EXECUTIVE SUMMARY

In Denmark contract management was introduced in 1992 as a response to framework budgeting which was solely an input-oriented system but not connected to the services that agencies provide. Since barriers to improved efficiency were found to be agency-specific a decision was made to negotiate customised contracts with individual agencies. The selection of pilot agencies was based on existing action plans that could be used as a starting point for contract negotiations. As a result, all major tasks of an agency could be included in the performance criteria so that the problem of goal displacement was avoided. After the first pilots the Ministry of Finance has been withdrawing from negotiations and now negotiations are solely between an agency and the agency’s department. Changes currently considered or already introduced concern the implementation of budget guarantees in the performance contracts and the use of contract management as a means of strategic control by departments. As the experience with contract management in the Danish National Board of Industrial Injuries shows performance contracts are a powerful tool that motivate managers and employees to live up to the contract requirements due to its nature as a commitment with another party.

(*) Also refer to the synthesis document: [PUMA/PAC(99)2] Performance Contracting: Lessons from Performance Contracting Case-Studies & A Framework for Public Sector Performance Contracting, and to the other related case-studies of Australia, Belgium, Canada, Finland, France, New Zealand, Norway and Spain, all available on the OECD netsite (http://www.oecd.org/puma/).
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PART I. CONTRACT MANAGEMENT IN DENMARK

1. Introduction

This paper discusses the Danish experience with contract management. Contract management has been in operation since 1992, and has been an important instrument for the implementation of performance management in the Danish State. The basic principle of the system lies in the establishment of a contract between a department and an agency defining targets and required results. The paper describes the position of contract management in Danish administrative policy tradition, the background to project implementation, experiences with contract management, and the problems and possibilities associated with the system.

2. Framework Conditions

The Need for Increased Focus on Results

The contract management project has its background in the development of expenditure control policy in Denmark. In common with the other OECD countries, Denmark experienced explosive public-sector growth during the 1960s and 1970s. This led, at an early juncture, to deliberations on the ways in which a control of public expenditure might most effectively be implemented. The method adopted in Denmark consisted mainly of ongoing reforms to the budgetary system based on the concept of “framework budgeting”. Under this concept, the budgetary system is structured as a set of top-down budgetary frameworks established at all levels (starting with the ministry as a whole, down to the individual agency). This improves policy prioritisation between principal objectives and ensures tight control on expenditure policy. In the wake of the introduction of framework budgeting, both ministries and agencies were given increased freedom of action, so that over the years a substantial decentralisation of responsibility and competence has taken place.

The weakness of framework budgeting is that it is solely an input-oriented system, not connected to the services that agencies provide. Therefore, in an extreme situation, it is possible to imagine an agency which meets the requirements of its budgetary framework, but which is both low on
productivity and does not provide services perceived as relevant by its users. The weaknesses of the framework management concept have meant that the introduction of a supplementary approach providing increased focus on results has been a high-priority task for Denmark’s Ministry of Finance in recent years. This supplementary approach is contract management.

The Danish Ministerial System

The structure of the Danish ministerial system is generally such that each ministry consists of a department and one or more subordinate agencies. The minister is formally both legally and politically responsible for the department and all its subordinate agencies. The department functions as the minister’s secretariat and also has a co-ordinating role vis-à-vis the subordinate agencies which perform a very wide range of functions. These agency functions range from casework and research to the performance of highly specialised functions.

No hard and fast rules have been developed governing the control aspect of the relationship between a department and its agencies. In practice there is a wide variation between the ministries. However, a general characteristic of the relationship has been a tendency for the department to concentrate solely on its function as secretariat for the minister, whereby its control function vis-à-vis the agencies has been reduced. To obtain an increased focus on results, modification of the managerial role of the departments has therefore been a central challenge, both generally and in conjunction with the contract management project.

3. Description of the Project Management

Launch of Pilot Projects

In 1991, a decision was taken by the Cabinet to initiate a preliminary study into the potential for improving the efficiency of state agencies via a contract-type control system. The study was performed by the Ministry of Finance in collaboration with a firm of private consultants.

An analysis of 15 state agencies and departments revealed 31 barriers and other obstructions to improved efficiency. Significant barriers included absence of targets and result-related controls, planning problems due to budgetary uncertainty, inadequate freedom of action with regard to pay and appointments, investment problems, and difficulties confronting potential private sector collaboration. The large differences that existed between the problems of the individual agencies led to the conclusion that specific solutions should be created for specific problems; or more precisely, that the problems of the individual agency should be made the point of departure and a unique contract established accordingly. The first contracts entered into force in January 1992, followed by a second wave in January 1993. A total of 13 agencies under seven ministries took part in the project.

The Contract Management Concept — and Contract Contents

The principal aim of the contract management project was twofold: to improve operational efficiency and to increase policy control potential.

Overall, the problems identified by the preliminary study pointed to the need for:
- increased freedom of action in the performance of tasks;
- budget guarantees based on multi-year agreements;
establishment of clearer target- and result-related requirements.

Against this background, the idea was that a result-based contract should be negotiated defining both the rights and the obligations of the agency. In other words, the contracts would be based on a something-for-something principle: the agency would promise to meet certain increased efficiency requirements formulated in terms of specific results, in return for which it would receive a certain freedom of action with regard to task performance plus a budget guarantee for a number of years.

All the project contracts had a four-year term. The contract consisted of a description of the tasks, rights and obligations that were to form the basis for task performance. In addition to the more specific performance targets, the obligations could include more process measures (i.e. measures of activities and initiatives within an agency) and service quality-oriented measures, e.g. new initiatives in respect of services or groups of users, requirements relating to personnel matters, or requirements for increased information provision to users and the public. The contract was also to contain a measurable operationalisation of the established targets and obligations, and a statement of the agency’s required reporting frequency. The reporting frequency for all the contracts covered by the project was set at once per year. The contract was not legally binding in the normal sense as it could, in principle, be revoked by the minister.

The idea was that the subsequent reporting by the agency should both pressure the agency to make efficiency improvements and open the way for increased insight by the department into the agency’s work. No sanctions for failure to reach performance targets were specified. However there has not been a need for sanctions as all agencies have achieved the targets defined in the contracts. One of the main objectives of the project was also to improve coordination and connect together the department’s specialist and financial management functions.

Examples of performance targets and special conditions provided in performance contracts are shown in the Annex.

Selection of Project Participants

The agencies suitable for project participation were mainly chosen by the responsible ministries. The main selection criteria were that:

- an agency reorganisation process was already under way;
- an agency was already functioning effectively;
- an agency was motivated for change;
- there was a clear need for efficiency improvements;
- there already existed studies or action plans that could be used as a starting point for contract negotiations.

4. Project Findings

Results

The findings showed, firstly, that a substantial number of the barriers to efficient agency working had fallen away. In general, the participating agencies were seen to have fulfilled the targets and result-related requirements established in the contracts. Thus, the result-based contracts did lead to increased agency performance in terms of improved efficiency and service quality. To a large extent
the contracts acted as a hub for agency reorganisation processes and efficiency activities such as development of internal management and control tools and targeted developmental activities in the personnel domain. In addition, contract establishment often served to increase personnel awareness of work place objectives. In many cases, agency performance was found to be better than the contract specifications. This might suggest that in some cases the requirements were set too low.

Secondly, the findings showed that provision of information to the public and users was strengthened. The contracts generally focused strongly on level of service, case handling times, information, and so on. The views and satisfaction of the public and users were directly incorporated in the contracts, partly in conjunction with the need analyses on which the required results were based, and partly in conjunction with requirements for user surveys.

Thirdly, the contract management project generally resulted in an improved dialogue between agencies and departments. The intensive contract negotiations led to the creation of a network of contacts between the parties at all levels. The departments gained improved insight into the workings of the agencies, which led to a more holistic, all-round dialogue rather than the traditional ad hoc dialogue focusing on detailed issues. In addition, the reporting provided improved documentation of agency activities, something that in turn improved the quality of communication.

Fourthly, contract management proved to be a useful tool for changing agency priorities in line with changed external demands — not least new policy requirements. The potential for policy control was improved as a result of the improved information platform. At the same time, better integration of programme management and financial management was achieved, something that was very largely lacking in the normal one-year budget negotiations. However, there was criticism in the evaluation that the excellent strategic control potential of contract management was not adequately used by ministers and departments. Nevertheless, positive results were achieved, even with the limited departmental strategy participation to date.

Finally, the project showed that it was possible to develop the necessary methodology for measuring and documenting even highly complex activities. As well as the conventional quantitative measures (efficiency, savings), success was achieved in developing systems for measuring the quality of case handling. In addition, two agencies succeeded in establishing operationalised requirements for quality improvements. Examples of “soft” measuring tools contained in the contracts include user surveys and image analyses. This was one of the most important results in the project.

**Negotiations and Participant Attitudes**

The agencies themselves had a major influence on the establishment of the result-related requirements and target setting. The Ministry of Finance played such an important part in the negotiations with the agencies on the elaboration of the first contracts that the ministry — rather than the individual responsible department — was often regarded as the opposite party in the negotiations. The role played by the Ministry of Finance was necessary to set the project in motion and to arrive at a form of standard model for the contracts. In the future it is intended that the Ministry’s role in the negotiations will be taken over by the individual responsible departments as a means of increasing their feeling of responsibility towards the contract. The sole role of the Ministry of Finance will be to advise and ensure continued development of the concept. This will also increase the departments’ strategic action potential and their ability to reflect their relevant policy goals in the contracts.

1. The degrees of financial freedom laid down in these first contracts could be in the form of an actual subsidy or a right to collect revenues, or perhaps just — as was the case for the National Board of Industrial Injuries — a budgetary guarantee for the contract period. However, with regard to wage agreements, accounting, etc., the agencies still had to abide
by the general administrative rules applicable to government institutions, and the minister was still politically responsible for the agencies’ activities. But the very strict and detailed financial management of the individual agencies which had previously characterised several departments’ relationship with the agencies was to be removed or reduced upon entering into such independent agency contracts.

2. The purpose of the introduction of these contracts was to create a better framework for flexible and appropriate management of the agencies, resulting in improved service towards the agencies’ users.

3. The contracts were usually made for a four-year period, and the agencies typically had to report to their departments every quarter. The first five to six independent agencies were established in 1992, and 1993 saw an equivalent number.

4. After the change of government in 1992, the independent agency contracts became performance contracts, and the independent agencies became contract agencies. However, despite the new name, the wording of the contracts remains fairly much the same. But in the past few years the Ministry of Finance has been withdrawing from the negotiations, and now negotiations are solely between an agency and the agency’s department. This also means that usually there is no longer any financial guarantee incorporated in the contracts.

5. Furthermore, this is a natural consequence of the increasing prevalence of contract management in Denmark. There are at present about thirty contract agencies, and if the Ministry of Finance were to give a financial guarantee to all of these, a very large part of the overall national budget would be included, and this would render impossible any management by the Ministry of Finance.

At the time the first contracts were established, the departments were sceptical about the project. This was partly because the budget guarantee given to the agencies could be seen as a limitation on departmental freedom of action. For this reason, the departments left the negotiations largely to the Ministry of Finance. However, by the time of the second wave of contracts, the departments had become more alert to the potential of contract management, and the selection of agencies for new contracts was based on a deliberate choice of control methodology.

Most of the agencies saw the contract management project as a means of setting the agenda for their future development, and thus often acted as initiative-takers and formulators in the framing of contracts. However, the agencies showed strikingly little interest in additional autonomy, which is surprising in view of the barriers to efficiency that emerged in the preliminary study. This can partially be explained by the barriers being more formal than real, and some barriers were removed more generally for all agencies during the contract period. By contrast, substantial weight was placed on the budget guarantee, principally with regard to the possibilities opened up for long-term planning. Thus, one or two agencies commented in the evaluation that if the budget guarantee were removed there would be nothing left to negotiate about. Within the ranks of the management, there was particular satisfaction at being able to point to external pressure when called upon to implement changes and efficiency measures. The agencies were generally satisfied with the improved dialogue with the department.

Problems

The crucial factor in contract formulation is to establish operationalised result-related requirements that at the same time cover the full range of agency functions. Already from this it is clear that contract management should principally be applied to agencies for which targets can be established for all major tasks. An agency will focus on the targets stated in the contract, and if there are components
in an agency’s functions that cannot be measured, and that are therefore not included within one of the performance criteria in the contract, the function concerned will probably be assigned reduced priority by the agency. In conjunction with the contract management project, particular attention was drawn to the danger of excessive weight being placed on quantitative result-related targets at the expense of process and service quality targets related to, for example, internal backup functions, public and user information, and personnel policy goals. For the same reason, the selection of agencies for the project was often based on the pre-existence of a reasonable overall picture — and ideally an overall action plan — for the agency. Without this pre-preparation it would be difficult to identify all the key factors and thus enable a balanced list of result-related requirements to be established.

As mentioned, one of the most significant results of the project was the successful development of tools for measuring complex activities. However, there still exist activities that are not directly measurable, something that can lead to distortion of the incentive structure. Similarly there are cases where it is difficult to form a reasonable picture of the agency’s task profile. Generally, however, the study found very few tendencies towards distortion in agency development. This was due partly to the success in the development of measuring tools, and partly to the fact that Danish agencies normally have a very strong specialist profile in which specialist competence and identity prevent reduced priority from being given to areas difficult to measure. However, the avoidance of distortion in the incentive structure was also due to the fact that agency selection for the project was specifically based on the pre-existence of an overall picture and documentation for the agency’s task profile.

The process of contract establishment is extremely resource-intensive. Contract formulation takes a long time, but the subsequent resource burden is reduced by the fact that ongoing control is simplified. However, some areas of public-sector activity are characterised by the presence of many agencies with uniform tasks. In such cases the project showed that negotiating a customised contract for each individual agency is too costly a solution.

**Future Use of Contract Management — Deliberations and Problems**

Today, result-based contracts are operational in 20 agencies, and more are on the way. Most of the agencies in the pilot project wish to continue with contract management. However, what will happen when the individual departments take over negotiations is an open question. In the light of the evaluation and experiences with the contract management project, various changes have been introduced into the concept and new changes are on the way.

Changes currently being considered or already introduced include the following:

*Firstly,* consideration is being given to whether the budget guarantee should necessarily form part of future contracts. The Ministry of Finance has clearly stated that it will not in future provide a guarantee and that any such budget guarantee must be provided by the department within its funding allocation. The practice hitherto has obscured the departments’ control responsibility. Therefore, the question is whether the departments wish to provide their own guarantee.

The guarantee is a useful bargaining tool vis-à-vis the agencies, and experience has shown that they accord it considerable value. The problem is that the budget guarantee reduces the number of action alternatives for departments and ministers. The budget *guarantee* may therefore become an encumbrance in the future use of contract management. In addition to this, it can be argued that result-related requirements are a wholly natural imposition, and that agencies should not, therefore, be given “something extra” for taking on such obligations. Whether the budget guarantee should be included in future contracts will be up to the individual responsible ministry to decide. Consideration could be given to use of a more dynamic, rolling form of
contract, within which the budget guarantee is not an indispensable component and within which new guarantee periods could be introduced as existing periods expire. With this system, renegotiation will arise at regular intervals, providing ongoing recourse to sanctions on the agencies. Another possibility is to make the budget framework dependent on the result targets. However, this would require a substantial knowledge of the relationship between activity and cost, and this information may be difficult for the department to obtain.

**Secondly,** consideration should be given to a possible widening of the policy dimension in the contracts. The objective of using contract management as a means of strategic control has not been adequately fulfilled. The rather unobtrusive role played by the departments during the project should be changed, and the minister should adopt a more active role. The departments are now alive to the strategic control potential offered by contract management. At the same time, it is important that the departments should involve themselves actively if a qualified counterbalance to the agencies is to be established at the negotiating table.

**Thirdly,** consideration must be given to improving the agency annual reporting. This procedure was in several cases not satisfactory. In future, increased weight should be placed on the reporting function, as good reporting is crucial to the agency’s continued implementation of the result-related requirements in the contract, and can also serve as a continuous reservoir of experience and a learning process. The work surrounding the reporting system will in future be integrated with another Danish project focusing on annual reporting. The purpose is to ensure that all state agencies with operations-related and outward-oriented functions submit annual reports in a form capable of providing increased information on results.

**Fourthly,** consideration should be given to the contexts in which contract management is well suited. Experience has shown that contract management is useful for supporting operations- and reorganisation-related tasks and can usefully supplement other control methods. However, it should primarily be used in future by ministries that administer large numbers of agencies with different types of tasks. Contract management is less suited for agencies where it is not possible to give a relatively precise and comprehensive description of relevant work tasks and development needs. In order to expand existing knowledge of where contract management can be suitably applied, it is planned to establish a network of contract-management experience where guidance can be obtained when new contracts are to be established.
PART II. THE CASE OF CONTRACT MANAGEMENT IN THE DANISH NATIONAL BOARD OF INDUSTRIAL INJURIES

1. The Case Study Organisation

The National Board of Industrial Injuries was established as an agency in its own right in 1989, but its tasks were previously carried out by a division of the National Social Security Office (Sikringsstyrelsen) and even before that, by an independent directorate, so the Board actually celebrates its 100th anniversary in 1998.

The Board’s task is to make decisions in workers’ compensation cases. In Denmark, insurance against industrial injuries is referred to private insurance companies, each employer being under an obligation to take out industrial injuries insurance for his employees.

However, the conditions for recognising an injury as an industrial injury and for fixing any compensation for the injured person are laid down by law, and it is the National Board of Industrial Injuries that administers this legislation. This means that the National Board of Industrial Injuries receives all notifications of industrial injuries (if there is a chance that compensation will be granted), and it investigates the individual cases and makes decisions on recognition and compensation, if any. The Board subsequently forwards its decision to the relevant insurance company, who will then disburse the compensation.

If the injured persons are state employees, the National Board of Industrial Injuries will disburse the compensation itself.

The Board’s task of determining the level of compensation — and thus the future income level — of persons who have been injured in connection with their work causes the Board (and the Minister) to be exposed to severe criticism in cases where their service is not adequate, not only by the injured person, but also by labour market organisations. This status as a user-service organisation was undoubtedly an essential element in connection with the Board’s deliberations on the introduction of performance contracting.

The Board receives notification of about 45 000 new industrial injuries cases every year, and in addition a number of cases are reconsidered. Taking into account at the same time that a number of cases imply more than a whole year of processing, it is estimated that the Board handles 80 000 to 90 000 cases every year. The Board disposes of about 270 full-time employees to process these cases; and these employees receive a total of approximately 350 000 letters and send more than 400 000 letters per year in connection with case processing.

It is obvious that, with this multitude of cases, the work is characterised by uniform routines and that the Board makes extensive use of information technology in its case processing. The multitude of cases also means that it is relatively easy for the Board to find objective measuring points which are not characterised by accidental fluctuations, and the computer system makes it easy to analyse these
matters statistically. So it must be said that the Board’s special combination of tasks and use of IT is a great advantage in relation to performance contracting.

2. Aims of Performance Contracting

At the beginning of the 1990s, in step with increased awareness of the question, there were ever-increasing calls for improved processing of industrial injuries cases, expressed by politicians as well as users and stakeholders. All requested quicker case processing, improved quality of Board decisions, and generally better service.

As was the case for all other government institutions down through the 1980s, however, spending cuts were constantly being imposed on the National Board of Industrial Injuries, and at the same time the number of industrial injuries cases was on the increase. Therefore the Board did not have the financial basis for complying with these requests.

Thus, if the National Board of Industrial Injuries was to live up to the demands made by the outside world, it was necessary to find, on the one hand, a new economic solution and, at the same time, make a targeted effort to improve the Board’s service.

It was therefore agreed with the Ministry of Finance that the National Board of Industrial Injuries was to be given the status as a government enterprise as per 1 January 1993, and at the same time the Board entered into a performance contract with the Ministry of Social Affairs for the period 1993-96.

The status as a government enterprise means in principle that an agency has to compete with private companies and sell its services at the market price. For the National Board of Industrial Injuries, this was a competitive position of a rather fictitious nature, since, as mentioned above, the Board has to process all industrial injuries cases that may lead to disbursement of compensation. The competitive situation therefore manifests itself essentially as acceptance on the part of private insurance companies of the cost and service levels of the Board, as primarily the private insurance companies pay for the services provided by the Board.

Already prior to 1993, the National Board of Industrial Injuries had part of its administrative costs covered by the private insurance companies, but the transformation into a government enterprise in 1993 introduced a fixed price per case. This price is paid by the private insurance companies if the injured person is a private sector employee and by the relevant government institution if the injured person is a state employee. Thus the Board receives no government grant via the Budget, but “earns its own money”. This financing model has the obvious advantage that the Board’s revenues automatically increase if the number of cases, and thereby the Board’s resource requirements, go up. At the same time, the status as a government enterprise means that the Board is allowed much more freedom than conventional government institutions with regard to revenue utilisation.

The changed financing model was the most substantial reason for the Board’s introduction of performance contracting in 1993.

Of course it would have been possible for the Board to become a government enterprise without at the same time signing a performance contract, but in reality the two elements are connected. The Board improves its finances and achieves more economic freedom in return for living up to certain performance requirements laid down in the contract.

This also appears from the fact that, in connection with signing the contract, the Ministry of Finance promised to leave the Board alone for four years with regard to budgets. In this way the Board
achieved a guarantee that the Ministry of Finance would not impose new spending cuts on the Board during the contract period. In return, the organisational restructuring implied a requirement of a one per cent productivity increase per year in the Board’s own financing model.

In addition to the financial aspect, the Board was faced with a great organisational development challenge at the beginning of the 1990s, as the introduction of an advanced computer system had made superfluous a number of routine tasks. A large number of staff therefore had to be retrained to take care of new tasks, and in that connection the performance contract also became a tool for the Board’s internal restructuring process. At the same time the introduction of the new computer system meant that it became possible to measure large quantities of Board activities, which was a prerequisite for the Board being able to set up measuring points for productivity, quality, etc. Such measurements exactly were quite vital in connection with signing the performance contract with the Ministry of Social Affairs.

As per 1 January 1997, the Board has entered into a new four-year contract, and in this connection it should be noted that it was solely the value of the contract as an internal management tool and motivation factor that was the Board’s reason for entering into a new contract, as there are no new financial incentives for the Board in this contract.

The department’s interest in entering into a performance contract with the National Board of Industrial Injuries has primarily been the wish to improve the Board’s service towards its users. In addition, the department probably wished also to move the focus from purely economic considerations to more professional and efficiency-oriented matters. It has always been customary for the department to show a great deal of interest in the Board’s financial management, whereas there has hardly ever been any interest in the Board’s professional performance — providing the Board did not get too much negative press. Performance contracting marks a total change in this respect.

The overall objectives of both contracts were:

- improved productivity;
- improved quality;
- improved user service.

There are, however, also other goals/initiatives which are more employee-oriented. For example, the Board wishes to be a family-friendly workplace.

In connection with these targets there are a number of specific requirements and initiatives which the Board has to live up to or carry out, and the Board has set up an extensive action plan which is to ensure the fulfillment of the requirements.

The Board’s first contract focused primarily on personnel development and qualifications, whereas the new contract focuses more on quality improvements and thereby customers’/users’ wishes.

The results achieved in the contract period and those expected to be achieved in the new contract period might very well have been achieved without a performance contract. However, the performance contract has a considerable psychological effect, as its nature of a contract with another party implies that the Board’s management as well as employees feel more obliged to live up to the contract requirements than they would have done had it just been an internal action plan. This applies even though the contract does not contain any sanctions in the event of the Board’s failing to live up to the requirements.
Furthermore, the contract implies that the Board’s overall objectives become visible and that the connection between objectives, requirements and actions becomes transparent for employees as well as management.

Finally, the contract ensures agreement between the Board’s management and the department’s management with regard to the Board’s target and effort priorities. In other words, as long as the Board lives up to the contract requirements, the department cannot, justify any criticism of or intervention in the administration of the Board.

3. Features of Performance Contracting: Process, Contents and Types of Plans

When the first independent agency contracts were signed, it was an overall wish on the part of the Government and the Ministry of Finance that some agencies should try out some of these new administrative ideas. Hence, there was a great deal of goodwill towards the departments and agencies which were willing to enter into such contracts. This was seen, for example, from the fact that the Ministry of Finance took part in the meetings on contract negotiations, and that the Ministry of Finance often granted financial support to the agencies in connection with signing of performance contracts.

In the case of the National Board of Industrial Injuries, no actual financial support was granted, but the Board gained permission to introduce a new financing model; at the same time, the Ministry of Finance promised to leave the Board alone, with regard to budgets, for four years.

As mentioned above, the task of the National Board of Industrial Injuries is to make decisions on industrial injuries cases, and the Board’s work is characterised by large quantities of cases and letters and by a relatively long case processing time. Therefore, from the department’s point of view, the overall objective was to improve the Board’s service towards users (injured persons and insurance companies), which can mainly be done by reducing the case processing time, making correct decisions, and making the Board’s grounds for decisions comprehensible and acceptable.

First and foremost, the Board wanted to improve its finances. This was done by becoming a government enterprise; so you could say that, in a way, performance contracting was the Board’s “payment” for becoming a government enterprise. Apart from that, the Board obviously has an interest in making its work more efficient, so the overall objectives were very much an expression of the Board’s own wishes regarding the contents of the contract.

Thus, there was no great discrepancy on the overall level between the wishes of the Board and those of the department.

The contract is formally made between the Ministry of Social Affairs and the Director General of the National Board of Industrial Injuries, whereas the specific requirements of the contract are negotiated, on the basis of the Board’s suggestions, between civil servants from the Board and the department, respectively.

It goes without saying that the Board is more knowledgeable than the department of the specific elements used as contract parameters, and therefore the Board has a chance to pick out measuring parameters or set-up levels, which the Board knows beforehand that it is able to live up to. In practice, however, there has been positive co-operation between the Board and the department, and, in the long run, neither of the two has any interest in setting up terms that are either too hard or too easy to fulfil. Usually, the Board sets up some fair level requirements in its first draft, whereupon the
department requests some tightening, and finally they agree on requirements that are acceptable to both parties.

As it is part of the performance contract that a user and stakeholder survey has to be conducted every two years (by an external consultancy firm), it will ultimately be revealed if the requirements do not lead to any change in users’ and stakeholders’ conception of the National Board of Industrial Injuries.

As mentioned above, an agency is at an advantage with regard to information, whereas the department, on the other hand, is at an advantage with regard to competence. The department is a superior authority vis-à-vis the agency, and therefore the department can always demand that a specific measuring point be included in the contract or that a certain level has to be achieved, but this has not been the case in connection with contract negotiations with the National Board of Industrial Injuries.

The performance contract of the National Board of Industrial Injuries is very detailed with regard to the actual target requirements. For instance, very precise levels have been set up for the share of decisions changed by the National Social Appeals Board, the share of cases for which the Board has to exempt from statutory time limits, as well as the number of concluded cases per full-time employee.

However, in addition to the actual target requirements, the Board’s contract also comprises an action plan with a number of initiatives which the Board is obliged to carry out in the contract period. These initiatives have been described in relative detail in most areas, but no exact levels have been fixed for all of these initiatives. For instance, it appears that the Board must improve its dialogue and contact with medical specialists, clinics of occupational medicine, hospitals, etc., with a view to reducing the extra waiting time in connection with the Board’s case processing, but no exact target has been set up for this activity.

It is an advantage that the contract is as detailed as is the case, because this makes it easier to comprehend the connection between the Board’s overall objectives and the actions that the individual employee is met with in his or her daily work. It is thereby ensured (to a greater extent) that employees at all levels work according to the guidelines laid down in the contract.

As is true of most other performance contracts, the contract of the National Board of Industrial Injuries has a duration of four years, but there is an option for renegotiation along the way. In connection with the contract negotiations as such, it has already been decided in some areas that renegotiations have to take place typically because these areas have not been sufficiently clarified at the time of the contract negotiations. Apart from that, some things may have changed so much that renegotiations are necessary, or it has been found out that a measuring parameter was inappropriate.

In the period 1993–96, the National Board of Industrial Injuries reported to the department every quarter and gave an account of the initiatives performed by the Board and the current status of the specific measuring points. These reports were discussed in group management meetings attended by all directors of all agencies of the Ministry of Social Affairs, as well as by the permanent secretary.

At present, however, the National Board of Industrial Injuries prepares so-called company accounts which give a very detailed report of the Board’s target fulfilment in relation to the performance contract. The company accounts also contain the Board’s “normal” financial accounts, and they are sent to, for example, the public auditors, who are in charge of auditing all Danish government institutions. It has therefore been decided that, apart from company accounts, the Board now only needs to send one six-monthly report for the purposes of reporting on the performance contract.

Against the background of the discussions at group management meetings, it may be decided to implement new initiatives to promote the fulfilment of targets in certain areas, etc., but the
performance contract contains no clauses on what will happen if the Board does not live up to the requirements laid down in the contract; and in practice the Board has not been exposed to any sanctions, even though, at certain points, it has not quite lived up to the contract requirements.

4. Need for Increased Autonomy

Via its status as a government enterprise, the National Board of Industrial Injuries has achieved more financial latitude than most conventional government institutions. This is not a direct consequence of performance contracting, but, as mentioned above, the two factors should be seen as an aggregate, organisational change.

The increased economic freedom has made it easier for the Board to live up to the requirements of the performance contract. There still are some areas in which the Board would like more latitude but where the conventional system of government draws some limits to the scope for development.

This applies first and foremost to salaries, where the Board is forced to follow the general state agreements. In some areas (e.g. computer specialists, actuaries and medical consultants) it would be an advantage if the Board were able to offer a salary corresponding to the “market price”, as it can be difficult to ensure sufficiently qualified labour in these fields.

In relation to the performance contract, the Board has introduced a performance-related pay scheme which ensures the employees a share in any productivity bonus. The scheme has been fairly successful and ensures the employees a salary which is a bit higher than the one in the wage agreement, but the financial impact on the employees is rated modest. However, the scheme is very important as a motivating factor, and the simple fact that they are measured and compared with others seems to be of substantial importance to the employees’ motivation and effort.

In addition to the salary limits, the Board is still subject to the general subsidy regulations laid down by the Ministry of Finance, and this may in some cases have a restraining effect on the Board’s opportunities. The subsidy limitations are often of minor importance, however, compared to the psychologically-based fear of a bad press due to “waste of public funds”. As the Board is regarded as a government institution financed by public funds, despite its status as a government enterprise, there are strict limits as to what the press (and the population?) will tolerate with regard to spending of funds in connection with general employee benefits; and this of course leads to some limitations to the Board’s chances of acting along like private organisations.

5. Legal Basis for Performance Contracts

As mentioned above, performance contracting in the state administration was introduced at the beginning of the 1990s in the form of independent agency contracts. The background was the then Conservative-Liberal Government’s ambition to make the public sector more efficient and probably also to achieve a kind of non-financial “privatisation” of the state sector.

The subsequent Social Democrat Government continued and expanded the system by way of performance contracting — also based on a wish to make the public sector more efficient.

The introduction of performance contracting did not require any change in legislation, but it appears from the Budget for the individual agency whether it is a contract agency or not. It has now been left to the specific parent ministries to decide if their agencies should be contract agencies or not.

With regard to one point, performance contracting has indirectly led to change in legislation, as the rules for preparing an Appropriation Act and accounts have been altered. A number of agencies have
worked out so-called company accounts for the accounting years 1995 and 1996, and these have replaced the conventional appropriations and notes. The company accounts focus much more on the agencies’ results and the ratio between effort and result than do the conventional accounts, which is a consequence of more and more agencies becoming contract agencies.

Theoretically, a minister or a department can probably decide that an agency under the ministry in question should become a contract agency, but in practice it is always a mutual decision on which the department and the agency have agreed.

It is never actually a legally binding contract, and therefore (normally) there are no formal sanctions if the agency does not live up to the contract requirements. Thus the head of an agency will not be dismissed if the agency does not live up to the requirements, but the agency’s fulfilment of the contract may very well be included in a general evaluation of the head of the agency, for instance in connection with an employment contract.

Regardless of the contract, the minister maintains the political responsibility for the agency’s activity, and the Minister can at any time decide to terminate the contract. The head of an agency does not have the same option of termination, but it is to be presumed that, if the department does not live up to the expectations in the contract and, for example, intervenes directly in the agency administration, the agency may also opt to be released from its contractual obligations.

6. Connections to Other Decision-Making Processes

To the National Board of Industrial Injuries — and a number of other agencies — performance contracting is just one part of an aggregate “contractual concept”.

In addition to the overall performance contract, the Board also has a performance pay agreement, a Director General’s contract and evaluation of the individual heads of division.

The performance contract is of course the most important contract, as it lays down the overall objectives for the activity of the whole agency, and all other contracts are a type of tools to ensure that the overall objectives do in fact reflect the objectives that form part of the priorities of all agency levels.

To a certain extent, all contracts contain the same objectives, parameters and levels. To some contracts are added certain other, often subjective measuring points, but all contracts are formulated in such a way as to consider the same objectives as laid down in the performance contract.

The performance pay agreement ensures the employees a higher pay if the performance targets are fulfilled, the Director General’s contract ensures him a higher salary if the performance targets are fulfilled, and the evaluation of management ensures the individual heads of division higher salaries if the performance targets are fulfilled. It is obvious that the Director General’s contract, whose fulfilment is assessed by the permanent secretary, and the management evaluation, whose fulfilment is assessed by the Deputy Director General, both include an evaluation of the individual management abilities, whereas the performance pay is always calculated on the basis of the results of a division and never on the basis of individual monitoring.

There are no direct relations to the political dimension, except that the Minister, having signed the contract, naturally vouches for the objectives laid down in the contract and is ready to defend these objectives vis-à-vis the Folketing (Parliament).
As mentioned above, the economy and financing of the National Board of Industrial Injuries are primarily based on the agency’s status as a government enterprise, and therefore there are only limited financial matters relating to the contract. Some presumptions of the Board’s financial results are incorporated in the contract, but these correspond to the economic conditions under which the Board operates in its capacity as a government enterprise. It must be assumed, however, that if the Board is unable to live up to the performance requirements or severely overfulfils them, then the financial conditions of the Board will also be reconsidered.

7. Assessment and Lessons Learned

It is the opinion of the National Board of Industrial Injuries as well as the department of the Ministry of Social Affairs that performance contracting has been a success. It is difficult, of course, to single out specifically the results that are derived from the Board’s status as a contract agency and the results that are due to other factors.

The Board has probably noted most of all a very marked improvement in finances, but this is not really due to its status as a contract agency, but rather the improved financing model that was introduced in connection with the agency becoming a government enterprise. As mentioned above, it is necessary, however, to see the two organisational changes as connected.

Furthermore, the Board has noted an improvement in the quality of its work, whereas it remains to be seen if there has actually been any substantial improvement in productivity. However, the Board has experienced a very extensive restructuring process, which required training of employees and the introduction of a number of modernisation measures. All these initiatives have been performed as part of the Board’s action plan in relation to the performance contract, and there has been widespread backing behind these initiatives, exactly because it was made quite clear what was the purpose. From a psychological point of view, it has been a clearly motivating factor internally in the Board that there has been a performance contract which all employees felt that the Board would be able to fulfil.

At the same time, the Board has felt it as a relief that the department has been much less able to intervene in the Board’s internal management and, not least, the Board’s financial management.

Even though the performance contract was, in principle, meant to induce the department to leave it to the agency to plan its work routines and organisation, the department has actually gained more knowledge than previously of the agency’s activity, as the Board has reported every three months to the department on the development in terms of contract targets and requirements. The advantage is that, whereas previously the department mainly focused on the Board’s economy and only to a lesser degree on the fulfilling of its tasks, focus has now been moved to the more professional aspects of the Board’s activity. The department has been given much more profound knowledge of how the Board actually performs its tasks and how users and stakeholders see the Board.

Furthermore, Board employees have developed a different attitude to the whole set of problems regarding the monitoring of their work, and monitoring is now seen as a natural part of the Board’s working routines.

In conclusion, mention should be made of the fact that there were actually a few targets in the first contract that the Board was unable to fulfil, but on largely all other points the Board succeeded in meeting the targets agreed upon, and I think all parties agree that the Board has actually managed to improve its service level and its reputation in relation to users and stakeholders.
ANNEX

EXAMPLES OF TARGETS AND SPECIAL CONDITIONS OF THE DANISH CONTRACT AGENCIES

The following mentions the most important elements in the listed free agency contracts:

**Risø National Laboratory (Ministry of Research) 1994-97**

The Ministry of Research seeks in this contract to pioneer the application of performance management and results-based contracts to research institutions. Risø, a research institute that seeks to support industrial and commercial development, is described as a good pilot candidate because of its considerable size, and its ability to adapt to changing conditions. Risø proposes to be evaluated by a series of objectives and targets established by its Board of Governors, known as “RISØ 2000.”

Risø’s overall objective is to create new opportunities for development in energy technology and energy planning; environmental aspects of energy, and industrial production; and on materials and measuring techniques for industry. Research on these three areas and nuclear matters is distributed over 11 programme areas, for which targets have been established for the next 5 to 10 years. The 11 programme areas are in turn subdivided into 30 subprograms with 3- to 5-year plans.

Results are evaluated at the end of each year, partly on the basis of achievement of milestones defined in Risø’s research programme and partly based on performance on three sets of quantitative indicators: activity indicators concerning personnel resources; communication indicators; and network indicators concerning relations with Danish and international research. Risø will provide annual reports on its results and a final report upon completion of the project.

**State and University Library (Ministry of Cultural Affairs) 1993-96**

The contract lists the overall objective as being to extend the library’s position as a central distributor of information — the chief means being organisational development and use of information technology.

Key targets include:

- Improve efficiency through meeting a 10 per cent increase in the number of loans;
- Increasing revenue by 2.5 per cent per year;
- Retro-convert the card catalogue (1 million records);
- Formulate a policy on withdrawal of materials and increase withdrawals by 95 000;
- Introduce a plan for quality control of services involving different user groups;
- Carry out user surveys in 1994 and 1996 comparable to the 1988 survey; and
- Continue organisational development through evaluation of management with participation of external consultants.
The National Museum (Ministry of Cultural Affairs) 1992-95

The contract includes a declaration of aims, and then a series of measurable targets, including museum attendance increases, a change from a financial deficit to a profit, and an increase in the number of articles published in internationally recognised periodicals. Each year, until completion of the contract at the end of 1995, the Museum will submit a report on progress towards meeting the agreed targets.

Court of Taxation Appeals (Ministry of Taxation) 1993-96

The court processes appeals of tax assessments and real estate valuations from the local tax authorities.

Targets

- reduce the average time a case is processed from 14 months in 1992 to nine months in 1995;
- deal with all complaints related to the 19th general valuation of real estate before the end of 1996;
- increase productivity 20 per cent by 1996.

Special conditions

- long-term budget arrangement to be provided;
- additional manpower to be provided;
- performance-related pay schemes to be introduced.

National Board of Industrial Injuries (Ministry of Social Affairs) 1993-96

The Board of Industrial Injuries processes applications for compensation for industrial injuries.

Target:

- reduce the proportion of cases where the processing time target is exceeded from 23 per cent in 1992 to 19 per cent in 1996;
- increase productivity from approximately 156 standard cases per employee in 1993 to approximately 162 per employee in 1996;
- reduce the number of appeals from 18 per cent to 14 per cent by 1996.

Special conditions

- long-term budget guarantee to be provided;
- possibility of working at home to be introduced;
- special days off in case of children’s illness to be provided;
- performance-related pay schemes to be introduced.
Medicine division of the National Board of Health (Ministry of Health) 1993-96

The Medicine division is responsible for licensing drugs prior to their marketing, for inspecting products on the market and for inspecting chemists.

**Targets**

- increase yearly inspections of producers by 20 per cent and increase in yearly inspections of chemists by 75 per cent before the end of the contract period;
- increase from 50 per cent in 1992 to 80 per cent in 1996 of the amount of applications for parallel importation that are processed in less than four months;
- ISO-9000 certification.