cover aid for research and development and innovation while EU's horizontal regulations comprise block grant exemptions on SME aid and training aid. These rules and systems delimit the scope of action of the Norway and other ESA states to design their own regional policy. Norway also takes part in Interreg programmes, thereby having to submit to EUs guidelines in that respect.

**Relation II:** The counties have, through the so called responsibility or devolution reform, being implemented in 2003, a very free position to choose their own objectives, strategies, measures, priority areas etc. Consequently there are no *quantitative* policy objectives set for the regional authorities, but *qualitative* objectives are defined in the state budget and in the allocation letters. In addition, there are budget chapter specific guidelines delimiting the use of funds made available to the regional authorities. The means shall primarily be used to regional development, including competence building, investment support and only on regional development, infrastructure, places' attractiveness, etc, not on compulsory and ordinary public welfare provision like health, education and care of elderly (except pilots). In addition there are maximum investment support intensities, partly decided by ESA and partly by the Norwegian Government. The guidelines also delimit the county administrations' use to give *direct* financial aid to individual enterprises. This is the responsibility of Innovation Norway.

The regional development means are distributed between the counties mainly due to how many inhabitants each county has within the different zones in the target area of regional investment support. In addition, the Ministry of Local Government and Regional Development also allocates discretionary means to Interreg IVA, municipal development funds and regional restructuring initiatives. The amount of these discretionary means is estimated by the Ministry. The counties are not obliged to prioritize these means to the mentioned purposes, but they usually do.

The regional authorities are not asked to provide directly measurable and quantitative results to ensure funding, but they are obliged to develop their own MBOR. The Ministry shall see to it that such MBOR-systems exist. In a 2004 study of the implementation of MBOR in the steering of decentralized regional development funding in the county administrations, it was noted that the strategic information reported from the regional authorities to the Ministry was mainly qualitative, in the form of activity and process indicators (Statskonsult, 2004).

**Relation III:** According to Innovation Norway, MBOR is implemented at all levels, nationally, regionally and locally and Innovation Norway is considered to have good systems for reporting. The MBOR system is continuously developed in cooperation with the responsible ministries. However, the co-ordination between the ministries has not been working perfectly. All ministries have agreed on MBOR principles in performance management in theory, but when it comes to practice there are some obstacles. A problem is for instance that within ministries there are competing objectives, therefore there is not one uniform goal structure within a particular policy field.

With regard to the Research Council of Norway, the separate programmes develop their own objectives. The relationship between the programme and the overall objectives of the RCN is not always considered to be unambiguous. However, each division (in the case of VRI the Innovation division of the RCN) has its own objectives and the VRI-programme relates to them.

In Norway indicators related to *processes* and *activities* dominate in i.e. the annual reports. For instance, both the Research Council of Norway and Innovation Norway mainly report quantitative indicators related to their activities and projects.

**Relation IV.** Budgetary allocations in the field of territorialized business development are distributed by delegation from the county municipalities to Innovation Norway's district offices and by devolution to the municipalities. There are partnerships between Innovation Norway and county municipalities, and between the county municipalities and the Research Council of Norway (RCN). The various counties differ greatly in the extent that they formalize partnership agreements with other regional development actors (municipalities, labour market organizations, universities and colleges, and others).

## Ex post management

**Relation I.** In the international arena, the Ministry is a member of monitoring committees (in addition to steering groups) in various cross-border programmes at the EU level. There is a more systematic use of evaluations (ex ante, mid term, updated mid term, ex post) and specific guidelines in that respect at the international than has hitherto been the norm on the national level.

**Relation II.** Every year, normally in April, regional authorities submit *activity* statistics on last years funding. Every county authority also produces a written report based on following instruction:

- Description of the main priorities in the use of regional development funding in relation to challenges, objectives and strategies in the county plans.
- Description of the most important activities; presentation of some examples.
- Short description on the county partnership, co-operation and co-financing with SIVA, the Research Council of Norway, Innovation Norway or other state authorities.

The activity statistics is an integral part of the regional reporting system (see table 7), whereas the compilation of the qualitative, written report poses more of a challenge for the county administrations, as these reports are perceived of more as an input requirement to the Parliament than as an element of the MBOR system. Most of the irregular assessments, evaluations and conclusive reporting produced by the regional authorities are also included in the annual written reports.

The Ministry is required by budgetary guidelines to provide the regional authorities with a written response/assessment of the contents of their annual report within six week of receiving the annual written report.

Each autumn the Ministry responds to all the counties on their written reports and the statistics on last year's funding. The Ministry also, each year, arranges a seminar focusing on reporting and MBOR. It also has a dialogue on reporting indicators in the annual statistical reports. The Ministry has initiated several conferences to discuss different political questions with the all county authorities, either in a political or an administrative setting (on partnership, on innovation, on upcoming white papers, etc.).

Table 7: main registration of activity categories by type of outputs (551.60 allocations). Information provided to the Ministry from regional authorities on innovation; business development; competence development; entrepreneurship<sup>6</sup>

<b>Main activity</b>	<b>Sub-categories</b>
1. Development of knowledge infrastructure and innovation infrastructure by co-localisation and collaboration between firms and entrepreneurs	1. Industry gardens 2. Business incubators 3. Distributed business incubators 4. Science- and knowledge parks 5. Other items
2. Development and strengthening of inter-firm networks, and triple helix constellations	1. Inter-firm networks 2. Triple helix constellations
3. Innovation and vocational training/competence development in firms	
4. Initiatives to boost entrepreneurship and strengthening entrepreneurial culture	1. Initiatives to promote commercialization of ideas originating from R&D/HEIS milieux 2. Mobilisation of entrepreneurship in education 3. Other initiatives promoting entrepreneurship

Source: Ministry of Local Government and Regional Development

**Relation III.** Every year, normally in April, IN, SIVA and RCN submit results, statistics and data on individual measures, incl. programmes, on last year's funding, use of means, results, etc. All three agencies also produce written reports to funding ministries. In the case of IN and RCN, the report to the ministry is "hidden" among information to all ministries in question, also due to the fact that many of the programmes are co-financed by two or more ministries. In addition the agencies also produce formal and publicly available annual reports. Before August 15th each year the agencies also produce a semi-annual report on the development during the last six months.

Assessments, evaluations, or conclusive reporting produced by the implementation agencies nationally or regionally at the regional level are usually not presented to national authorities. This issue is only relevant for IN's district offices that annually, and to each county municipality, produce reports, to a certain extent also for RCN. These reports are usually not forwarded to the Ministry. IN's material is, however, split up by counties, in principle allowing us to look at the development in each county. On the other hand, the county municipalities are responsible for reporting on the IN's use of 13.50 funded county means<sup>7</sup> to the Ministry. Such reports on the previous year's development are to be submitted before the end of April. In addition, the counties also report, before August 15th, on the development during the first half of the current year.

In 2006, the ministry initiated the principle of holding a management dialogue with Innovation Norway twice a year. This principle is being maintained in 2007, with a summer and an autumn dialogue meeting. The first meeting takes place so as to reflect on past activities, while the second is aimed at providing the ministry with an update of current and planned activities and initiatives.

<sup>6</sup> In addition, all activities are to be specified by i) no. of regional projects, ii) public co-funding (in per cent of total funding), iii) beneficiaries: activities aimed at women and/or youth and/or immigrants and/or promoting environmental sustainability and/or cross-border cooperation (Interreg). Outcomes shall also be reported based on the territorial distribution of activities (i.e. municipalities). In September 2007, the Ministry initiated a process in order to improve the required reporting categories of the registration system.

<sup>7</sup> Decentralised regional development funding allocated to the county municipalities in the national budget in spending chapter 13.50.

## Control issues – assessing and evaluating results

The control issues described in this segment covers both those related to reports that are made routinely between the agents of the regional policy cluster (mainly vertically, with the Ministry as the recipient of the information obtained), but also the transfer of irregular, on-off evaluations of selected interventions and programmes performed at the subnational level.

In Norway, the Ministry of Local Government and Regional Development actually require all policy implementation bodies to report to the Ministry on the findings made in evaluations commissioned by the agencies or regional authorities themselves. However, while this is a compulsory, formal requirement facing the implementation agencies (RCN, SIVA, IN) the regional authorities have some leeway in informing the Ministry on this issue. So far, the combined regional authorities have only produced very few findings from such evaluations.

Systematic risk assessments are not being made with respect to the possibility of emerging deviations from objectives, regional (growth) policy field delimitations, although there is now a risk analysis work going on in the Ministry, also covering budget means decentralized to counties.

The regional authorities are autonomous political bodies with their own controlling systems, including their own audit office (*fylkesrevisjonen*). The Ministry has a responsibility to ensure that the regional authorities have controlling systems covering the administration of the regional development funds.

Previously the Ministry carried out, every fourth year, normally prior to issuing a new White Paper on regional policy, or after ending a programme, most of the evaluations of the executive agencies. During the last years evaluations have to a larger and larger extent been the responsibility of the agencies themselves. The division of labour is now, broadly speaking, that the Ministry shall carry out strategic cross-programmatic analyses and that the agencies take care of individual programme evaluations. The Ministry will, however, contribute to the process by for instance participating in reference groups. Prior to 2003, the Ministry had a more 'hands-on' approach to the different county policy initiatives and called independently for evaluations of different programmes and initiatives. Innovation Norway performs evaluations, on a regular basis, of financial or other support to individual enterprises.

The Ministry initiated an evaluation on the counties' development funds in 2007, using case studies in combination with a strategic and an effect approach.

In Norway, each of the executive agencies are supposed to have its own MBOR systems installed, but Innovation Norway (IN) is the only agency where MBOR impregnates the performance measurement activities. IN's work in this field is based on a comprehensive process where its regional offices are involved. RCN's regional representatives in eight counties are also involved in similar processes in RCN. SIVA is not represented at the regional level.

The measurement of results and outcomes following from IN activities has been established in a separate MBOR system with a set of effect indicators as well as activity indicators. The measurement of indicators is complemented with occasional evaluations. The measurement of results of particular initiatives (this being programmes, financial support initiatives, guarantees or loans) are managed in user surveys as well as by separate evaluations.

In 2005 IN assessed the directives which the county administrations provide for the IN regional representations in how these comply with Innovation Norway's national strategic objectives. IN has found that there is a general concordance between the directives the Ministry of Local Governance and Regional Development (KRD) provides for the counties, and the directives the counties for their part hands on to their regional operators – the IN representations. However, IN points out that the political framework regulating the accordance of national innovation strategies with regional innovation strategies is rather weak, and that the legislative framework regulating such issues is practically non-existent.

In the autumn of 2005 a working group developed a separate MBOR for SIVA. The objective of this exercise, which involved both the Ministry of Trade and Industry as well as the Ministry of Local Government and Regional Development, was to identify a set of strategic and secondary objectives as well as criteria for the reporting of results.

## Organisational learning

Through the formal dialogue linked to budget allocations, annual reports and written responses, the Ministry learns and develops the performance management system. The input to central government provides a lot of information and the knowledge often contribute to changes.

The Ministry provides the regional authorities with cases and benchmark studies for illustrative purposes to a certain degree, mainly within politics aimed at the most remote lagging areas (*småsamfunnsatsingen*). Approximately twice a year all counties are invited to seminars where good examples of actions in the areas in question are presented. Twice a year, the Ministry also has discussion meetings with administrative *representatives* of the county authorities, Innovation Norway and The Norwegian Association of Local Authorities – KS (*Kommunenes Sentralforbund*).

The Ministry and the executive agencies hold steering meetings every year in May or June, focussing on the annual reports, and a separate steering meeting every November focussing on the next year's budget. Informal meetings often take place before the steering meetings. The Ministry is represented as observers in the management of different programmes with particular focus on the learning aspects.

The use of explicit sanctions and rewards is not practiced in Norway. However, some of the respondents interviewed for this study (see appendix 1) gave the impression that there were so called 'implicit' rewards and sanctions in use. There may be indirect 'rewards' for good performance, if for instance the instruments can be connected to good effects additional funding may be allocated to specific business development measures in the next budget. If the expected effects are not achieved, the budget may be reduced. Indirectly, there can be consequences if the programmes do not achieve the results stated. However, this is a part of political process and there is no causal link to the administrative system.

Wrapping up, Norway seems to be a rather advanced user when it comes to MBOR within the regional policy field. Concerning the trust between the different actors, the relationship varies depending on which actors are involved. Innovation Norway must for instance ask the ministries prior to making a budget reallocation. The Ministry of Industry is responsible for costs connected to administration and the Ministry of Local Government and Regional Development for some of the costs used for running the programmes and instruments. In general, it is not popular to take money from the 'instrument budget' and use that money for administrative matters. The Norwegian Research Council seems to be somewhat more independent in performing budget reallocations. However, funding is seldom transferred from one programme to another, and such a revision would require a dialogue with the ministries. However, funds may be reallocated within programmes.

Table 8 provides a summary of the current characteristics of the MBOR elements in the Norwegian regional policy cluster.

Table 8: MBOR relationships in the Norwegian regional policy cluster

	<b>Relation II</b>	<b>Relation III</b>
Clear goals and targets?	(Yes)	(No)
Leeway for subordinate bodies (high autonomy)?	Yes	(No)
Well-developed performance indicators?	Yes	(Yes – for some 2. order objectives)
Quantitative performance indicators?	No	(Yes)
Reward for good performance and punishment of bad?	No	(Yes – financial allocations to programmes)

# Sweden

The Swedish administrative system has a dual structure, with a large number of large agencies and a limited number of small ministries. The agencies holds constitutionally enshrined autonomy. The coordination of government policies have traditionally been guaranteed by strong informal networks and procedures such as mandated interdepartmental consultations. Intra policy coordination between ministries and subordinate bodies have been lagging in comparison, since central control of agencies at least until the early 1990s were predominantly focussed on inputs.

From 1995 increased emphasis has been put on regional coordination and other forms of joint initiatives through networking. New initiatives have been taken to strengthen the consolidation of central government, and after 2000 this has resulted in increased hands-on control of the state agencies, centralisation of coordination power with respect to public administration reform and the merger of several ministries. In the field of regional development policy, this is now one of the many tasks that rest with the Ministry of Enterprise, Energy and Communications (*Näringsdepartementet*). Other Ministries are also currently involved in regional policy issues: the Ministry of Agriculture; the Ministry of Employment; the Ministry of Education and Research; the Ministry of the Environment; the Ministry of Culture; and the Ministry of Foreign Affairs.

In Sweden, the county administration boards function as representatives of the state in their respective counties, and as links between the inhabitants, the municipal authorities, the Central Government, the Swedish Parliament and the central state authorities. The responsibilities of the county administration boards cover a wide span that embraces a range of specialist areas in the day-to-day life of the community as a whole, from the issue of individual driving licences to major issues affecting the inhabitants of the whole region. In 6 of the 21 counties county administration boards also have responsibility for the development of their regions.

In Skåne and Västra Götaland the county councils have now been replaced by directly-elected regional councils (*regionala självstyrelseorgan*). These regional councils have taken over the functions that were previously the responsibility of the county councils, including responsibility for the provision of public health and medical facilities, cultural affairs and the provision of public transport, for example. For a trial period, regional councils have also been charged with responsibility for the development of their regions, a function that they have taken over from the county administration boards.

In most counties, responsibility for regional development is vested in an indirectly elected municipal coordination bodies (*kommunala samverkansorgan, KSO*), whose members are elected by the county council and municipal councils. All Swedish counties may establish municipal coordination bodies, according to a law instituted in 2002. Municipal coordination bodies are currently in operation in 13 of the 21 Swedish counties: Blekinge, Dalarna, Gotland, Gävleborg, Halland, Jönköping, Kalmar, Kronoberg, Södermanland, Uppsala, Värmland, Örebro and Östergötland. The responsibility of regional development issues may be transferred to the municipal coordination bodies from the county administrative boards (*länsstyrelserna*), provided that all local municipalities are members of it. Even the politically elected county council (*landsting*) may be a member of the municipal coordination body, but this is no prerequisite. Political participation in institutional regional development is fast becoming the norm, and the *landsting* are members in all the four most recent municipal coordination bodies that were established, effective from January 1<sup>st</sup> 2007 (Värmland, Örebro, Gävleborg and Southern Småland).

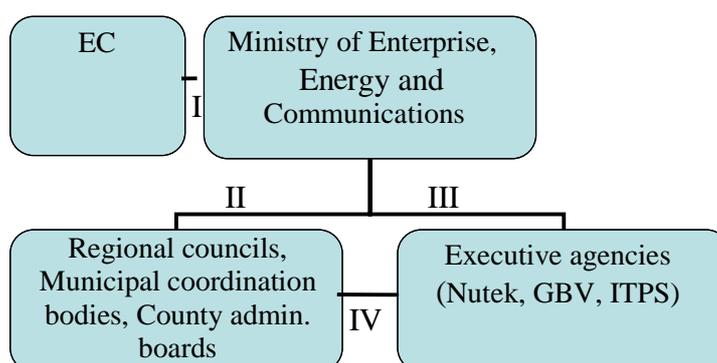
The responsibility for developing regional development programmes, to distribute some central funding for regional development and make decisions on the use of instruments available for developing the physical infrastructure at the regional level has been transferred from the county administrative boards (*länsstyrelserna*) to the municipal coordination bodies. In

regions with municipal coordination bodies, they may also take on the responsibility of coordinating and initiating efforts to implement the regional growth programmes.

For the implementation of regional development policy, Nutek – The Swedish Agency for Economic and Regional Growth (*Verket för näringslivsutveckling*) is the main executive agency on the national level. At the beginning of 2007, Nutek had some 215 employees, nine regional offices and an annual budget of SEK 240 million. The task portfolio of Nutek is broad, and the government has set up a total of 12 goals for the agency (Näringsdepartementet, 2007).

Apart from these agencies, the government can implement the regional development policy through numerous state agencies that are active on both national and regional level. The regional policy cluster is illustrated in the figure below:

Figure 6: the relations of the organizations and institutions constituting the regional policy cluster in Sweden



## Regional policy goals and ‘mission statements’

In December 2001 the Swedish parliament put forward a Government bill establishing a new, more growth-oriented regional development policy (Proposition 2001/02:4). The new bill, A policy for growth and sustainability all over the country (*En politik för tillväxt och livskraft i hela landet*), led to the creation of a new policy area, *regional utvecklingspolitik*, which was created by merging the regional policy area with the sub-policy area of regional industrial policy, which previously resided within the greater industrial policy area. According to this bill, national growth is the sum of regional and local growth.

The Government Bill 2001/02:4 brings forward the importance of local and regional autonomy in promoting social and economic growth. In addition, the Government underlined the need for having *strong regions* in order to be able to promote growth and that all regions should be developed based on their own preconditions.

The prime policy objective is to create well-functioning and sustainable local labour market regions with a good level of services in all parts of the country. In the 2008 State Budget Proposal (prop. 2007/08:1), expenditure area 19 Regional development, the government proposed to change the name of the policy area from regional development policy to regional growth policy (*regional tillväxtpolitik*). The objective of this re-named policy area is to boost the growth potential in all parts of the country by improving local and regional competitiveness”.<sup>8</sup>

The aims of the regional growth policy are:

<sup>8</sup> ”...utvecklingskraft i alla delar av landet med stärkt lokal och regional konkurrenskraft”.

- Strengthened local and regional influence over and responsibility for government funds.
- To make use of the unique conditions for individual development and corporate competitiveness found in different types of regions, such as sparsely populated and rural areas, small and medium-sized towns and metropolitan areas.
- Strategic government initiatives and measures for sustainable growth in interplay with actors at local, regional, European and global levels.
- A cross-sectoral working method and a more co-ordinated government interacting with local and regional actors.
- Good access to commercial and public services for citizens and businesses in all areas of the country.
- Increased labour supply through such means as widening regions and increasing mobility within and between regions.
- Regional strategies and programmes conducted with support of partnerships and in interplay with national and European levels, aimed at strengthening local and regional sustainable growth efforts.

Coordination between sectors and regional considerations in the various policy areas are of central importance in a successful regional development policy.

The national strategy for regional competitiveness, entrepreneurship and employment 2007-2013, which was presented by the new Government in December 2006, should help to create competitive regions and individuals in Sweden. The government has identified the following national priorities for regional competitiveness, entrepreneurship and employment 2007-2013: Innovation and renewal, Skills supply and improved workforce supply, and Accessibility and Strategic cross-border cooperation. In accordance with the European strategic guidelines for cohesion, the national strategy provides guidelines for structural fund programmes for regional competitiveness and employment 2007-2013. The strategy constitutes Sweden's national strategic reference framework for cohesion policy, which is to be implemented in Sweden via eight regional structural fund programmes and a national structural fund programme with eight regional plans.

The national strategy involves further coordination of the regional development policy, the labour market policy and the European cohesion policy in Sweden. It should form a basis for implementing the EC's structural funds in Sweden, and should provide guidance for regional growth programmes and for national authorities. It also aims to encourage dialogue and interaction between players at local, regional, national and EU levels. The basis for this dialogue is prioritisation within the national strategy and regional development strategies.

The regional development objectives and strategies are presented to the parliament in the Autumn Budget Bill. In this yearly Budget Bill the overall policy goal of the regional development policy serve as the starting point for the objectives that are formulated for each branch (*verksamhetsområden*) and then for each branch of activities (*verksamhetsgrenar*), for each authority. The objective of the policy is changed only through communication with parliament and then most often by a separate bill. Besides setting the objectives for the activities in the coming year, the Autumn Budget Bill presents the overall funding of the policy area.

The intentions of the Autumn Budget Bill is then processed by the Government and turned into appropriation directions. These directions are the main instruments for the Government to govern their agencies and they include funding for the coming year. The objectives that are written in these appropriation directions are all done so within the framework set out by the Autumn Budget Bill. The agencies receive these letters by the end of December. The agencies then work out their operational planning, based on the assignments and objectives set by the Government. MBOR was implemented throughout the state organisation in 1988. This means that all government agencies formulate objectives that correspond with those formulated on the national level in the Autumn Budget Bill and the appropriation directions.

The planning horizon of the implementation agencies and the political bodies at the regional administrative level are both based on annual budget and planning. The municipalities and the counties are self-governed and the state is prohibited by law to give any kind of assignments or rule the political bodies at a local or regional level by objectives, unless funds are provided.

The current objectives of the three branches that the policy area of Regional development is centered round in the Autumn Budget Bill are (unofficial translation from Swedish):

- Programmed regional development work (*Programlagt regionalt utvecklingsarbete*) objective: 'Increased coordination between policy areas to attain a sustainable regional development' ("Ökad samverkan mellan olika politikområden för hållbar regional utveckling").
- Supply of capital for regional enterprise development (*Kapitalförsörjning för regional näringslivsutveckling*) objective: 'Sustainable growth in supported enterprises, which contributes to a sustainable regional development' ("Hållbar tillväxt i stödföretagen som bidrar till en hållbar regional utveckling").
- Commercial services (*Kommersiell service*) objective: 'Good access to commercial services for men and women' ("God tillgång till kommersiell service för kvinnor och män").

## Autonomy issues

### Ex ante management

Sweden provides a context of semi-autonomous agencies and relatively strong ministries. The Swedish governments have traditionally deployed bottom-up driven coordination strategies, with emphasis being put on joint initiatives and support from the agencies. However, the bottom-up strategies are increasingly being used to encapsulate and enhance central government agendas (Bouckaert, Peters and Verhoest 2006).

**Relations II-III:** Signals traditionally go from the ministries to the agencies through Government Bills that are enacted by the Parliament (*Riksdagen*) as well as through the Government's annual appropriation directions (*regleringsbrev*) to the agencies in accordance with the annual Budget Bills. In addition, the Swedish Government can order the agencies to undertake additional tasks during the fiscal year if deemed necessary (Lemne and Sohlman 2006). The agencies report back to the government in annual reports or in separate reports. The reporting format is specified in the annual appropriation directions, detailing the quantitative and qualitative indicators and items that are to be reported in order to describe the outcome of the agencies' activities of the fiscal year.

The Swedish Government also produces annual directions to the municipal coordination bodies (*regionala samverkansorgan*) and to the regional councils (*regionala självstyrelseorgan*) in accordance with the annual Budget Bills. The directions provided in these documents, *mål- och villkorsbeslut*, are in accordance with those provided in the appropriation directions to the county administrative boards.

The agencies are required to provide the Government with annual reports on their activities early in the calendar year. In the field of regional policy making, the tradition of consensual decision-making has stimulated an informal network-type of coordination and control. The use of network type control instruments (forums, ad hoc negotiation and concertation committees) remain a significant aspect of policy control at the agency level. Collegial steering bodies and negotiation bodies are the main control instruments in maintaining the MBOR dialogue (*resultatdialogen*). The MBOR dialogue is a planned, formal legal requirement in which agency representatives (usually the managing Director and 2-3 of the executive officers) meet with Ministry representatives: (usually the state secretary, the head of the unit and the Ministry's administrator of the agency issues). Brunsson and Bylund (2001) describes this as a display of formalised informal governance.

In this vertical governance system, the MBOR dialogue provides the minister - or the state secretary, depending on the traditions of the ministry – with an opportunity to discuss results with the General Directors of the respective government agencies. In this more informal setting, discussions mainly relate to the strategic issues. Providing the subordinate agencies and -bodies with detailed feedback on agency performances and results, as provided in the annual reports submitted by the state agencies to the ministries, remains a marginal part in this phase of the MBOR dialogue in some agencies.<sup>9</sup> In addition to the MBOR dialogue, an informal dialogue might be maintained. The number of persons involved in this informal correspondence will vary between the agencies.

For the implementation of regional policy Nutek can be regarded as the national regional development policy agency. The county administrative boards act as the governments regional agencies for implementing regional policy (in 6 of the 21 counties). County administrative boards are government agencies that represent the Parliament and Government in the county and serves in the best interests of the residents. It is the job of the county administrative board to see that the decisions taken by the Government and the Parliament have the best possible effects in that county. Other important participant of implementing regional policy is the municipal coordination bodies for regional development (*kommunala samverkansorgan, KSO*) and regional councils (*regionala självstyrelseorgan*).

The government formulates appropriation directions for the state implementation agencies, including an annual budget. The appropriation directions state the objectives and assignments for the coming year. Only qualitative (not quantitative) objectives are set. The budget set out both the financial terms as well as the criteria by which the funds are to be used by. Funds are primarily to be used for regional investment support, regional enterprise development support, support for commercial services, employment support, seed funding (*såddfinansiering*), regional program activities and follow-ups and evaluations. Directives are also set in the 'ordinance (2003:596) on support for project activities within the regional development policy' (*förordning om bidrag för projektverksamhet inom den regionala utvecklingspolitiken*) and in the appropriation directions for appropriation 33:1 (*Allmänna regionalpolitiska åtgärder*).

The funds are regarded as financial means to support projects carried out on local and regional level. However, to make sure that these projects, which can be numerous, are done in a focused and coordinated fashion the government have decided that the majority of projects are to be done within the so called Regional Growth Programs and/or the EC's Structural Fund programs. These programs are formulated according to directives set by the government or the European Commission.

It is important to mention that the main fund that are allocated to the implementation agencies for especially implementing regional policy are given as a mean to tackle structural problems. Therefore they are not easily withdrawn or reduced if certain objectives are not met. However the government is strict to follow up why objectives are not met by both written communication and dialogue. Follow up on the administrative cost are done in the same fashion.

There are no indicators set in the appropriation directions. Indicators for the objectives of the three branches are instead set in the Autumn Budget Bill. Examples of indicators are:

- Cooperation
- Number of new and maintained jobs divided by men and women
- Number of new enterprises divided by men and women
- Investments that are expected to be partly financed by the supports

## Ex post management

**Relation III:**The national and regional implementation agencies turn in their annual reports to the government, normally in February, in which a detailed account is given to what they have

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<sup>9</sup> Source: Mats Elg, Glesbyggsverket April 12th 2007.

achieved the previous year. The account is done in accordance with the appropriation direction and the objectives set there. A yearly dialogue is also held with the management of the implementation agencies.

Contents and structure of the annual reports are ruled by a certain ordinance (*förordning (1993:134) om myndigheters årsredovisning och anslagsframställning*) and is developed based on the appropriation directions. Formats for other reports are developed by the implementation agencies themselves.

Results and outcomes of the structural fund programmes are reported annually to the government and to the Commission by the implementation agencies. Evaluations are made after half-time of a program period and after the program period.

## Control issues – assessing and evaluating results

The Swedish National Audit Office (SNAO) - *Riksrevisionen* - is responsible for auditing the activities of the entire Swedish state and, in this way, promoting the optimum use of resources and efficient administration. SNAO is part of the parliamentary control and is an authority under the Riksdag (the Parliament).

SNAO is responsible for auditing the accounts of government agencies through annual financial audits, and for auditing the effectiveness and efficiency of government undertakings through performance audits. The most important observations from the performance audit and the annual financial audit shall be compiled in an annual report from the SNAO to the Government. In a recent evaluation of one of the main agencies responsible for regional business development schemes, Almi Företagspartner AB (Almi), SNAO notes that the goal structure is incomplete and inconsistent, and that the effect measurements of Almi interventions are not methodologically robust (Riksrevisionen 2007).<sup>10</sup>

ITPS – The Swedish Institute for Growth Policy Studies – is the Swedish Government's agency for understanding growth and for evaluating government policies. ITPS falls under the Ministry of Enterprise, Energy and Communications. ITPS objective is to develop and disseminate relevant knowledge on the determinants of economic growth as inputs to industrial, regional and innovation policies in Sweden. The general objective is defined in five separate goals.

ITPS has identified four major challenges facing policy makers in the field of growth policies:

- Increasing international competition
- Industrial restructuring and dynamics
- Regional development
- Technological change and development

Assessments of regional policy initiatives and programmes are made on commission by the government. Assessments are not made on a regular basis. The implementation agencies receive funding for follow-up and evaluations of the programmes.

In August 2007, a Ministry of Enterprise, Energy and Communications task force published an analysis of the goal structure of the main executive agencies responsible for

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<sup>10</sup> This is a reflection of a general observation on the use of evaluations made by Sundström (2004:44), who has noted that in Sweden, there are traditions of 'cloning evaluations'. "Observations and formulations found in evaluations of the 70s are very similar to observations and formulations found in evaluations of the 90s. ... The conclusion [is] that experiences gained have, to a large extent, only been used for single-loop learning, i.e. modifications within the scope of dominating and fundamental patterns of ideas and thoughts, and not for double-loop learning, which is about questioning these fundamental patterns of ideas and thoughts as well."

implementing regional development policy in Sweden – Nutek, Glesbygdsverket and ITPS. The task force concluded that the agencies' goals were vague and ambiguous, and that the policy instruments available to these subordinate bodies were generally weak and indirect (Näringsdepartementet, 2007). The task force also concluded that Nutek's goal attainment is to a considerable extent dependent on the operations of and co-operation with other executive agencies in the regional development as well as the industrial policy field, such as ITPS, Almi and Glesbygdsverket.

## Organisational learning

### Formal feedback mechanisms

Throughout the year dialogues are held between the Ministry and relevant agencies in various settings. A more formal dialogue, in which the agencies results from the previous year are discussed, is held annually and individually with each agency.

In connection to this, it is important to mention that Nutek has a special 'staff-function' (*stabsfunktion*) for regional development. This means that Nutek coordinates and controls the governments work in the area of regional development. This requirement is not regulated by law or legislation.

### The informal dialogue with subordinate bodies and national agencies

According to some executive agencies, the informal dialogue with the regions is important. It is for instance a way for investigating and confirming what direction to go. The informal dialogue is considered to be appreciated also from the regional level.

The Swedish Agency for Public Management has, however, in a recent study of performance budgeting in Sweden, (Statskontoret 2006a) warned that the introduction of MBOR principles has meant that in some instances, the informal dialogue is being used to disintegrate the limits between national authorities and executive agencies. This makes both executive agencies prone to avoid taking responsibilities, and makes it more difficult to avoid manipulation of the distribution of tasks and responsibilities between central government and subordinate bodies.

In order to improve the efficiency of MBOR as a governance tool, Statskontoret (2006a: 18-19) has therefore come up with the following proposals for improving this performance management tool:

- Reduce the complexity of the MBOR system in Sweden. Slim down the number of objectives each executive agency is called upon to respond to, and reduce the information requirements in the annual reports.
- Provide the executive agencies with more autonomy.
- Limit the extent to which horizontal objectives are introduced as general goals in the appropriation directions.
- Provide for more extensive use of external evaluations as an element of the MBOR system.
- Increase and deepen the performance dialogue between the national authorities and the executive agencies.

In a 2007 report (ESV 2007), the Swedish National Financial Management Authority has taken the argument one step further, indicating that MBOR shall no longer be taken as the main performance management principle in public sector governance in Sweden. Instead, MBOR tools should be adjusted to the particular contexts of the individual agencies and – bodies, applied with discretion, and not be taken for granted as the universal template for a performance management system.

Table 9 provides a summary of the current characteristics of the MBOR elements in the Swedish regional policy cluster.

*Table 9: MBOR relationships in the Swedish regional policy cluster*

	<b><i>Relation II</i></b>	<b><i>Relation III</i></b>
Clear goals and targets?	No	No
Leeway for subordinate bodies (high autonomy)	(Yes)	(Yes)
Well-developed performance indicators?	(No)	No
Quantitative performance indicators?	(No)	(No)
Reward for good performance and punishment of bad?	No	No

# Scandinavian and Icelandic experiences in performance management and – measurement

Inputs from international organisations have been instrumental in exposing Iceland and the Scandinavian countries to recent developments in performance management and – measurement. OECD has been one of the most significant contributors in this matter, and has provided an inspirational arena for international benchmarking exercises (Furubö 2003, OECD 2004, Curristine 2005, OECD 2007a,b).<sup>11</sup> This has been particularly manifested in tying performance-related information to the national budget systems.

In several of the Nordic countries a process of structural devolution and models of more differentiated executive agencies has taken place since the mid 1990s. This has in part come as a response to adaptations to the EU and consequently the EEA.

The feedback from the regional to the national level on regional development policies as they are being shaped by international obligations is quite another matter. Feedbacks from Swedish regional involvement in transnational cooperation to national authorities can for instance be deemed rather weak. To a certain extent there are differences between policy areas as some sectors have already an elaborated transnational dimension in the national policy. However, in general the effects of regional transnational engagement on national regional policies are not well known and there is little preparedness to take (contradicting) results into account in national policy development. The complementary adjustments to international framework conditions have come not only in the field of public administration, but have also been required in selected policy fields as well:

The systems of performance management and –measurement in the field of regional development policy in the Scandinavian countries and Iceland have been established to cater for various regional policy objectives. These policy objectives have traditionally been a balancing act between promoting re-distributional goals (supporting lagging regions) and socio-economic growth objectives (supporting leading regions and regional centres). Over the past decades, the focus of regional development policies has indeed shifted between regional development (economic growth) objectives and territorial integration- and redistribution objectives (reducing territorial disparities and improving national cohesion). The regional development policy objectives were borne out of the labour market policies of the 1950s and 1960s, so as to expand economic activities to less central areas.

Following the economic downturns of the late 1980s and early 1990s, regional growth issues was brought to the fore in several of the Nordic countries. Internationally, the old approach, focussing on redistribution from leading to lagging regions has been replaced by increased emphasis on building competitive regions by bringing local actors and assets together. After 1995, when both Finland and Sweden became members of the EU, regional development policies and industrial policies have become increasingly intertwined, as the growth objectives have become more prominent in both countries.

However, these policy shifts are not unambiguous. As noted by the Swedish Institute for Growth Policy Studies (ITPS) in a recent report, even regional policy instruments with an explicit growth objective may incorporate re-distributional ambitions, as former policy goals may remain in operation – although informally - within some regional policy implementation bodies (Ankarhem, Rudholm and Quoreshi 2007).

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<sup>11</sup> OECD (2007b), Performance budgeting in OECD countries. OECD, Paris (September).

In Denmark the globalisation strategy of the current government maintains a strong focus on economic growth as a regional development strategy. In the non-EU member states Norway and Iceland, both countries try to pay attention to both the growth and redistribution objectives in the regional development policy field. Table 10 summarizes the presentations provided in the country presentations in earlier chapters:

*Table 10: regional development policy objectives*

	<i>Denmark</i>	<i>Iceland</i>	<i>Norway</i>	<i>Sweden</i>
Current regional development policy objectives	Growth	Growth and redistribution	Redistribution and growth	Growth
Policy evolution	Increasing focus on growth	Territorial broadening of regional growth agreement strategy	Relative stability in the dual objectives	Increasing focus on growth

In the Scandinavian and North-Atlantic context, the cultural-institutional perspective seems to explain most of the evolution and the implementation of performance management tools in the field of regional policy. Agency age, size and the level of mutual trust developed and being developed between agencies and regional authorities go a long way in explaining how performance is being reported to the central government level, and how the management system is being structured.<sup>12</sup> Until recently, public administration MBOR practices have been more focused on advancing a consistent reporting and feedback system than on developing goal formulations and performance indicators.

Within the delimited field of managing regional development policy/-ies, the structural perspective explains little in how MBOR currently is being advanced. Among the four countries explored in this study, Norway appears to be the one that has gone the furthest in seeking to integrate performance reporting to the political system with regionalised reporting to the executive administration. The MBOR require regional authorities not only to report to central government on results using a set of quantitative performance indicators, but also to provide the central government with qualitative assessments of overall regional development to complement the formal performance assessment. This qualitative information is used as an input to the political system (the Storting) rather than the management system.

It can be noted that the application of MBOR has for some time been subject to criticism not only out of principle, but also out of practical purposes. In 2003, a Swedish dissertation on the advance of performance management in Swedish public administration described several shortcomings in the application of MBOR in public administration (Sundström, 2003). This critique is mostly addressing how MBOR has been implemented and made operational – or rather not been implemented and made operational over the last decades. In this particular national context, this issue has been developed further by the Swedish National Audit Office (SNAO). In their 2005 annual report, SNAO displayed that more than half of all annual appropriation directions contained goals and objectives that were both fuzzy and difficult to quantify, and that a third of the annual appropriation directions even contained ambiguous requirements with respect to what kind of information and results the executive agencies were asked to provide to the Swedish central government. This criticism has recently been repeated by the Swedish Agency for Public Management (Statskontoret 2006a) and the Swedish National Financial Management Authority (ESV 2007). Observations on the national level tapping the same vein have been made both by practitioners and academics in Finland and Norway (Joustie 2006, Lægneid et al. var. years).

<sup>12</sup> A Norwegian study of performance measurement in the municipal sector has recently demonstrated that the use of performance measurement, MBOR and performance auditing increases with increasing organizational size (Johnsen 2005a).

MBOR is essentially a management system that requires governance steering mechanisms on goals, objectives and targets; that information on performance is produced, assembled regularly and systematically; and that results and outcomes are analysed and evaluated towards the pre-set targets. So how do the Scandinavian countries and Iceland score with respect to these ideal requirements?

In presenting and analysing this question one has to bear in mind that:

- Regional development policy is a very complex and extensive policy area, in principle covering all sector policy areas within a specific territory (area). A main focus should therefore be on regional disparities and policy objectives, especially those concerning growth issues, and policy achievements in this respect.
- It is very hard to compare across the Scandinavian countries and Iceland because of great disparities between the countries on objectives, strategies, organisational solutions, etc.

In the two following tables we provide, however, a cross-country comparison of the two most significant agency relationships in the regional policy clusters – relations II and relations III. Tables 11 and 12 provides a rough comparison of some of the characteristics of the national MBOR systems in the regional development policy field, based on the previous national presentations and the documentation material and studies used as referential material. Weakly positive or negative assessments are given in parentheses. More definite characteristics are given without using parentheses. In table 11 and 12, outcomes are defined as societal by nature and assessed using result and impact indicators.<sup>13</sup>

Starting with the performance management relationships between national and regional authorities (relation II), it is evident that in this particular context, MBOR remains a hybrid form. Most noteworthy is the apparent lack of clear goals and targets in this policy field in some of the countries – a basic premise of any MBOR system.

*Table 11: Relation II. MBOR characteristics in national – regional authority regional policy relations (tentative)*

	<i>Denmark</i>	<i>Iceland</i>	<i>Norway</i>	<i>Sweden</i>
Clear goals and targets?	(No)	Yes	(Yes)	No
Leeway for subordinate bodies (high autonomy)?	(Yes)	Yes	Yes	(Yes)
Well-developed outcome indicators?	No	No	Yes	(No)
Quantitative outcome indicators?	No	No	No	(No)
Reward for good performance and punishment of bad?	No	No	No	No

The forms of affiliation and agency types have, however, a significant impact on how the system is being implemented along one significant dimension. Regional authorities have much more autonomy in implementing regional development policies than the national executive agencies. Normally they also have to respond to several ministries (regional development, economy, industry, innovation) in the field of territorial business development (see table 12). It is therefore feasible to separate observations and recommendations made with respect to relations that have been permitted to evolve historically, and therefore may be characterised by high levels of mutual trust (those between the ministries and regional authorities) versus those systemic relations that are involving emerging executive agencies:

<sup>13</sup> See appendix 2 for additional conceptual definitions.

Table 12: Relation III. MBOR characteristics in national –executive agency regional policy relations (tentative)

	<i>Denmark</i>	<i>Iceland</i>	<i>Norway</i>	<i>Sweden</i>
Clear goals and targets?	(No)	(No)	(No)	No
Leeway for subordinate bodies (high autonomy)?	(No)	(Yes)	(No)	(Yes)
Well-developed outcome indicators?	No	(No)	(Yes – for some of the second order objectives described in table 6)	No
Quantitative outcome indicators?	(No)	(No)	(Yes)	(No)
Reward for good performance and punishment of bad?	(No)	No	Yes – in financial allocations to programmes	No

Following these two separate displays, as well as the national presentations made earlier, a range of general observations can be made:

**On MBOR in general:**

- None of the Scandinavian countries or Iceland have a performance management system in the regional development policy field that comes close to meeting the ideal requirements set up for MBOR systems in the academic literature. In all countries, the current performance management system is a hybrid form of MBOR. In fact, for most practical purposes the systems are unable to display clear goals and targets, and may thus be better identified by the acronym MB(O)R than by MBOR.. In a more relaxed MB(O)R system, the internal consistency of the objectives – clear goals and targets – may be downplayed.

**On the types of indicators in use:**

- In all four countries there is an extensive amount of reporting based on *qualitative* objectives and assessments.
- The use of quantitative indicators in vertical reporting from the regional to the national level is limited to basic socio-economic measures. To an increasing extent these measures are, however, being coupled to programmes, initiatives or activities.
- Activity-based indicators are in extensive use.
- Result indicators are used in evaluations mainly performed by third parties.

**On trust between actors:**

- There is a *high level of mutual trust* between regional and national authorities.
- The specification of regional development goals is typically made in *regional partnerships* and collaborations instituted at the regional level.
- National authorities have only limited access and insights into deliberations taking place at the regional level. There is *significant autonomy* in the national-regional relationships.
- There are somewhat lower levels of trust and more formal reporting/ vertical feedback requirements facing the national/state executive agencies in their relations with central government. This is partly due to the fact that these agencies operate in contexts that in practice combine MBOR and programme management elements.

**On transfer of experience and knowledge:**

- There are currently only few opportunities provided so as to give the regional authorities feedback on operational performance. *Formal arenas* (steering groups and

dialogue meetings) are mainly directed at general, strategic policy discussions on a one-to-one basis with central government.

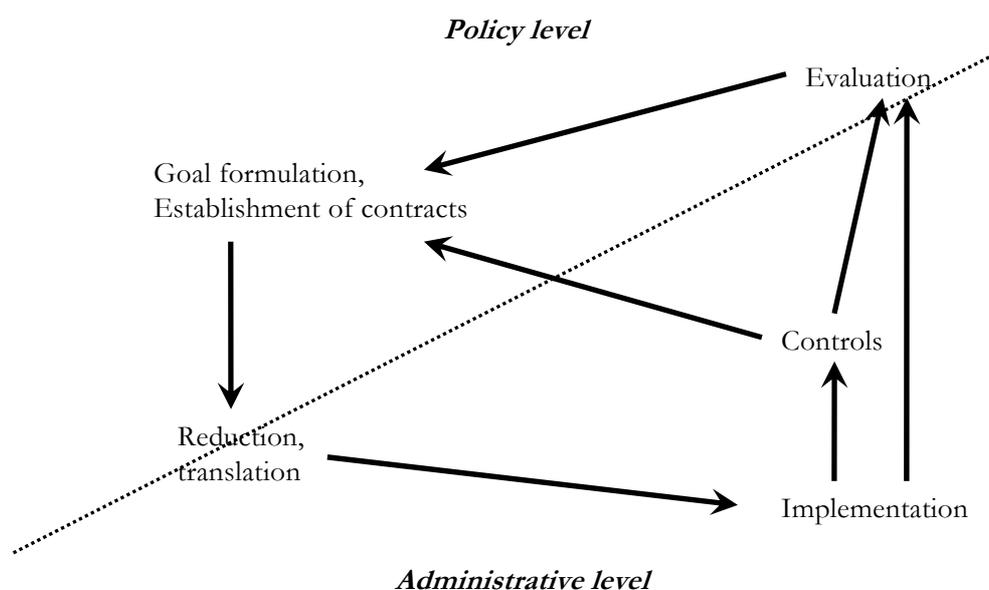
- There is considerable institutional learning taking place within the *regional partnerships*, where regional development objectives are mostly identified by consensus.
- As a part of the management process, many of the informants at the regional and executive agency level stress the importance of maintaining a continuous *informal policy dialogue* on policy beneficiaries and goals with the national policy authority. This is regarded an essential requirement in informing national authorities on regional objectives and priorities.

**On the use of sanctions and rewards:**

- None of the Scandinavian countries nor Iceland appear to impose the management principle of rewarding good performance or dissuading bad performance. This reluctance to name and shame is not unique for Nordic governments.<sup>14</sup>

The observations on performance management have implications both for the tasks of the administrative as well as for the political system in the regional policy field. The implications may be identified by how they are related to the various tasks of the MBOR system (figure 7):

Figure 7: the division of MBOR tasks between the policy system and the administrative system



Source: Quist, 2007

In evaluating the MBOR structures in the regional development policy fields of the Scandinavian countries and Iceland, one may structure the assessments along the lines of the MBOR tasks identified in figure 7. Thus it is possible to summarise general observations on a) policy goal definitions and operationalisations, on b) the use of implementation and control elements in type II relations, on c) the use of implementation and control elements in type III relations, and d) the use of evaluations as a learning and policy co-ordination instrument.

<sup>14</sup> The OECD 2005 questionnaire on performance information displayed that 19 out of 20 OECD countries rarely or never eliminate programmes when the results show poor performance (Currstine, 2005).

## Goal definitions and operationalisations

In the introduction to this chapter, a comparison was made of the current regional development policy objectives in the Scandinavian countries and Iceland. The comparative display found the current visions for regional development to be rather diffuse. This does not necessarily constitute a major problem – a much more pressing issue in MBOR terms may be that the goal definitions appear to be abstract, largely uncontroversial and in many respects politically uninteresting. Alternatively, more concrete goal definitions might result in clearer policy objectives whose attainment might be more easily assessed or evaluated.

## Implementation and controls – steering systems for regional authorities (relation II)

A number of studies have displayed that local and regional exposure to MBOR systems from central government may be associated with the introduction and incorporation of MBOR performance management principles in the administrations themselves operating at the subnational level. In Norway, Vigestad (2004) have maintained that at the *municipal* level, the chief administrative officers will more often express support for applying MBOR in their own organization if they at the same time are displaying exposure to MBOR due to broad contacts with the Ministry of Local Government and Regional Development. Christensen and Læg Reid (2007) do, however, point out that calls for improved performance management systems such as MBOR typically comes from the chief administrative echelon in central government. Desk officers in ministries are less prone to make such calls in their direct relations with subnational administrative bodies.

## Implementation and controls – steering systems for subordinate agencies (relation III)

In terms of performance measurement, most Nordic countries use a combination of output and outcome measurements. Outputs are evaluated using activity and process indicators, whereas outcomes are assessed using results and impact indicators. While outputs can be described as operation performance targets, outcomes are societal by nature, as they are high-level targets aimed at describing policy effectiveness.<sup>15</sup> In the Nordic context Denmark is an exception, by focusing on internal process measures and outputs only (table 13):

Table 13: Types of performance measures used by central government (covering all sectors)

What types of performance measures have been developed in ...	<i>Denmark</i>	<i>Finland</i>	<i>Iceland</i>	<i>Norway</i>	<i>Sweden</i>
Outputs only	X				
Outcomes only					
Combination of outputs and outcomes		X	X	X	X
Unit cost of outputs		X	X	X	X

Source: OECD 2007a; table P19.2

This would imply that experience transfer in the field of developing performance measurement systems first should be initiated between Iceland, Norway and Sweden as the types of performance measures used are similar. In this sense, the central government of Denmark has opted for a diverging trajectory with respect to cooperating and controlling executive agencies in the field of regional policy making and -implementation. While Norway, Sweden and Finland have moved on to increased user and client orientation in their NPM

<sup>15</sup> See appendix 2 for the association between some output, outcome and impact measures.

reforms (focusing on outcomes), Denmark has maintained a strong focus on internal as well as financial efficiencies (outputs).

In the Scandinavian countries and Iceland, the executive agencies have a high degree of autonomy with regard to policy compared to other North European countries, but there are major differences between countries depending on whether executive agencies are politicized or considered a part of the political realm (Sweden, Finland) or not (Norway, Iceland, Denmark). More autonomy is considered in operational issues than on strategic issues. However, strategic autonomy is still constrained to a large degree by hierarchical rules, regulation and procedures in matters such as personnel and wage issues.

The executive agencies addressing regionalised business development are becoming less and less specialised. In Norway, Iceland, Sweden and Denmark, the executive agencies are increasingly being called to take on the implementation of a policy mix of regional development, business development and innovation policy issues. This comes in part as increased attention is being paid to the importance of linking firms, people and knowledge at the regional levels as one way of promoting regional growth. Evolutions in regional policy, science and technology policy, and industrial/enterprise policy are converging on the objective of supporting these linkages at the regional level. Executive agencies such as Innovation Norway, Nutek, EBST and Byggdastofnun are taking on these complex tasks. This also provides for an increasingly incoherent goal structure facing these agencies.

Innovation Norway is, for instance a merger of four former state agencies. The MBOR system of Innovation Norway is based on an overall objective that in effect is a compilation of the goal structure of the four historical agencies, and reads “Innovation Norway is to promote economically and socially beneficial business development all over the country, and shall promote the economic potential of regions and districts through innovation, internationalisation and branding [activities].”

The overall objective may be split into four secondary objectives of which regional development is merely one.<sup>16</sup> Innovation Norway has identified three operational targets to support the regional development objective.<sup>17</sup> The primary and most immediate concern of Innovation Norway, and other newly constructed executive agencies, is to establish a unified performance measurement (steering) system in these organizations so as to avoid blurring the focus of the new, amalgamated institutions.

## Performance reporting, learning and policy co-ordination in evaluation arrangements

Based on the country descriptions in previous chapters, it would appear that performance reporting as a learning process is deficient in several respects. The way MBOR tools are currently being applied in Scandinavian countries and in Iceland, experiences gained at subnational and subordinate levels unaccounted for in the formats of the annual reports are not presented to superior authorities and central government in any structured manner. At the levels of regional authorities and executive agencies, concrete policy challenges observed in specific evaluations are only to a limited extent being discussed and related to possible solutions with superior authorities, and responsible actors tend to avoid strategic discussions in the formal performance dialogues. Is there a way of improving on the use of or structuring evaluations as a way of ameliorating performance reporting in the regional policy fields in the Scandinavian countries and Iceland?

In the international context of public administration, the Nordic evaluation cultures are presented as comparatively advanced, with Sweden the most and Finland the least advanced in

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<sup>16</sup> “Innovation Norway shall contribute to business development based on regional pre-conditions”.

<sup>17</sup> The operative targets are a) to contribute to local and regional business development; to b) contribute to improved cooperation between agents operating in regional partnerships; and c) to ensure that industrial restructuring in selected support zones (*omstillingsområder*) is performed in a professional and focused manner.

terms of institutionalizing and applying evaluations (Furubö, Rist and Sandahl 2002, Peters 2007). Since the 1990s there has been increasing pressure in all Nordic countries to connect evaluations more closely to the state budgeting process (Holm 2006).<sup>18</sup> There are some major differences between the Nordic countries with respect to the extent to which evaluations are established and developed as a staple of performance management systems, and whether evaluations are performed in a centralized or decentralized setting. Sweden and Finland are at the opposite ends of the spectrum.

In the context of performance management systems such as MBOR, evaluations should, at least in theory, play an important role. Performance or output assessments, comparing it with initial targets or contractual commitments are essential in this approach. There is a perceived need for public accountability of 'autonomous' agencies, which has given rise to review procedures and various control mechanisms which also involve the collection and judgment of data on performance and results.

A systematic observation made in all countries is that when regional policy instruments, programmes and projects are being evaluated, findings are overwhelmingly being disseminated horizontally to decision makers. While ministries and executive agencies have established a national discourse, and provide arenas for knowledge dissemination at the national level (Evaluation Societies in Denmark and Sweden, EVA-forum in Norway), there are no institutionalized settings for the dissemination of knowledge on findings to central decision-makers when the evaluations are made at the regional or local level (Holm 2006). Although several central governments make specific calls for information on such evaluation findings, the response from regional authorities tend to be limited, both in Norway, Sweden and Denmark. This kind of 'evaluative amnesia' (Furubö 2003) makes the vertical diffusion of knowledge very slow.

When central governments prepare to assemble and judge evaluations performed at and managed by regional and local administrations, conflicts of autonomy and control may give rise to unintended effects. This is a consequence of the fact that the performance indicators being used in regional policy evaluations at best only can be crude proxies or partial operationalisations of regional growth or redistribution objectives. This is what Meyer and Gupta (1994) have dubbed the *performance paradox*. The performance paradox refers to a weak correlation between performance indicators and performance itself, a phenomenon caused by the tendency of performance indicators to lose power of association over time. Performance indicators tend to lose their value as measurements of performance and can no longer discriminate between good and bad performers. As a result, the relationship between actual and reported performance declines.

In the relation between 'principals' (ministries or departments) and 'agents' (executive agencies, policy implementation bodies), the amount and specificity of (performance) data produced by agents at irregular intervals – that is information not provided in the regular performance reporting system – may be so large that their impact is greatly reduced by the information overload it creates in the principal.<sup>19</sup> The use – or rather non-use – of regional intervention and programme evaluations by central government may illustrate this.

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<sup>18</sup> The survey made by Holm (2006) does not include Iceland.

<sup>19</sup> A 2003 study by the Swedish National Financial Management Authority (ESV 2003) demonstrates the performance limitations created by information overload in central government. In a survey of how civil servants working on operational issues such as regulating executive agencies, ESV concluded that the annual reports were used mainly for control purposes and not in order to improve on the objectives and results dialogue – a major performance management issue. The lack of time and competencies remains a continuous challenge in day-to-day operations (ESV 2003: 5): "Myndighetshandläggarna har ofta svårt att hinna med att analysera informationen i årsredovisningarna och göra genomtänkta beställningar i regleringsbrevet". Consequently, revisions of policy fields come about more as a consequence of changes in the political field than as an outcome of the public administration inputs provided in the annual reports to the operational bureaucrats (Furubö 2003). And evaluations are in the similar way – as a source of information – mainly used to maintain policies or operative decisions.

In addition, evaluations in a performance management systems perspective focus on the accountability of subordinate bodies. This fact may produce defensive or negative reactions in the sense that it denies the validity of evaluation outcomes to the agents. When reporting evaluation findings to central government, this may be perceived of as a control issue by the agents, who might not want to report the evaluation findings. This effectively reduces the opportunities for institutional as well as organisational learning.

Van der Meer and Edelenbos (2006) have recently proposed a way forward to make evaluations a more active component in participative policy-making in a spatial policy perspective. Theirs are proposals that intend to stimulate thinking on how connections and connectivity between different forms of evaluations can be improved in a multi-actor policy field. Efforts should be made to enable linking of and confrontation between different evaluations, done by different actors at different levels in a systematic and structured way rather than at the discretion of principals and agents. Thus, developing management principles concerning interconnected evaluations at the central and regional levels seem to be of particular relevance given the findings of this study.

MBOR practices in regional policy could be enhanced if current practices could be supplemented with more systematic evaluations along the lines recommended above. It seems most feasible to improve on current practices by linking evaluation practices in type II relationships.

### The noble art of avoiding information overload

Several of the informants at the regional levels have claimed that MBOR is in fact performed as detail management. MBOR in the Scandinavian countries and in Iceland has, quite rightly, evolved into an extensive system for information gathering, assembling and information transfer. In annual or periodic steering documents (appropriation directions, allocation letters, performance contracts) to regional authorities and executive agencies, the national authorities spell out goal attainment expectations in the regional policy field, and in what format and at what frequency subnational and subordinate bodies are expected to report back to central government.

Regional authorities and implementation bodies are thus required to provide their superior authorities with a lot of information – something of a challenge for small ministries with limited staff to cope with. With recurrent inputs from the various parts of the regional policy cluster, the central governance of the regional policy field can be argued to become increasingly myopic (Brunsson 2000). The information required from the national authorities is detailed and qualitative, and does not always relate to performances. Thus governance becomes increasingly detailed. The intense information gathering (formally and informally; inside and outside of performance dialogue processes) has meant that the boundaries between national authorities and executive agencies risk becoming blurred.

If policy goals are unspecific, it becomes easier for superior bodies to declare objectives as being achieved, and to express satisfaction with the information provided to them from subordinate or subnational bodies. Then the performance management system doesn't create any significant challenges, as central government might choose not to respond to the information provided to them.

On the other hand, a lack of such response may erode the legitimacy of the reporting system. Brunsson (2000) have argued that the administrative *raison d'être* of MBOR – to provide for active (or proactive) governance – is most easily achieved if the superior authority doesn't completely trust in the quality of the information reported to them. If the superior authorities respond to these inputs, as the performance management system prescribes, executive agencies and regional authorities are forced to adjust accordingly. Superior bodies govern reactively, not quite what MB(O)R has been set up to achieve.

# Recommendations

## The regional policy field as if MB(O)R mattered

In this comparative study of MBOR structures in four Nordic countries, the Nordic task force has focused on the regional development policy field as the unit of analysis in Denmark, Iceland, Norway and Sweden. In the description of the performance measurement systems that underlie the final recommendations, Nordregio have tried to compare some theoretical propositions on MBOR structures based on some common assumptions of the basic structure of the state, the types of executive government, and policy learning conditions in the field of regional development policy making.

*First*, a MBOR system requires that the leadership formulates clear goals and targets and gives subordinate bodies enough leeway and discretion in their daily work. The objectives shall be 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. In addition, the objectives have to be relevant according to the particular context in which they are going to be implemented.

*Second*, subordinate agencies have to interpret and transform the national objectives to the specific context in which they are to be implemented. The 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 sanction bad. Information on the results achieved is supposed to have consequences for resource allocation as well as for how the agencies are organized.

The shortcomings spelled out at the general level have been confirmed in this case study of how MBOR elements are being applied in performance management in the regional policy fields in Denmark, Iceland, Norway and Sweden.

Below we distinguish between policy and administrative recommendations, the former covering the upper part of a target-measure-hierarchy. The so-called administrative recommendations comprise the lower part of this hierarchy, that is the qualitative and/or quantitative output and outcome requirements linked to the use of budget means.

Because of the great differences between the four countries in question, some of the recommendations may be more relevant to certain countries than to others. We have, however, decided to present the recommendations as general conclusions, presuming that all of them may have some relevance to all the countries, and hoping that they will stimulate the discussions on these important questions in all Nordic countries.

## Policy recommendations

MBOR has been introduced in public administration in the Scandinavian countries and Iceland so as to make governance more efficient by enabling the political system to formulate goals and policy objectives, to control policy outcomes and to allow for the sanctioning of good or bad performance. In the regional development policy cluster, the introduction of MBOR means that executive agencies and national and regional authorities should be provided with more

leeway and increased autonomy in selecting the appropriate means by which to obtain and realize political goals and objectives.

An efficient performance management system requires clear and consistent goal formulations – also in the regional development policy field. This study has displayed that although all countries can boast a political vision or mission in the field of regional development, only Norway have made some progress towards making a systematic attempt at identifying an operational goal hierarchy.

The political system is responsible for setting goals and objectives in policy fields, and thus, if clearer goals formulations in the regional policy field is an ambition so as to improve on the administrative preconditions for MBOR:

- The political system should be called upon to identify clear(er) and (more) consistent overall objectives in the field of regional development. It should be possible to transform the objectives to specific actions.
- In terms of strengthening political control of the performance budgeting process – when reporting to the political system, increased focus should be put on evaluating outcomes rather than assessing financial allocation and output items. This would give the central and regional government as well as executive agencies more leeway in terms of selecting appropriate financial tools and funding the various policy objectives. The political systems main concern should be controlling strategic goal attainment, not the detailed, operational execution of policies.
- Ensure that the information called for in annual reports is in a format that allows for strategic, political decision-making. The information available to the political system is recurrently detailed, quantified and diverse, but does not allow for strategic insights and knowledge on regional development issues.
- In order to provide for such a shift towards an explicit outcome focus in the design and delivery of regional development policies, performance measures and evaluations should be used more focussed to inform budget allocations.

## Administrative recommendations

Nordic research on the implementation of MBOR in public administration displays that the political leaders of policy fields (i.e. ministers and parliamentarians) remain passive with respect to using information obtained by the MBOR systems. The political system may even in many respects lack the will to formulate unambiguous, clear and concise policy goals (ESV 2007: 25-37). MBOR would therefore appear to remain mainly an administrative, bureaucratic issue. Imperfectly applied MBOR elements contribute to increased bureaucratisation and formalisation, and have the potential to put significant strain on the administrative capacity of the national superior bodies in national systems with small ministries and a wide range of executive agencies.

The following recommendations are therefore being presented so as to enhance the effectiveness, quality and efficiency of what is effectively the MB(O)R systems in the Scandinavian countries and Iceland. The recommendations are specifically aimed at improving the national systems in the regional development policy fields:

### The relations between ministries and regional authorities

The national surveys have displayed that much of the practical policy-making in the field of regional development is taking place within the regional partnerships. In order to improve the MBOR systems, the following recommendations can be made:

- *Targeted output/ outcome requirements.*

- Make sure that output and outcome requirements are clear, operational and realistic, formulated as ‘real’ goals, that is that they describe an expected societal impact or an expected state at some definite point in the future.
- Strive to be specific, not only on output (activity) requirements, but also on outcome (effect, impact) requirements.
- Assess the requirement to include horizontal objectives as general policy goals in the appropriation directions/allocation letters to regional authorities in order to reduce information overloads.
- *Dialogue, information and reporting*
  - Make sure that there are unambiguous requirements with respect to what kind of information and results are to be provided to the superior authorities. Central government should provide guidelines on the definition of outputs and outcomes and other specific items.
  - Strive to reduce the information requirements in the annual reports: The national authorities should consider taking additional steps to avoid information overload. One procedural step could be to reduce the amount of descriptive information required, or to reduce the frequency of reports required from regional or local authorities. Data, reports, etc. should in principle be limited to indicators which have or may result in output or outcome requirements from superior authorities (need to know vs. nice to know).
  - Subnational bodies should, in their reports, include what they have learned and how they will take the results into account in future decision-making.
  - All countries are encouraged to invite other Nordic countries to sit in on steering meetings between national and subnational/subordinate bodies.
- *Monitoring and evaluations*
  - Take steps to enable analyses of outcome (requirements) and the use of evaluations more strategically (see below on monitoring and evaluation).

## The relations between ministries and national implementation agencies and directorates

Nordregio has earlier noted that the executive agencies are increasingly being called to take on the implementation of a policy mix of regional development, business development and innovation policy issues. In order to improve the MBOR systems, the following recommendations can be made:

- *Targeted output/outcome requirements.*
  - Make sure that the goals being formulated are ‘real’ goals, that is that they describe an expected outcome, or an expected state, at some definite point in the future.
- *Dialogue, information and reporting.*
  - Reduce the information requirements in the annual reports.
  - In order to promote organisational learning, national authorities could consider adapting the Norwegian practice of holding management dialogue meetings with executive agencies. While this is currently practiced with Innovation Norway, SIVA and RCN (in Norway), management dialogue meetings with an assembled group of executive agencies should be considered an option.

## The decentralised relations between regional authorities and national implementation agencies and directorates

There is considerable institutional learning taking place in regional partnerships, where regional development objectives are mostly identified by consensus. At the sub-national level, the authorities, agencies and institutions driving regional partnerships display large structural dissimilarities. In fact, the variability of regional partnerships within a single nation (in terms of how the regional constellations formalise relationships) is larger than the national differences between the Scandinavian countries and Iceland themselves. It is therefore unfeasible at this point to produce general recommendations on MBOR issues within horizontal relationships between executive agencies and regional authorities. Recommendations on performance management issues should be based on additional information.

## Monitoring and evaluation

A fully functional MBOR system could make a large amount of external evaluations obsolete. In the meantime, in order to provide for more constructive evaluation arrangements in the field of regional development, the task force will recommend several actions that may enhance the probability that collective learning and mutual cooperation takes place in the design phase of evaluations:

- Make efforts to link evaluations systematically at central, regional and local level. Consider having mutual consultations about key evaluation points both at regional and central levels when preparing calls for tenders. This could enhance the relevance of evaluation findings at different territorial levels, and could facilitate the communication of such findings.
- Make a concerted effort to provide regional authorities with opportunities to participate in evaluation management boards or steering groups when central government calls for evaluations of national regional development initiatives or programmes.
- On regional development issues: organize multi-actor evaluations of core policy aspects and joint responsibilities. Mutual evaluations may facilitate and solidify territorial co-operation, independently of what substantive findings are being made.

## Additional knowledge requirements

One of the main challenges of MBOR systems remains the technical one of measurement, that is how to set relevant and adequate targets for regional development activities, how to find accurate performance measures, and how to collect the 'right' data to be able to evaluate performance both at the central as well as at the regional levels.

A particular challenge is the fact that at the regional level, outcomes often depend on the interaction of many cross-cutting factors involving various ministries and agencies. If targets and measures are not used skillfully, there might be a risk of goal distortion, where regional authorities or agencies neglect some areas in order to perform better on the most achievable and measurable targets. The variability in such outcomes at the regional and agency levels should occasion further studies.

While there is a range of case studies displaying the performance management relationships between central government and regional authorities in all the Scandinavian countries as well as Iceland, the knowledge on the full variation in the relations between executive agencies and regional authorities remains somewhat lacking. The primary drive for further insight should address type IV relationships, that is how regional institutions and national de-centralised agencies collaborate in regional partnerships in order to identify regional development objectives and targets.

## The role and contribution of EK-R

The Scandinavian countries and Iceland have so far only 'imperfect' MBOR systems according to theoretically idealistic requirements, but on the other hand the national systems are currently constructed so as to enhance and develop into more indicator-based systems which enhance opportunities for knowledge transfer and institutional learning. Arenas that provide for mutual learning at the trans-national, Nordic level could add value to these ongoing, national processes.

The EK-R is called upon to include, in the programs for the years 2008-2011, further exchange of knowledge, learning experience etc. across Nordic countries. These kinds of follow-up activities and initiatives must be more directed towards providing new insights on particular themes or relationships (relations II, III or IV).

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# Appendix 1: Key informants and respondents to specific inquiries

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# Appendix 2: Glossary

## Performance management system tools and concepts. Types and categories of indicators.

### **Activity indicators**

See also indicator system (process indicators), output vs. outcome.

### **Balanced Scorecard (BSC) models**

A goal-directed, multidimensional performance measurement model. Complementary to MBOR when used as a public management tool. See SSØ (2005, 2006) and KRD (2002, 2004) for some applications in local government and regional development.

### **Benchmarking**

A benchmark is a reference point or standard against which performance or achievements can be assessed. *Benchmarking* is a technique used in strategic management so as to identify best practices. As a performance-management tool applied in public administration, it is related to increased commercialisation. Christensen and Lægreid (2007) incorporate B. as a *market tool* in the NPM context.

### **Business Process Reengineering (BPR) models**

A management approach aimed at organisational improvement through elevating the effectiveness and efficiency of business operations. Complementary to MBOR when used as a management tool.

### **Controlling**

In performance management terms, controlling is a process that ensures that plans are being properly implemented. In this process, performance standards or -targets are set, communicated, and applied.

### **Decentralisation**

The definite transfer of responsibility to a lower level body.

### **Delegation**

In New Public Management, the delegation of tasks to lower levels of administration (while the government retains control of policy design and financing) is not considered a part of the MBOR tools, but instead a component of structural devolution reforms (Christensen and Lægreid 2007). Decisions produced according to delegated responsibility may be appealed to a superior authority.

### **Devolution**

In New Public Management, devolution may be considered a package of reform tools that encompass change in the form of subordinate agencies; the delegation of tasks and responsibilities to sub-national political levels (the regional and local level); the delegation of tasks to private companies or to voluntary organisations; public-private partnerships. Structural devolution, privatization and consumer empowerment are essential component of this family of tools (Christensen and Lægreid 2007).

### **Effect**

The intended or unintended change due directly or indirectly to an intervention. Related to results and outcomes.

### **Effectiveness**

An outward-looking measure of how the objectives (outputs, outcomes) of an intervention have been produced. Measures the extent to which objectives set have been achieved.

### **Efficiency**

An inward-looking measure of how economically resources or inputs (funds, manpower, expertise) are converted to results. Measures the extent the desired effects are being achieved at reasonable costs.

### **Evaluation**

Evaluations have been defined in various ways. Vedung (1997) defines it as the “careful retrospective assessment of the merit, worth, and value of administration, output, and outcome of government interventions, which is intended to play a role in future, practical action situations”. Alternatively, the Danish Ministry of Finance defines evaluation as a “systematic assessment based on established research methods. Evaluation incorporates assessing the organisation, management, results and/or effects of current or completed activities in order to improve praxis”. Evaluation is a complement to, and does not include, monitoring, controlling and/or benchmarking.

### **Impacts**

Long-term effects. Impacts are statements of what has been accomplished (directly or indirectly, intentionally or unintentionally) in a programme or following an intervention after a programme or intervention has come to an end. Impacts cannot be directly associated with the programme or intervention, nor can they be causally linked – although they can plausibly be attributed to the intervention.

### **Indicators**

An indicator is, according to OECD/DAC guidelines, a quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention or to help assess the performance of a development actor.

An indicator is a tool to help determine whether progress is being made towards implementing activities and achieving the objectives of an intervention. Indicators can help demonstrate progress when things go right and provide early warning signs when things go wrong. The purpose of indicators is to support effective programme planning, management and reporting by a) measuring progress and achievements, b) clarifying consistency between activities, outputs, outcomes and objectives, c) ensuring legitimacy and accountability to all stakeholders, and d) assessing project, programme and staff performance.

### **Indicator systems**

Indicators are a logical set of targets that are connected to an intervention or a programme. An indicator will always be formulated so as to measure a single dimension of a multi-dimensional goal or objective (ESV 2006). In the indicator system a distinction is made between *output*, *result* and *impact indicators*. The output indicators reflect what is realised on a project or activity level. Result indicators are the immediate advantages of carrying out these activities. Impacts are the long-term benefits of the activities funded under the programme or in the intervention.

### Indicator types

*Input indicators* measures quantities of physical, human or financial resources provided to a programme or a project. *Process indicators* measure delivery activities of the resources devoted to a programme or a project and achievements during the implementation phase. *Implementation indicators* track the progress of a project or programme at the operational level, that is whether inputs and processes are proceeding according to time schedules or within budgets. *Output indicators* track and measure the most immediate results of a project or a programme. *Outcome indicators* measure the immediate or short-term results of an intervention (project or programme) for the beneficiaries. Client satisfaction surveys are considered outcome indicators. *Impact indicators* monitor the long-term or more pervasive development changes to which a project or a programme contributes.

### Intervention

A specific law, funding, information or policy measure designed to achieve specific results.

### MBOR

See the introduction to the main report.

### Measure vs. measurement

A measure is a reference standard used for comparisons of properties. Measurement is the act of measuring or the process of being measured. See performance measurement.

### Monitoring

In performance management terms, monitoring is the act of observing a situation for any changes which might occur over time. Monitoring does not include any qualitative assessment of the changes observed, or any evaluation of outcomes following from the changes being observed.

### Output vs. outcome

In the context of New Public Management reforms, increased focus on outcomes, rather than on mere outputs has been tied in with an increased focus on holistic role considerations related to societal consequences, results and effects (Christensen and Lægveid 2007; 11). Outputs are evaluated using activity/process indicators, whereas outcomes are assessed using results, effects and impact indicators (see indicator system). While outputs can be described as operation performance targets, outcomes are societal by nature, as they are high-level targets aimed at describing policy effectiveness.

The association between some output, outcome and impact measures is illustrated in the table below:

*Table A1: associations between various performance measures*

<b><i>Output</i></b>	<b><i>Outcome</i></b>	<b><i>Impact</i></b>
New products and processes; Increased sales; Cooperation linkages	Creation of new jobs; Human capital; Social capital	Employment; Regional productivity; Enhanced competitiveness

### Performance

The degree to which an intervention or a partner operates according to specific criteria, standards or guidelines or achieves results in accordance with stated goals or plans.

Performance may be conceptualised as outputs and outcomes and by their corollaries efficiency and effectiveness (van Dooren 2007). While the public sector performance literature focuses on performance measurement and performance management, there is less known about public sector performance as a collective benefit – how it contributes to public sector

values. Performance is about intentional behaviour, what is done and what is believed to be done. Public values are applied as a frame of reference for the assessment of performance.

### **Performance contracts**

Performance contracts can be defined as a range of management instruments used to define responsibilities and expectations between parties to achieve mutually agreed results (ESV 2001). Such contracts, alternatively called 'service agreements', are an integral part of purchaser/provider models. The contracts lay down strict service standards and performance indicators on the contracted organisations.

### **Performance indicators**

Performance indicators describe how well a programme or intervention is achieving its objectives. The performance indicators define the data to be collected to measure progress and enable actual results achieved over time to be compared with the planned results. Performance indicators thus tell what to measure in order to assess whether a pre-set objective has been achieved. Indicators are usually quantitative measures, but may also be qualitative observations. Performance indicators are measured along a scale or dimension, without specifying a particular level of achievement. Performance targets – planned levels of achievement – are separated from the performance indicators.

Performance indicators are typically identified and selected using a four step approach: a) by clarifying results statements; b) by developing a list of possible performance indicators; c) by assessing each possible indicator, and d) by selecting a set of 'best' performance indicators. Bird et al. (2005) defines the appropriateness of performance indicators based on, amongst others, the following criteria:

- Performance indicator definitions need to be precise but practicable.
- Performance indicators and definitions should be consistent over time.
- Performance indicators should be straightforward to interpret.
- Performance indicators and definitions should obviate, rather than create, perverse behaviours.
- Indicators should have the statistical potential to exhibit or identify change within the intended timescale [of the programme or intervention] being monitored.
- Performance indicators should not impose an undue burden – in terms of cost, personnel or intrusion – on those providing the information.

### **Performance measurement**

A system for assessing performance of interventions against stated goals. In conventional wisdom, performance can be explained by studying leadership, reforms, measurement or other organisational dimensions. In this 'management-matters-for-performance' hypothesis, the quality and nature of management tools does affect organisational performance.

There is no clear distinction between performance measurement and performance. In the academic literature there is a distinction between *measurement* as performance and *measures* as performance. Performance measurement may have positive effects (intended behavioural changes) or negative effects (unintended changes in behaviour). The chances of operational dysfunctions are augmented by flawed or imperfect measurement systems.

Performance measurement is related to performance monitoring and indicators.

### **Performance reporting**

A set of standardised reporting formats that complements MBOR. The formats include annual reports, budget documents, operational plans and strategic plans.

### **Performance targets**

A set of pre-set objectives (outcomes and results) anticipated from an intervention.

**Qualitative indicators**

Subjective descriptions or categories which indicate individual's judgements and perceptions about a subject.

**Quantitative indicators**

Objectively and independently verifiable numbers or ratios.

**Results**

Direct and immediate effects. Results are statements of what has been accomplished in a programme or following an intervention immediately after a programme or intervention has come to an end. Results can be associated with the programme or intervention, although not directly linked. Ideally, results should be directly linked to programme or intervention objectives.

**Subnational level**

The administrative level of local and regional authorities. Administratively, subnational bodies are assigned to and in performance measurement terms controlled by a single ministry.

**Subordinate level**

The administrative level of executive agencies and implementation bodies. Administratively, subordinate bodies may be assigned to and in performance measurement terms controlled by different national authorities or ministries.