

Performance Agreements in Denmark, Ontario and the Netherlands

Report for the project
*Evaluation of development contracts
in Norwegian higher education*

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Preface

Although several countries have experience with some form of performance agreements in higher education, such agreements are a relatively new phenomenon in the Norwegian context. Performance agreements (in Norway: *utviklingsavtaler* or development contracts) were proposed by an expert group appointed by the Ministry of Education and Research in 2014. In the period 2016-2019, the agreements were gradually introduced as a pilot scheme for the university and college sector.

To inform the government, the Norwegian Ministry of Education and Research wishes an evaluation of the development contracts. The project to carry out this evaluation was awarded to NIFU, the Nordic Institute for Studies in Innovation, Research and Education. NIFU approached CHEPS (Center for Higher Education Policy Studies) to conduct part of the evaluation study.

The task of CHEPS was to collect information from three countries (Denmark, the Netherlands, Ontario in Canada) that have gained experience with performance agreements. The experiences and lessons from these countries can be used to contextualize the findings from the Norwegian pilot.

The findings presented in this report are based on an extensive document analysis and a series of interviews with persons in the three countries who were asked about topics such as the design and use of the performance agreements, the agreements' potential for goal achievement and how the agreements have affected the ministry's dialogue with the higher education institutions.

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1 Performance Agreements: A brief introduction

1.1 Introduction

Performance-based funding and performance agreements for higher education have attracted a great deal of interest in the last decade. The European Commission in its Modernisation Agenda for Higher Education¹ promoted the idea, and in 2015 a European University Association (EUA) survey established² that some form of performance agreements existed in fourteen of the systems considered in their study. More recently, the OECD³ presented some ideas and deliberations about the introduction of these governance instruments to improve the accountability, diversity and the attention for efficiency in higher education.

In 2014, CHEPS carried out an extensive overview of the use of performance-based funding (PBF) and performance agreements in fourteen higher education systems.⁴ The CHEPS report revealed an enormous diversity in the use and design of performance agreements. In recent years that diversity has increased even further. There have been follow-up studies on PBF⁵, the European Commission organised peer learning activities⁶, and further exchanges of insights between policy makers and researchers took place. We observe, on the one hand, converging forces showing policymakers make use of similar instruments for implementing their policies, while, on the other hand, one may detect divergent forces highlighting that each country gives its own interpretation to instruments that at first sight appear to have a lot in common.

In this report, we examine the performance agreements that so far have been used in three different higher education systems, that is: Denmark, Ontario in Canada, and the Netherlands. The choice for these jurisdictions was made after consultations with the Norwegian Ministry of Education and Research. It reflects the variety in performance agreement systems and includes a Nordic, a continental-European and a North-American system. Our report is mostly descriptive,

¹ European Commission (2011), An agenda for the Modernisation of Europe's higher education systems: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. <https://publications.europa.eu/en/publication-detail/-/publication/b6108cf7-bof6-436f-9096-b6306534d58a>, Brussels.

² Claeys-Kulik & Estermann (2015), Define thematic report: performance-based funding of universities in Europe. Brussels: EUA.

³ OECD (2020), *Resourcing Higher Education: Challenges, Choices and Consequences*, Higher Education, OECD Publishing, Paris, <https://doi.org/10.1787/735e1f44-en>.

⁴ De Boer, H, B. Jongbloed, P. Benneworth, L. Cremonini, R. Kolster, A. Kottmann, K. Lemmens-Krug & H. Vossensteyn (2015), *Performance-based funding and performance agreements in fourteen higher education systems. Report for the Ministry of Education, Culture and Science*. Enschede: CHEPS.

⁵ World Bank Group (2019), *Performance agreements in higher education. Overview of the status quo in Croatia, Estonia, Finland, Germany, Latvia, and the Netherlands*. Unpublished manuscript.

⁶ ET2020 Working Group on Higher Education (2018), *The power of funding in steering performance of higher education institutions*, Peer Learning Activity (PLA), Zagreb, 7-8.11.2018

presenting the rationale of the agreements, their goals, some of the procedures surrounding the agreements, as well as some advantages and disadvantages of the agreements. Other issues covered are the indicators used in the agreements, and the question whether the agreements are linked to the amount of public funding received by the higher education institutions – whether delivering on the agreement brings any rewards for the higher education institution.

The question whether the agreements have had an impact on the performance of the higher education institutions in the three jurisdictions will be answered using insights we have collected from desk research (e.g. existing evaluation studies) and a number of interviews that were conducted with higher education experts.

The purpose of our description is to use the experiences gained in these three countries as one of the inputs for the discussions on the future of the performance agreements (also known as development contracts) in Norway.

The structure of the report is as follows. After a short introduction on performance agreements in general, we present the performance agreements in the three countries separately (including development, content, process and experiences). Then we compare the three countries to conclude with a number of observations and possible lessons for Norwegian higher education (in the area of performance agreements).

1.2 Performance agreements: definition, rationales and dilemmas⁷

From the literature⁸ we define performance agreements as follows:

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

These bilateral agreements are *contracts* that set out specific goals that institutions will seek to achieve in a given time period. The agreements specify intentions to accomplish given goals or targets. Performance is deemed to be the fulfilment of an obligation laid down in the contract, measured against pre-set known standards. These standards may result from political decision-making or a negotiation process among stakeholders and may refer to a benchmark set by the other higher education institutions in the sector.

In contemporary higher education, and as illustrated by the three systems that we will describe in the next chapters, performance agreements exist under different labels, such as performance

⁷ This paragraph is based on our earlier study: De Boer, H, B. Jongbloed, P. Benneworth, L. Cremonini, R. Kolster, A. Kottmann, K. Lemmens-Krug & H. Vossensteyn (2015), *Performance-based funding and performance agreements in fourteen higher education systems*. Report for the Ministry of Education, Culture and Science, Enschede, CHEPS, UT.

⁸ See footnotes above.

agreements, performance contracts, compacts, target agreements, outcome agreements, strategic framework contracts, development contracts, strategic mandate agreements, or development plans.

Performance agreements can have different rationales and aims. Often, the rationale will be triggered by the specific context and challenges for a country's higher education system. It is important to understand these different rationales, as they will impact on the design, the process and the evaluation of the performance agreements.

The first question therefore is about the reasons why performance agreements were introduced. From the existing literature on the subject, one may identify the aims included in the text box below.

Performance Agreements: Rationales

- To encourage institutions to strategically position themselves. This is known as **institutional profiling**. Performance agreements are expected to contribute to establishing a diversified higher education system.
- To establish and/or improve the **strategic dialogue** between the government and the institutions, with the intention to align national and institutional agendas, policies and activities. This explicitly expresses the desire to jointly determine the direction of higher education.
- To improve the **quality and efficiency** of the teaching, research and outreach activities undertaken by higher education institutions. The setting of targets and accompanying indicators for completion rates, student drop-out, or students' time to degree is an illustration of this.
- To inform policy makers and the public at large about the higher education system's and the individual institutions' performance. This helps legitimizing the public investment in higher education and improves **accountability and transparency**.

In previous studies⁹, we have described that various dilemmas may manifest themselves in the design and execution of performance agreements. Uncontested solutions for these dilemmas are not available. Here, we will briefly mention a few dilemmas.

Links to broader governance framework

Firstly, the embeddedness of performance agreements in the overall governance framework for higher education – the policy instrument mix – is important for the agreements' efficiency, effectiveness and legitimacy. A good fit with other policy instruments, e.g. other funding

⁹ Hægeland, Torbjørn et al. (2015), *Rapport om finansiering av universiteter og høyskoler. Rapport fra ekspertgruppe*. Oslo: Kunnskapsdepartementet. In particular, we refer to pages 168-185 of this report: Vedlegg 3. Dokument bestilt av ekspertgruppen fra CHEPS i Nederland om erfaringer med "performance agreements" i Europa. See: <https://www.regjeringen.no/no/dokumenter/rapport-om-finansiering-av-universiteter-og-hoyskoler/id2358272/>

instruments, quality assurance, or the regulation of organizational structures, is likely to increase the effectiveness of performance agreements. The interaction with other policy instruments also leads to an attribution problem, that is: which features of the performance agreements have contributed to the observed measures of performance?

Institutional autonomy

Secondly, tensions may arise with respect to institutional autonomy. Over the past two decades, higher education authorities in many countries have increased the universities' autonomy, based on the belief that this would increase their performance. If the performance to be delivered is not sufficiently determined in consultation with the institutions, this limits the institutions' room for manoeuvre (and therefore undermines the policy belief of institutional autonomy). If the authorities use the agreements to impose - top-down - the performance to be achieved, especially if it is narrowly defined, this may be regarded as an infringement of the autonomy of the institutions.

Transaction costs

Thirdly, transaction costs associated with the performance agreements are important. They can act as an obstacle in accepting the system of performance agreements – adding additional layers of bureaucracy. Both government and institutions will devote time and resources to the process of concluding a contract and complying with it, including reporting on progress. A good fit with existing accountability regulations and practices will reduce transaction costs, but the magnitude of these costs will be difficult to quantify and to separate from the cost of other accountability and quality requirements.

Link to funding

Another dilemma facing designers of performance agreements is whether, and if so how, the performance agreements are to be linked to the institutions' public funding allocation. Are agreements with a direct link to funding (i.e. direct financial consequences in case of underperformance; reward in case of meeting – or overshooting - performance) more effective than agreements where such financial sticks and carrots are absent? If there is no direct link between agreements and funding, then the effectiveness of the agreements would most likely rely on the naming (and 'shaming') of institutions that have met (or not) their agreed performance. If there is a direct relationship to funding, the question is, how funding should be at stake. Does modest funding, for example less than 5% of the institution's budget, sufficiently motivate institutions to achieve agreed performance levels?

Actors involved in goal setting

The setting and monitoring of the objectives included in the agreement points to another dilemma. While a top-down approach, where the government dominates the performance to be delivered, will go against the institutions' wish to protect its autonomy and bring its own ambitions to the table, there is also a concern on the side of the government that the objectives included in its agenda for higher education are sufficiently reflected in the institutions' strategic plans. After all, the saying is 'he who pays the piper, calls the tune', thus education ministries

may expect at least some alignment with national goals. However, these negotiations may also involve other parties than the ministry and representatives of the institution and there may be a space at the negotiating table for representatives of students, the academic staff, or the regional community. The dilemma is how this can be done without making the process too time-consuming while at the same time guaranteeing there is broad involvement and support from the institution's stakeholders.

The number of goals

When it comes to the specification of targets and their monitoring, the choice and type of indicators used can lead to discussion. Obviously, transaction costs and bureaucracy will increase as soon as the number of goals covered in the agreements increases. The more is covered, the less easy it is for institutions to set priorities or to meet all their targets. A decision has to be made about the goals to be covered in the performance agreements and the goals to be covered by other policy tools, such as funding formulas, quality assurance and different types of regulation – or, indeed, whether to leave some issues to the academic community or to market forces.

Choice of indicators

Next, the question is about the kind of indicators to be used. A strong focus on quantitative measures (or KPIs) has its appeal. If indicators are SMART¹⁰, they tend to be transparent and create a sense of objectivity, albeit that they certainly are not value-neutral. In the case of quantitative measures the monitoring and assessment of performance is relatively easy as long as reliable data sources are available. A clear and objective set of measures, optimists would argue, stimulates focused action and makes sure that (at least) what is measured gets done. The downside, pessimists would argue, is that *only* what is measured gets done. Institutions will only focus on those quantifiable issues and may neglect issues that may be just as (or even more) important for higher education. For instance, institutions may be tempted to concentrate on the 'easy' quantitative targets ('cherry picking') at the expense of targets that reflect quality but cannot be captured by indicators.

These, and some other design issues will be addressed in the descriptions and analysis of the performance agreements in the three countries. We are summarizing them in the box below.

Performance agreements: Design issues

- Links to broader governance framework
- Institutional autonomy
- Transaction costs
- Links to funding
- Actors involved in goal setting
- The number of goals
- Choice of indicators

¹⁰ SMART=specific, measurable, achievable (or attainable), relevant, and time-bound.

These topics, as well as the rationale for the performance agreements will be used in the final section of this report, where we will compare the three systems and deduce some broad lessons for the design of performance agreements.

1.3 Our research method

For our reviews of the performance agreements in the three countries, we are making use of existing studies carried out in this field, as well as the academic literature and governmental and institutional documents (such as bilateral contracts and existing evaluation studies) and websites. Apart from this desk research, and in case the information on some of these aspects was unavailable or needed verification, we contacted a number of national experts for interviews in the period May-June 2020.

Interviews were conducted by means of video and telephone interviews, while in a few cases use was made of email exchanges. Given the place this three country study has in the overall research project carried out by NIFU, and the time available, the choice was made to conduct a limited number of expert interviews rather than an extensive (representative) survey. The interviewees have been promised anonymity, which means that no persons are quoted in this report.

The interviews were based on an interview protocol that covered the issues in the two text boxes shown above. This means that for each country study, the development of the performance agreements, their rationale, goals, processes of goal setting, monitoring and assessment are covered, as well as the actors involved. To better understand the information found through desk research we also asked respondents about the results and the overall reception of the performance agreements – in particular whether positive or negative effects were experienced by those directly involved in the implementation and monitoring of the agreements.

2 Denmark: Strategic Framework Contracts

2.1 Introduction

Over the last decades, there have been several reforms of the Danish higher education system.¹¹ In terms of governance, the introduction of bilateral contracts between the government and individual institutions can be mentioned. The first bilateral contracts between the Ministry of Higher Education & Science and the higher education institutions date back to 2000. There is therefore twenty years of experience with this policy tool. The names for the contracts have changed a few times. First, they were known as ‘university performance contracts’, later on this changed to ‘development contracts’, and since 2018 the contracts are referred to as ‘strategic framework contracts’. In this chapter, we will discuss their development and, based on the interviews¹² we conducted and other information we collected, present some experiences and opinions related to the contracts. We will focus on the contracts between the ministry and the universities.

The structure of this chapter is as follows. After a short description of the Danish higher education system, we will pay attention to the first bilateral contracts between the ministry and the individual universities as they form the foundation of the current contracts. We will describe the aims, processes and procedures of these first performance contracts. Next, we will shortly address the development of the contracts between 2000 and 2018. Finally, we will describe the current contracts, referred to as strategic framework contracts.

2.2 The higher education system

In Denmark, higher education is offered by five types of higher education institutions:

- General and specialised research universities (*Universitet*) offering first, second and third cycle degree programmes in academic disciplines.
- University level institutions offering first, second and third cycle degree programmes in specialized subject fields such as architecture, design, music, and fine and performing arts.
- University Colleges (*Professionshøjskole*) offering professionally oriented first cycle degree programmes;
- Business academies (*Erhvervsakademi*) offering professionally oriented short cycle and

¹¹ See for instance Wright, S., S. Carney, J.B. Krejsler, G.B. Nielsen, J. Williams Orberg (2019), *Enacting the university: Danish university reform in an ethnographic perspective*. Springer.

¹² Interviews were conducted with persons working in two universities (in top level administrative positions) and the ministry of Higher Education and Science (i.e. the *Danish Agency for Institutions and Educational Grants* that is handling the strategic framework contracts). There were also email exchanges with four higher education experts (academic researchers), reacting to several issues from the interview protocol.

- first cycle degree programmes (the former academies of professional higher education).
- Maritime Education and Training Institutions offering professionally oriented short cycle and first cycle degree programmes.

There are eight universities in Denmark. They are autonomous, self-governing public institutions, referred to as ‘state-financed self-owning institutions’, governed by boards with external majority. The University Act of 2011 (article 2) stipulates that a university must ensure equal interaction between research and education, perform ongoing strategic selection, prioritisation and development of its academic research and disseminate knowledge (including to the university colleges and academies). It must also collaborate with external partners and contribute to the development of international collaboration. It should encourage its employees to take part in public debate.

Danish universities primarily finance education and research with public funding – allocated in the annual Danish Finance and Appropriations Act.¹³ There are no tuition fees. Two-thirds of the government grants for education allocated by the Ministry of Higher Education and Science is based on the institutions’ performance in terms of examinations passed successfully by their students. This is known as the student activity based grant, or *taximeter* model. Since the year 2019, another part of the education grant consists of a Results-based grant. Two indicators determine the results based grant: students’ time to degree and graduate employment. The results-based grant corresponds to approximately 7.5% of university funding and is calculated based on how the universities have performed on the two indicators. Each of the two indicators elicit a grant of up to roughly 5.5% of the student activity based grant.

Another part (25%) of education grant consists of fixed allocations per institution. The volume per institution will be assessed for the first time in 2023. The intention is that, in due time, 5% of the basic funding will depend on the quality achieved and an additional 5% is conditional on the achievement of strategic objectives included in the performance contracts.

At this point we can conclude that a very substantial part of the Danish funding model is performance-based. This should be kept in mind, when assessing the need for a link between performance contracts (or rather: the strategic framework contracts) and funding.

2.3 The first contracts

In 1999, the government announced its intention to introduce performance contracts with the individual universities. According to the ministry, this new steering tool should offer universities more opportunities and more flexibility to respond to changing demands and expectations from society. The aim was to focus more on the management of goals and results¹⁴ – in line with

¹³ See: <https://ufm.dk/en/education/higher-education/danish-universities/the-universities-in-denmark/funding-for-danish-universities>

¹⁴ MRIT (Ministry of Research and Information Technology) (2000), *University Performance Contracts – the Danish model*, Copenhagen.

the then very popular notions of New Public Management, stressing, amongst other things, steering on outputs and outcomes instead of inputs. This new steering instrument implied, in the ministry's words, "a paradigm shift in the relationship between the universities and the ministries, as they mark a shift from control and top-down regulation to dialogue and agreements based on the universities' own goals and commitment." In each contract, the goals should:

- a) fit within the general frame set by the ministry,
- b) be based on the strategic work already in progress at the universities,
- c) have the first step taken by the universities, and
- d) be concrete in order to be suitable for internal management and for external reporting.

The performance contract was to be a management tool for central university management (strengthening strategic management processes of the universities) as well as a vehicle for establishing a strategic dialogue with the ministry.

The first university performance contracts ran for a period of four years (2000-2003). The individual contracts could be revised by the end of the first contract year on the basis of experience acquired. Adjustments could also be made during the contract period if the conditions and the possibility for the individual university to comply with the contract would change significantly, provided that all parties would agree to such an adjustment. It was not mandatory for the universities to conclude a contract with the ministry. The ministry did not have the authority to impose specific targets on the university, nor did it have the instruments to sanction any underperformance. The ministry stated that the performance contracts were not legally binding but were *statements of intent* between the ministry and the individual universities. The first performance contracts differed from a classic contract in the sense that there was no automatic relationship between reaching the set targets and the grants awarded.¹⁵

The process of the first contracts was that the ministry invited the institutions to draft a contract and gave some 'suggestions' for the main subjects. This draft contract was discussed in two or three rounds, leading to a final contract to be signed by both parties. The university had to report on its performances, as set out in the contract, in its annual institutional report. This annual institutional report was to be agreed within the university and discussed by the ministry and the university. The minister reported on the universities' performances to the Danish Parliament.

In the first phases of establishing the 2000 performance contracts, internal and external

¹⁵ Schmidt, Evanthia K. (2012), *European Flagship Universities: balancing academic excellence and socio-economic relevance - Background Report*. University of Copenhagen. (<http://www.sv.uio.no/arena/english/research/projects/flagship/institutional-reports/copenhagen.pdf>);

Schmidt, E.K. (2012), University funding reforms in the Nordic countries, in: F. Maruyama and I. Dobson (eds.) *Cycles in university reform: Japan and Finland compared*, pp. 31-56), Tokyo: Center for National University Finance and Management.

stakeholders were engaged. Management, staff, students, elected bodies, and consultation and advisory boards discussed the goals the university should achieve. The university's Academic Council approved the resulting draft and sent it to the ministry. Drafting the contract was a rather time consuming process. At the University of Copenhagen, for example, this process of drafting the performance contract stretched over more than 18 months, as many internal stakeholders were involved.

In the summer of 2000, the ministry listed the common themes from ten contracts of the different universities in the document "University Performance Contracts – The Danish Model".¹⁶ In total, the ministry listed thirteen common themes and actions, referring to student mobility, study duration and study success, number of graduates, size, quality and dissemination of research, commercialisation and patenting of research outcomes, attention to external funding, and the recruitment of foreign researchers. Each of these themes was subdivided into goals and actions for the individual universities to pursue. For example, with respect to action 1, "Planning, evaluation and reporting of research", (some) universities were supposed to enhance research planning at departmental level, develop new methods for evaluating research together with external partners, develop standards which could be used as parameters for the quality of research and take special initiatives to monitor the quality of patenting and innovation. As a result of this approach, the contracts consisted of a long list of activities to be undertaken by the university.

As we will see in the remainder of this chapter, several elements from the first generation performance contracts are still reflected in the current contracts between ministry and institutions. At the same time, various changes have been made over the years. In the next subsection we will briefly describe the development of the contracts in the period 2004-2018.

2.4 The development of the development contracts

In the period between 2000 and 2018, five rounds of development contracts were drawn up between the Ministry and the universities: 2000-2003; 2004-2007; 2008-2010; 2012-2014; 2015-2017.¹⁷ Successive contracts included a number of changes. The intermediate adaptations of the development contracts over the years suggest that the first contracts did not meet all expectations. The most important changes are the following.

The first change relates to the number of agreements or goals laid down in a contract. The first contracts had a very large number of goals to be achieved. There were dozens of goals. In fact, 'practically all' activities of the universities were laid down in the contracts. The first contract between the Ministry and the University of Copenhagen, for example, was fifty pages long, had more than fifty goals, was very detailed and, in the words of the university, had the character of

¹⁶ See: Ministry of Research and Information Technology: <https://ufm.dk/en/publications/2000/files-2000/university-performance-contracts-the-danish-model.pdf>

¹⁷ In 2011 and 2017, a supplement was drawn up for the development contract 2008-2010.

a ‘comprehensive planning contract’, which in practice was difficult (‘virtual impossible’) to work with. It was more of a strategic plan than a ‘focused contract’. Moreover, this posed the risk that everything was nailed shut and it provided little room for promising spontaneous initiatives. In such a case, contracts become straitjackets rather than catalysts for strategic development and dialogue.

Due to the (too) large number of targets, the contracts actually lost their effect; there was ‘target inflation’. An international expert group, set up in 2009 to review the University Act of 2003, noted with respect to the first generations of development contracts that these contracts could be useful tools for the institutions (for profiling, strategic positioning and achieving key objectives), but that they were not effective because they were too detailed and process-oriented.¹⁸ In practice, the international expert group argued, they consist of a list of indicators, on which universities provide data. For an overview of the university sector, comprehensive information and statistics on the universities’ performance are required and can be developed in dialogue with the universities, but it does not (necessarily) belong in a development contract.¹⁹ In fact, the overly detailed contracts had a negative impact on the strategic dialogue. You end up talking about what you have agreed upon – not what you think is important. The evaluation panel concludes that if a contract is too detailed, it will lose its ‘strategic component’.

A review on the development of performance contracts concluded by the Danish government in the public sector (including higher education) in the period 2002-2014 confirms this picture. The first generations of performance contracts were far too extensive and detailed. Around 2010, the Ministry of Finance therefore recommended to limiting the number of goals in the contracts. Whereas before 2010 a plea was usually made to cover all the activities of a public organisation in one contract, it was now advised to focus and concentrate on a limited number of strategic goals. This is also what happened to the development contracts in Danish higher education.

A second important change, related to the aforementioned change, is that part of the objectives to be achieved were set by the ministry and part by the institution itself. This was intended to prevent one of the parties from gaining the upper hand when setting targets and indicators. A situation in which the Ministry actually imposes the objectives to be achieved by the universities would be demotivating for universities and would also affect their autonomy. At the same time, the ministry does bear responsibility for the system and therefore wants to have some say on the performance to be delivered. The compromise was that both parties were given the opportunity to put forward a number of objectives. For example, the 2012-2014 development contract between the Ministry and Aarhus University had four objectives (with

¹⁸ MSTI (Ministry of Science Technology and Innovation (2009), *Danish University Evaluation 2009 – Evaluation report*. Copenhagen: The Danish University and Property Agency

¹⁹ MSTI (Ministry of Science Technology and Innovation (2009), *The university evaluation 2009. Evaluation report*.

eight indicators) set by the Ministry and three objectives (with six indicators) set by the university.

A third change is that over time objectives and indicators were formulated ‘smarter’, i.e. they became more specific and quantified on an annual basis. In that respect, they mainly became agreements where the performance to be delivered was described as accurately as possible. As an example we refer to the targets, benchmarks, milestones and results from the development contract 2015-2017 of the University of Copenhagen, as reported in their annual report 2017 (box below).

UCPH Annual Report 2017: The Development Contract 2015-2017 has nine targets with twelve benchmarks. The result for 2017 is that nine out of twelve benchmarks have been met. One benchmark is partially met, while two benchmarks have not been met. The overall development in the contract period 2015-2017 has been positive. As an example below the report for target number 2.

Mandatory targets with benchmarks for the UCPH Development Contract 2015-2017	Milestones and results for 2017
2. Greater relevance and increased transparency	
2.1 Increase in industrial PhD & postdoc projects	<p>Benchmark 2017: 9 % increase from baseline, corresponding to a total of 34 %</p> <p>The target is to increase the number of industrial PhD & postdoc projects in which UCPH is involved as a partner. The aim is that this will be the case for at least a third of all projects approved in 2017.</p> <p>In 2017, the average share of industrial PhD and postdoc projects in which UCPH is a partner was 25.5 %. UCPH is involved in 24.2 % (29 of 120) of approved industrial PhD projects and 31 % (9 of 29) of approved industrial postdoc projects.</p> <p>2015 2016 2017</p>
2.2 Theses with external parties	<p>Benchmark 2017: 17 % of master's theses to involve external parties</p> <p>The target is for the proportion of master's theses involving a contract between the student and an external party to rise to 17 % during the contract period. In 2013, the proportion was 11 %.</p> <p>In 2017, 16.2 % of master's theses involved external parties, which is a 4.6 % improvement on 2013.</p> <p>2015 2016 2017</p>
3. Better cohesion and collaboration	
3.1 Improved transition of bachelor graduates from other Danish educational institutions to master's degree programmes at UCPH	<p>Benchmark 2017: 5.8 % increase from baseline, corresponding to 679 students</p> <p>The target is a 5.8 % increase in the admission of bachelor graduates from other Danish educational institutions to UCPH's master's degree programmes during the contract period. The baseline</p>

Source: University of Copenhagen website https://about.ku.dk/management/strategic_framework_contract/

2.5 Strategic framework contracts

Legal foundation

The University Act (article 10.8) stipulates that the University Board enters into a strategic framework contract with the ministry. This contract has to contain strategic goals for the

university's activities in the area of research, research-based education and societal and international collaboration. Thus, unlike the first performance contracts, which were concluded on a voluntary basis, there is now a legal obligation to conclude a bilateral contract.

This law further states that on behalf of the university the chair of the board is responsible for the strategic dialogue with the minister (article 10.3) and that the board is the university's highest authority, responsible for the overall, strategic management of the university (article 10.1).

A break with the past

In 2017, after lengthy discussions, it was decided to make fundamental changes to the system of development contracts because they no longer met the expectations.²⁰ The new name for the bilateral contracts between the Ministry and the institutions, which came into force in 2018, reflects this change. There was a need for a stronger *strategic dialogue* where the institutions' strategic plans are leading. This was also the starting point for the first performance contracts in 2000, but it appears that they were subsequently unable to actually achieve this. The earlier development plans fell short in a number of respects.

Firstly, there was much criticism of the approach in which a number of objectives were imposed by the Ministry and a number of objectives were set by the institutions. This had two adverse consequences over time. The institutions saw the objectives imposed by the Ministry as a violation of their policy autonomy and, more importantly, the objectives imposed by the Ministry regularly fitted in badly with the institutions' strategies. In practice, because the institutions preferred to implement their own strategy, the contracts played second fiddle. The institutions felt no ownership of the contract. The contracts were considered to be less important than the institution's strategic plans. In addition, there was a risk that objectives set in a quite independent way by the two parties were difficult to reconcile. The alignment between the objectives put forward by the two parties was insufficient, resulting in little effect of the contracts in practice.

A second important omission of the earlier development contracts was that the objectives and indicators were very specific and most of them quantitative. As a result, too much attention was focused on numbers and much less on content and the story behind these numbers. This contributed to the fact that the development contracts lacked their function as 'strategic orientation'.

Another difference to the development contracts is that, unlike in the past, there is now a relationship between the assessment of the outcomes of the contract ('performance of the institution') and the funding of the institution. The link between the agreements laid down in a

²⁰ In 2017, some changes have been made to the governance of universities (in terms of the role, responsibility and appointment procedures of the University Board) and the steering relationship between the Ministry and the institutions. The latter concerns the strategic framework contracts.

contract and funding is a contentious issue for performance contracts. In the Danish case, for many years, it was decided not to establish a link, but this changed with the introduction of the strategic framework contracts. Institutions risked being penalized financially at the end of the contract period in case the Ministry considers that performance has been below-standard (see below for more details).

The contract

A strategic framework contract is an institution-specific four-year contract concluded between the minister and the chair of the university board on behalf of the board of directors of the institution. Contracts run from 1 January 2018 to 31 December 2021. The strategic framework contracts outline the strategic goals for the universities' core activities. They intend to provide guidance to the development and prioritization of each institution's strategy and thereby highlight how the institution will contribute to achieving important societal goals.

The strategic framework contracts are relatively short concise documents (10-15 pages), written in a 'non-technical' way, with a uniform format. They lay out:

- 1) status and duration,
- 2) reporting and follow-up on goal achievement,
- 3) strategic goals in the contract.

The first two parts concern some general rules of the game and are equal across all institutions' contracts. Of course, the third part of these bilateral contracts is unique and covers by far the largest part of the document. This third part is in essence 'the contract'.

The content part starts with a description of the position of the institution (in global terms, e.g. 'to be among the world's best universities measured by the quality of research and education', 'there are challenges that must be dealt with'). Next, a limited number of strategic objectives for the four-year period are presented, including their rationale ('motivations and ambitions'). These strategic objectives are described in fairly broad ways. Next, the criteria for assessment of goal achievement are presented, including the data sources that will be used for monitoring progress and the assessments. The indicators and assessment criteria are more specific. By defining the objectives less smartly, there is in fact a *commitment to effort* and much less a commitment to results.

A principle of the new design of the bilateral contracts is that it focuses on the strategic orientation (the ambitions) rather than on specific targets. Indicators are set with specific quantitative or qualitative data sources that are relevant to track development towards goal achievement. For each strategic objective, indicators are set with associated specific data sources. These indicators and data sources are also the result of negotiations between ministry and institution and are seen as an important part of the dialogue. As a result, for similar types of strategic goals, different universities can select different indicators as well as different data sources. Thus, for 'the same indicator' different assessment criteria and data sources are possible.

As stated before, in response to criticism on the previous development contracts, the objectives to be pursued by the institutions are set on the basis of a dialogue between the ministry and the institution. It is the outcome of a negotiation process. In the negotiations about the content of the contracts in 2018, the ministry was putting the ball in the university's court at first instance, asking what the university would like to achieve. Thus, for the current contracts (2018-2021), most of the objectives are based on the institutions' initiatives, derived from their own strategic plans and vision documents. Consequently, this gives the universities a clear sense of ownership of the contract.

Interestingly a strategic framework contract does not include written-down obligations of the ministry (the 'performances' to be provided by the ministry). This was also the case in the past with the development contracts. For example, the development contract that the ministry concluded with Aarhus University for the period 2012-2014 stated that the contract was signed under the condition that the ministry guarantees a minimum research budget of 1% GDP and that it would take measures to improve pathways between the higher education subsectors. The current strategic framework contracts do not have such 'ministerial obligations', although some rectors have suggested to include such matters as well.

Rules of the game

As stated above, it is in principle the chair of the university board (as stated in the University Act) and not the rector who signs the contract on behalf of the institution. The majority of the board of a Danish university is made up of external members. The chair is also an external board member. From the point of view that (the majority of) the university board represents society at large, it is interesting that it is the board who signs the contract. The reason for entering into a commitment with the university board has to do with the terms of reference laid down by law ('the board is the highest authority being responsible for strategic matters').

In principle, negotiations with the ministry are thus conducted by the chair of the board. In practice, of course, there is intensive cooperation between the chair and the rector when contract matters have to be discussed with the ministry. The balance between the contribution of the two also depends on the status and expertise of the chair. In some (smaller) institutions, the rector is actually conducting the negotiations.

The fact that the negotiations are conducted by the institution's top management does not alter the fact that it is customary for draft versions of the contract to be discussed within the institution, for example in a management team comprising the rector and deans. However, this may vary from institution to institution.

Both the institution and the minister may initiate a renegotiation of the strategic goals if, for example, the institution's financial circumstances change significantly from the pre-supposed situation or if new challenges make it appropriate to change the strategic goals of the contract. For each strategic goal, a number of indicators are specified along with associated specific data sources. If, during the term of the contract, new relevant data sources are identified which can help explain the development of a specific indicator, such new sources can replace or

supplement the data sources in the contract. Any changes to the contract, goal adaptation or use of new data sources in the framework contract, require consensus from both parties (university board and ministry).

The institutions have three reporting obligations during the contract period: to provide a status report, to update their action plan, and to include a contract section in their annual report. The status report and action plan are sent to the ministry as a separate document (in spring, followed by discussion during summer). This report is presumed to be approved by the university board. The status report indicates the extent to which an institution is on course to achieve its objectives. It should include a general assessment of the perspectives for goal achievement, including documentation for the development of the indicators. The status review also contains a description of initiatives undertaken to support goal achievement, as well as an updated forward-looking action plan that shows the institution's basis for realizing the goals.

Thus, for all agreed objectives and indicators, the status report should:

- indicate what the objectives are (including motivation);
- evaluate the development and progress: the development of an indicator, the activities and support actions that have been carried out and the effects of these activities;
- indicate what changes, if any, occurred or will occur. Changes or modifications can be indicated in an updated action plan;
- record the development of the indicators in a specific file containing all data sources with the baseline and the results per year. In addition, there is a description of the development of the qualitative indicators.

The reporting in the annual report is regarded as a means of public accountability. In much less detail than in the status reports, it shows where the institution stands in relation to the agreed strategic objectives and what actions have been taken in this context. It is in fact a reflection of the conclusions from the status reports and indicates above all the extent to which the institution is on track in implementing the activities required for goals achievement.

In theory, there are several possibilities to monitor the progress of agreements during the contract period. In principle, this can be done by the ministry, by an existing agency, by an independent specific body set up for monitoring, or by the institutions themselves. In Denmark, it was decided that the ministry and individual institutions work together on this. This method of monitoring is an essential part of the dialogue.

Upon expiry of the contract, the institution reports on the final achievement of each of the strategic goals. The institutions' status reports assess the development for each of the indicators laid down in the institution's strategic framework contract. The reports also include a description of the supporting initiatives undertaken during the contract period. At the end of the contract period, the status reports are concluded with a general report from each institution that serves as an input for the assessment by the *Danish Agency for Institutions and Education Grants*. This agency is part of the Ministry of Higher Education and Science, and it was established 1 January 2017. It allocates and administrates grants and funding to institutions and

has the main contact and dialogue with institutions regarding control of targets and results, inspection and administration.

As indicated, the universities risk a small financial penalty if they do not sufficiently meet the agreements in the contract in the eyes of the Ministry. The amount of funding involved is relatively small. 75% of the basic operational grant for education runs via the 'taximeter logic' and the remaining 25% of the basic operational grant is not related to student numbers. The ministry may withhold 5% of that 25% when it concludes that a university has been underperforming. This means that 1.25% of the basic operational grant for education is linked to the strategic framework contract.

2.6 Experiences and evaluation

In summary, the strategic framework contracts:

- 1) are institution-specific (unique)
- 2) relate to strategic objectives regarding the core tasks of the institution
- 3) these objectives are negotiated
- 4) contracts can be adjusted if there is mutual agreement
- 5) are concluded by the chairman of the board
- 6) cover a period of 4 years
- 7) progress is discussed annually on the basis of a status report drawn up by the institutions
- 8) overall assessment at the end of the contract period by the ministry which can lead to a 'financial penalty' of up to 1.25% of the government grant for education.

It is important to understand that the spirit of the Danish strategic framework contracts is one of an obligation on the side of the university to perform to its best ability ('a commitment of effort') and not an obligation to achieve a firm result ('obligation to achieve goals').

The strategic dialogue between the ministry and the board of the institution is not only a matter of concluding the contract and discussing its content in the beginning. The dialogue also concerns the progress made during the implementation of the contract, the potential renewal of action plans, and the assessment at the end of the contract. The dialogue character of the chosen contract approach is well expressed in the different stages of the contract period. The annual bilateral meetings at least twice a year are highly appreciated and provide a good basis for 'staying in touch on a strategic level'. An additional advantage of these meetings is that both sides get to know each other better, thus building up trust.

Although the diversity of contracts as a result of bilaterally negotiated 'tailor-made' agreements is often seen as a positive characteristic of the contracts, it can also have disadvantages. Because agreements and progress meetings are made for individual institutions, other institutions do not know about each other's contract. Only the ministry has a system-wide overview. However, since there are many different goals and indicators, this comprehensive view, as far as it is based on the contracts, is also limited. For the time being, this is not seen as a

problem, as the strategic framework contracts are not intended for the purpose of benchmarking or institutions learning from each other. Other instruments are perhaps better suited for those purposes.

It is, according to the ministry, not the intention to hand out financial penalties. In its own words, the ministry intends to judge the results of the contracts generously. The ‘financial stick’ is intended more for cases of blatant underperformance. In fact, one might argue that this ‘financial stick’ is mainly a symbolic one. As was made clear in the interviews, the real settlement after the contract has ended and that is based on an overall ministerial assessment, takes place via the mechanism of ‘naming and shaming’. A university would feel uncomfortable if it appeared that it did not make sufficient efforts to meet the expectations laid out in the contract. Preventing bad publicity and damage to reputation are seen as more effective incentives than a potential (but modest) financial sanction. Not too much is expected of a link between contractual agreements and funding, because this would very quickly turn the discussion to ‘peripheral issues’ that distract from the real strategic ones. It would put too much emphasis on the less important issues.

Integrity, mutual trust and reliability are generally presumed to be of great importance for the effective functioning of a contractual cooperation. As far as we have been able to determine, these conditions seem to be currently met in Denmark. One indication is that the ministry does not (explicitly) check the figures supplied annually by the institutions for the progress talks. Furthermore, for some indicators these are figures managed and collected by the institutions themselves. There seems to be no reason to doubt the accuracy of the information provided by the institutions.

There was, however, an incident during the previous contract period (development contracts 2015-2017 supplementary contract) that affected the ministry’s trustworthiness. Despite university protest, the then Danish science minister single-handedly deleted one of the goals from the existing contracts – the goal referring to the increase of social mobility in student recruitment. He had inherited this goal from his political predecessor and imposed a new goal, increased regional knowledge cooperation with industry. As a result, the contracts became a ‘dead agreement’. The functioning of the development contracts was already in doubt, but this turned out to be the deathblow. However, this incident seems to be an exception. In general, the parties involved in the contract do not seem to doubt each other’s intentions.

It is impossible to estimate the costs for the various parties involved in concluding, executing, monitoring and evaluating a contract. It is clear that the ministry (i.e. the agency handling the contracts) needs to make a substantial investment in concluding 35 contracts and organizing annual bilateral discussions with the institutions. At the same time, collecting and providing the ‘evidence’ (the status reports) is left to the institutions. At the end of the contract period, the ministry will have to ‘make up its mind’, but it has been indicated that this is mainly done in fairly general terms – there is no nitty-gritty number crunching. On the part of the institution, different parties deal with the various aspects of the contract (conclusion, data collection, etc.).

This is a serious effort, but it should be noted that a large part of the information needs to be collected anyway. In that respect, the contract requires some fine-tuning. In fact, this also applies to the activities that need to be carried out in order to agree on the strategic objectives. The real costs actually are related to (supporting) activities that would not be carried out if there had been no contracts. Estimating the associated costs is a difficult exercise.

We have not been able to determine the impact of a contract within an institution (the time frame for this case-study was too limited). The observations below should therefore be read with caution. The impression is that the contracts are seen by the top of the institution as a useful management tool to steer the institution, particularly when they align well with the institutions' strategic plans. Handling the contracts is often done indirectly via central management teams or deans. The contract seeps through the institution, as it were. Of course, this also partly depends on the strategic objectives of the institution. Some objectives are considered crucial, ensuring that everyone within the institution is aware of them, while for other objectives this is hardly the case.

In addition, some of our interviewees noted that the influence of internal stakeholders (academics, students) on the strategic decision making has decreased in favour of external stakeholders. The fact that the (external) chair of the board concludes the contract may be an indication of this. The question is, however, whether this can be attributed to the contracts. Rather, it seems to be a consequence of (the latest) changes in the University Act of 2017/18. The influence that internal stakeholders have on contracts varies from one institution to another, partly depending on their mandate, size, culture and history. Nevertheless, there is this general impression that internally the contracts are having a centralizing effect, i.e. placing more power in the hands of the central administration.

Finally, on the basis of the above, there seems to be little reason to initiate substantial changes to the Danish contract approach. As far as we have been able to ascertain, experiences with the strategic framework contracts so far have been positive on both sides. More than in the past, the contracts focus on content, in particular on the strategic orientations and their implementation by the institutions. For the time being, the contracts operate in a context of trust. There is little political interference; contracts are a matter between the ministry and the institutions. In this respect, the contracts have evolved in a relatively stable environment. Our interviewees share by and large the same view on this matter, on the understanding that the current format is being used for the first time and the contract period has not yet expired. Moreover, we have not been able to make a fair assessment of the impact of the contracts on departments within the institution or on its various stakeholders. The institutions indicate that they tolerate the instrument because it gives them considerable room for manoeuvre. They are, as it were, not being scrutinized by the ministry and are, therefore, counting their blessings.

One of the possible changes put forward is to extend the contract period, for example to five years. The contract period of the current contracts is already longer than the one in place earlier. A longer period would produce even more stability. However, given the nature of the

objectives now defined, and the possibility of (minor) interim adjustments as a result of the annual consultations, there seems to be little need to conclude contracts covering a shorter time period.

3 Ontario: Strategic Mandate Agreements

3.1 Introduction

This chapter describes the evolution of the performance agreements – known as *Strategic Mandate Agreements* (SMAs) – in the province of Ontario, Canada. Ontario is one of the biggest provinces of Canada in terms of population (about 13.5 million). Its capital is Toronto. It is good to note at the outset that Canada has a federal government, and many responsibilities and taxing powers are shared between the Ontario and the federal Canadian governments. The Canadian constitution provides each province with the responsibility for higher education; there is no national federal ministry of higher education. There is, however, co-operation when it comes to the funding and delivery of higher education to students.

In this chapter we will show how the system of SMAs changed over time. Two rounds of SMAs have been completed since 2014. The third round, which was due to start this year (2020) was temporarily halted due to the Covid pandemic that heavily impacts the higher education institutions (not just in Canada), their resources, activities and performance.

We will start with a short description of the higher education system and its funding in Ontario. Then we describe the first and second round of the strategic mandate agreements. This is followed by the third round (SMA3), that is expected to be the most developed and impactful set of agreements. How the different versions of SMAs have been experienced by the key stakeholders in the system is the subject of the final section of this chapter. It is based primarily on a number of interviews with experts from Ontario.²¹

3.2 The higher education system

Higher education in Ontario, more commonly called “postsecondary education”, is a provincial and territorial responsibility - primarily of the Ministry of Training, Colleges and Universities (MTCU). The MTCU oversees and regulates the colleges and universities, including the chartering of institutions, the granting of degrees, and the tuition fee policy. There are some 45 publicly funded colleges and universities.

While the federal government provides funding to provinces and territories through transfer grants that can be used to support postsecondary education, its role in the sector is confined primarily to the funding of research, support for student financial assistance (administered by the provinces), the schooling of Aboriginal (say, indigenous) students, and the oversight of Canada’s two military colleges.

Ontario’s 21 universities, 24 colleges and nine Indigenous Institutes enrolled a total of 864,800

²¹ We interviewed persons that work (or worked) in the following institutions/positions: Ministry of Training, Colleges and Universities; Council of Ontario Universities; deputy Provost University Planning; Higher Education Quality Council Ontario; president of higher education consulting agency; University Vice-president).

students in 2017-18.²² Universities (533,000 students) provide undergraduate (three- or four-year programmes) and graduate education (mostly two years) as well as professional preparation in numerous fields (e.g. medicine, law, engineering, teacher education, social work). Colleges (331,000 students) issue two-year diplomas for technical and vocationally oriented education and three-year advanced diplomas, as well as certificates for a variety of shorter programmes. Colleges also offer applied four-year bachelor's degrees in selected fields. While colleges and universities function as distinctive, parallel sectors, there are a number of combined programmes where students earn credentials by taking courses in both sectors.

The vast majority of Ontario postsecondary students attend publicly funded institutions, although private universities are permitted, with approval, to offer degrees.

As far as funding is concerned, the system in the early 2000s was primarily driven by student enrolments. On top of that, the institutions receive tuition fees. About 50 to 60% of their revenues are from fees, making the system quite performance-based because attracting students and raising revenues is based on whether the institutions deliver their students value for money. For many years, this made (and – in a lot of ways – still makes) the institution focus very much on increasing student numbers. Access and inclusion was dominating the higher education agenda and this came at the expense of a discussion on other system-wide goals such as the need for differentiation and the quality of the higher education degree programmes in terms of skills formation and students' learning outcomes.

The student-driven funding system also contributed to the increased government investment in higher education. Public expenditure on higher education increased significantly over the years, including increasing operating grants to institutions and increased outlays on student support. These investments have helped to support an unprecedented expansion in access to higher education.

In the early 2000s the Ontario government felt there was a need to work on the differentiation of postsecondary education and it released a policy paper on a Differentiation Framework.²³ This paper included the following objectives:

- 1) Shifting the focus of institutions away from enrolment growth;
- 2) Reducing unnecessary programme duplication;
- 3) Ensuring that institutions' mandates (i.e. missions) align with government priorities (including financial sustainability at the institutional and system levels through a diversity of program strengths); and
- 4) Reinforcing the ministry's role as a steward of the system.

Apart from the introduction of Strategic Mandate Agreements (see next section), the government started to work on a reform of the funding model in 2015. The funding model at

²² Source: Statistics Canada.

²³ Government of Ontario (2013), *Ontario's Differentiation Policy Framework for Postsecondary Education*.

that time consisted of three main components, and its main component (the *Basic Operating Grant*) was enrolment-based. It represented 77% of the universities public funding and was based on historical enrolments in order to provide a level of stability and predictability for the universities to do multi-year planning.

Performance funding was another component of the funding model. It represented 4% of the government support for universities and was based on Key Performance Indicators (KPIs) and the institutions' reporting on their performance agreements through Annual Reportbacks. KPIs included graduation rate, and graduate employment after graduation. Once an institution had successfully completed and fulfilled its accountability requirements the institution's performance funding was determined based on its share of system enrolment.

This sketch of the funding systems shows that a small part of the funding was tied to performance and that the performance agreement (SMA) at that time was primarily an accountability instrument. The other thing worth mentioning is that there were differences between universities in terms of the amount of public funding they received per student – even if those students were in similar degree programmes. This produced a degree of unfairness and inequity in the system – a problem that was tackled by the funding model reform that accompanied the development of the SMA/performance agreements in Ontario.

3.3 The first Strategic Mandate Agreements: rationale and goals

Strategic Mandate Agreements (SMAs) are bilateral agreements between the Ontario government (its Ministry of Training, Colleges and Universities: MTCU) and the 45 publicly funded colleges and universities in the province. SMAs were first introduced in 2014.

The introduction of SMAs was preceded by the release (in 2013) of the MTCU's policy framework for differentiation in Ontario's university and college sector. The framework presented six "components" of differentiation:

1. Jobs, innovation, and economic development
2. Teaching and learning
3. Student population
4. Research and graduate education
5. Program offerings
6. Institutional collaboration to support student mobility.

All higher education institutions (HEIs) were invited by the ministry to submit a SMA (by September 30, 2012). A template was provided that included the following subsections:

1. A brief mandate statement including each institution's three priority objectives;
2. The institution's own vision and how it implements its proposed institutional mandate statement;
3. A description of each of the top three priority objectives, describing the following:
 - a. How achievement of the objective will affect total enrolment and enrolment mix.
 - b. Any distinctive advantage, strength or characteristic of the institution that makes achievement of the objective credible, likely, and desirable.

- c. The time frame for achieving the objective, resource allocations or redirections required, and metrics to be used to measure progress towards achieving the objective.
- d. Where applicable, the innovative initiatives that the institution is pursuing to improve productivity in administration, teaching, research and learning associated with the objective and any associated costs and resource implications.
- e. Any public policy tools that the institution will need to achieve the objective.
- f. How this objective correlates to one or more of the government's principles and parameters for higher education.

For each of the components, a series of metrics was proposed with the suggestion that optional, institution-specific measures were also to be used.

Through the SMAs, universities and colleges were required to articulate distinctive goals and report on outcomes. The idea was that this was to be a first step in a process where the government would allocate a portion of provincial grants to institutions based on their success at achieving their goals. This would be a departure from the longstanding practice of awarding operating grants overwhelmingly on the basis of the number of students each institution enrolls.

The inspiration for the SMAs came from another Canadian province, British Columbia (BC), where in the early years of the 2000s there were calls for more negotiation between government and HEIs about the targets that HEIs were supposed to achieve – showing ‘what higher education is good for’. Ontario adopted this idea from BC and invited HEIs to collect data on several indicators (*metrics*). A large number of indicators were suggested for inclusion in multi-year agreements (see below). However, institutions were not required to set targets and there was no money attached to the indicators. As mentioned above, the SMAs were mostly seen as a way of getting HEIs to think about their place in the system and to show what they are able to deliver in terms of performance on the six differentiation components identified in the MTCU's policy framework. Therefore, the SMAs in this first round – that covered the period 2014-2017 – were mostly an accountability instrument.

This first round of SMAs marked the first time that the strengths and their future aspirations of universities and colleges in Ontario were discussed in the context of government priorities. In a short period of time the SMA submissions were analysed and discussed, partly by a peer review panel that looked at the potential improvements in productivity, quality and affordability. In 2014, the final SMA documents were agreed to and signed by each higher education institution and MTCU.

In 2016, Ontario redesigned the college and university funding models to eliminate automatic funding for enrolment growth. This also helped to support institutions facing enrolment decreases due to demographic factors.

During the first SMA round the government worked on the redesign of the college and university funding models. As part of this, it established a Differentiation Envelope and created a Performance/Outcomes-Based Funding Grant, which links a portion of the institution's

operating grant funding to its performance outcomes.

During the reform discussions it became clear that many HEIs agreed that SMAs are a useful tool for setting performance-based funding metrics and furthering differentiation, especially once institutions see they will be rewarded for differentiated efforts.

Some HEIs felt that SMAs would be most effective at tying funding to general performance outcomes. Mapping all metrics would help to start a dialogue on how to approach any identified gaps. While some suggested that substantial funding should be tied to the fulfilment of SMAs in any new funding formula, other HEIs argued that only a small proportion of an institution’s funding should be tied to performance measures.

What most HEIs agreed on was that the SMA process needed improvement and should align with any funding formula. Some HEIs wished to see future SMAs pay attention not just to quantitative measures but also to qualitative measures.

3.4 Metrics for SMA1

In the first round of the SMAs, the HEIs were invited to make use and to report on a large number of indicators – *metrics*. There were system-wide metrics, that each institution had to report on, as well as institution-specific metrics, capturing elements of the institution’s distinctive profile. The metrics are shown in the table below.

Table 1: Metrics in the universities’ SMAs

system-wide metrics	institution-specific metrics (examples)
Graduate employment rates	Number of start-ups with either \$50,000 in annual revenue or \$50,000 in funds raised from investors
Number of graduates employed full-time in a related job	Annual number of jobs created by start-ups
Student Satisfaction Survey results	Total financing raised from the private sector for start-ups
Graduation rates	Graduate Studies Time to completion in masters and doctoral programs Percentage of students in professional masters programs
Retention rates	Research Partnerships NSERC Engage grants and other partnership grants (number of grants, research funding)
Number of students enrolled in a co-op program at institution	Number of students receiving early exposure to entrepreneurship
Number of online course registrants, programs, and courses at institution	Number of students enrolled in entrepreneurship courses
Number and proportion of Aboriginal, first generation, students with disabilities, and francophone students at an institution	Number of students with experiential learning experiences (e.g., co-op, Professional Experience Year, internship/practicum)
Number and proportion of international students enrolled in Ontario (as reported in annual	Number of undergraduate students with a research opportunity experience

system-wide metrics	institution-specific metrics (examples)
institutional enrolment reporting)	
Proportion of an institution's enrolment that receives Ontario Student Assistance	National Survey of Student Engagement (NSSE) benchmark scores
Number of college and university pathways and/or articulation agreements (college-college, college-university, university-college)	7 year graduation rates and 2nd year retention rates
Number of transfer applicants and registrants	Number of online credit courses, programs and registrations (asynchronous and synchronous)
Number of college graduates enrolled in university programs	Number of international students enrolled and proportion of Ontario enrolment – by undergraduate and graduate
	International rankings (Times Higher Education, Shanghai, QS, NTU)
	Share of federal Tri-Council funding
	Research funding from industrial sources
	Number of publications
	Number of citations
	Citation impact (normalized by paper)
	Number of publications co-authored with partners outside of Canada
	Number of prestigious graduate awards/scholarships held by students
	Enrolment in Masters and Doctoral Programs

3.5 The second round of SMAs

The second round of the SMAs covered the period 2017-2020. Apart from a focus on differentiation, the SMAs for this period were in particular meant to promote student success and institutional excellence, encouraging institutions to build a highly skilled workforce and also put an emphasis on collaboration and openness.

Five priority areas were identified by the government:

1. Enhancing the Student Experience to improve student success and outcomes
2. Innovation in Teaching and Learning Excellence, including enhanced experiential, entrepreneurial, personalized and digital learning that contribute to a highly skilled workforce
3. Improving Access and Equity for qualified students
4. Enhancing Applied Research/Research Excellence and Impact to further raise Ontario's profile as a globally recognized research and innovation hub
5. Innovation, Economic Development and Community Engagement, including the role institutions play in contributing to communities, economic development and building partnerships with business, industry and other stakeholders

The first two pages of the University of Toronto's SMA for the period 2017-2020 are presented below. The picture also shows the format – the template – of the agreement document, showing the university's plans in responding to each of the government's priority areas. For each of the areas, the SMAs presents system-wide and institution-specific metrics. This time the

institutions were required to set institution-specific targets for year 3 of the SMA, that is for the academic year 2019-2020. Targets could also be set as “≥ U6 average”, meaning that the University of Toronto wished to reach a level that was at least equal to the average of the U6 universities, that is: Toronto, McMaster, Western, Waterloo, Queen’s and Ottawa.

The ministry tracked progress on metric performance on an annual basis, on the basis of SMA Annual Reports. The SMA Annual Report also provided an opportunity for institutions to provide contextual information and a narrative associated with performance in the five priority areas. This report consisted of two parts:




- Part 1. The institutional context for metrics performance, overall and by priority area.
- Part 2. Data Workbook, that includes historical data and most recently available values for both system-wide and institution-specific metrics.

The indicators/metrics were partly based on SMA1 (see above table), with some proposed by the ministry (at that time: Ministry of Advanced Education and Skills Development) and some proposed by the institutions. All in all there were about 20 system-wide metrics (including, graduation rate, graduate employment, share of indigenous students, research council income) and a similar number of institution-specific metrics (e.g. study abroad, spin-offs, highly-cited researchers).

In SMA2 there still was no funding tied to an institution meeting its targets. The SMAs once again primarily were an accountability tool and intended to make institutions focus on their performance. The SMAs presented an opportunity for the ministry to have an informed dialogue with the institutions on the alignment of the institution’s goals to the government’s priorities.

SMA2 was a transitional phase to learn about and jointly work on the development of performance metrics and targets. The ambition was that these metrics were to be tied to an outcomes-based funding, as part of the third round of the SMA3.

University of Toronto: Strategic Mandate Agreement 2017-2020

<p style="text-align: center;">STRATEGIC MANDATE AGREEMENT</p> <p style="text-align: center;">University of Toronto Ministry of Advanced Education and Skills Development 2017-20</p> <p>SIGNED for and on behalf of the Ministry of Advanced Education and Skills Development by:  Minister</p> <p>SIGNED for and on behalf of University of Toronto by:  Marc Gerler President</p> <p>Date: <u>6 October 2017</u></p> <p> Ontario </p>	<h3>Table of Contents</h3> <hr/> <p>Section 1: Introduction Preamble Institutional Vision, Mission, Mandate Aspirations</p> <p>Section 2: Shared Objectives and Priorities for Differentiation 1.0 Student Experience 2.0 Innovation in Teaching and Learning Excellence 3.0 Access and Equity 4.0 Applied Research and Excellence Impact 5.0 Innovation, Economic Development and Community Engagement</p> <p>Section 3: Strategy, Sustainability and Partnerships 6.0 Enrolment Strategy & Program Direction<ul style="list-style-type: none">• International Strategy• Strategic Areas of Program Strength and Expansion• Financial Sustainability7.0 Institutional Collaborations and Partnerships</p> <p>Section 4: Ministry Commitments</p>
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Source: <https://www.ontario.ca/page/2014-17-strategic-mandate-agreement-university-toronto>

3.6 The third round of SMAs

In the third round of SMAs, covering the period 2020-2025, Ontario planned to introduce an ambitious system of outcomes-based funding, by tying – eventually (i.e. in 2025) – 60% of the provincial government funding (i.e. the total operating grant) to performance. The first year of the SMA₃ round would tie 25% of funding to performance outcomes, and this proportion was planned to increase annually by increments of 10% for three years and 5% in the last year, until reaching 60% in 2025.

In 2019, the institutions started the preparation for SMA₃. There were frequent interactions with the ministry and its SMA Secretariat that had developed the framework for SMA₃ and the design of the performance-based mechanism. SMA₃ was due to start in April 2020. However, the Covid-19 pandemic forced the government to halt this plan. A lot of work already had been done by the institutions. There had been negotiations with the ministry about the SMAs and the ministry had decided on the rules of the game, the metrics, and how metrics were supposed to be linked to funding.

For SMA₃, three priority areas were identified:

- Incentivizing colleges and universities to redirect resources and invest in initiatives that result in positive economic outcomes
- Encouraging alignment of postsecondary education programming with labour market outcomes
- Incentivizing differentiation and specialization to support increased efficiencies

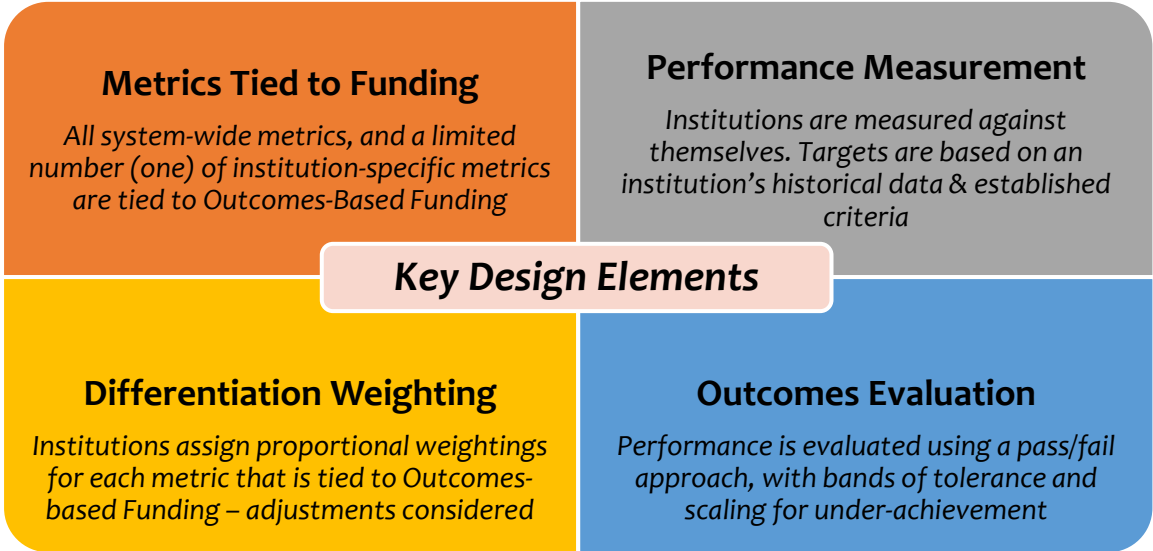
This illustrates that the government in this SMA round wished to encourage the institutions to pay more attention to economic outcomes and aligning education outputs with labour market needs. In the current political climate in Ontario (with a conservative government) there is less interest in differentiation and a bigger focus on performance.

Through SMA3, Ontario planned to activate the Performance/Outcomes-based Grant, that linked the SMA to funding. Metrics were selected and a sophisticated performance/outcomes-based funding mechanism was designed in collaboration with the institutions. The provincial funding of the institutions was to include an enrolment-based part (enrolment envelope) and a performance-based part (differentiation envelope). The performance-based grant was to be phased in over time.

The choice of metrics for the SMAs reflected the government priorities, but also respected the government’s wish to reduce red tape - in terms of streamlining the reporting process and reducing the number of metrics. The performance/outcomes-based grant was based on performance against outcomes in metrics.

The higher education institutions had to set targets for ten metrics upon which their institutional performance would be assessed. The number of metrics therefore was much smaller than in the two previous SMA rounds. In this SMA round, only a few of the metrics were institution-specific: one for the university sector, and two for the colleges sector (see next section).

The funding mechanism’s key design features are shown below.



The metrics and their data sources are selected in such a way that they allow for improvements in data quality over time. They follow predictable and regular reporting schedules that can be validated, replicated and verified.

The ten metrics are linked to an institution’s outcomes-based funding. The institutions

themselves can assign weightings to the performance metrics. This is done to allow the institutions to highlight their institutional strengths: they can select the metric they wish to be rewarded for the most (or least). However, metric weightings must sum to 100% and must be established for the duration of the SMA period during the SMA3 discussions. Institutions may be eligible to adjust weightings once during the SMA period.

The metric weightings will impact the share of an institution's funding that can be received for successful performance related to a particular metric. The ministry decides on the upper and lower bounds for the individual metrics weightings to prevent an uneven set of weights.

Institutions are measured against individualised targets, based on their historical performance. There is no comparison to other institutions; performance is evaluated against targets set by the institutions themselves. During the target-setting process that partly takes place in a negotiation process between the ministry and the institution, the ministry will judge the targets, using the institution's performance history. Targets should meet or exceed an institution's historical performance. Thus, the ministry employs a continuous improvement factor.

Once the SMA is signed, the institutions will be assessed annually by the ministry on performance against institutional-specific targets on performance metrics. Targets are set for each year of the SMA period. When setting the targets, the institutions also are given the freedom to include institutional narratives in their SMA to contextualize metric performance. There is a template for the SMA that the institutions have to use for submitting their SMA. The length of the SMA is about 20 pages; narratives have a maximum word count.

The ministry sets bands of tolerance around targets to help mitigate against small year-to-year variances in performance. Bands of tolerance are included in assessing achieved targets and are informed by typical year-to-year variance experienced by institutions in that metric.

Performance will be assessed on metric-by-metric basis, and all performance will be expressed as a percentage of the target achieved, so as to be comparable between metrics. All performance will be assessed based on a pass/fail approach. Institutions will receive their funding allocation for each metric by achieving or exceeding their allowable performance target ($\text{target} - (\text{target} * \text{band of tolerance})$). Scaling for underachievement of allowable performance targets will be applied in cases where targets (and associated bands of tolerance) were not achieved. All of this guarantees stability in terms of funding – protecting institutions against budget fluctuations.

The outcomes evaluation is based on the following principles:

- Performance will be assessed on a metric-by-metric basis, and all performance will be expressed as a percentage of the target achieved so as to be comparable between metrics.
- An institution will receive 100% of the funding for a metric by meeting or exceeding its allowable performance target ($\text{target} - (\text{target} * \text{band of tolerance})$). If the target is not met, partial funding, commensurate with actual performance, will be received. For example, if an institution achieves 90% of its allowable performance target on a metric, it will receive 90% of the notional funding associated with that metric.

The ministry will assess each institution on its performance against targets associated with the SMA metrics. Evaluation for the purposes of funding will be conducted on an annual basis and results will be communicated through the SMA Annual Evaluation Report process. Due to the fact that the almost all performance metrics are based on public data sources, the ministry is able to communicate the performance results to the institutions through these Annual Evaluation Reports.

3.7 Metrics for SMA3

SMA3 will link ten metrics (nine system-wide and one institution-specific (universities) and eight system-wide and two institution-specific (colleges)) to performance/outcomes based funding. Metrics are covering two government priority areas:

- Skills & Job Outcomes
- Economic & Community Impact

Table 2 shows the metrics to be used by the universities. It also shows the data sources for the metrics (ministry/MTCU; statistical agency/Statistics Canada; research councils/Tri councils; institutions themselves).

Table 2: SMA3 metrics for university sector (data sources in brackets)

Priority Areas	10 Metrics
Skills & Job Outcomes	<ol style="list-style-type: none"> 1. Graduate Earnings - (Statistics Canada) 2. Experiential Learning - Proportion of Graduates in Courses with Experiential Learning (Institutions) 3. Skills & Competencies related metric – (to be defined) 4. Graduate Employment – Proportion of Graduates Employed Full-time in a Related or Partially-related Field (MTCU, Ontario University Graduate Survey) 5. Institutional Strength/Focus - Proportion of Students in Identified Area of Strength 6. Graduation Rate – Undergraduate Programs (MTCU)
Economic & Community Impact	<ol style="list-style-type: none"> 7. Research Funding & Capacity – Federal Tri-Council Funding Secured (Tri-Councils) 8. Research Funding from Private Sector Sources (CAUBO/COFO) 9. Community / Local Impact – Student Population as a Proportion of Local Population 10. Institution-specific Economic Impact Metric (Institutions)

Table 3 below (from the SMA3 instruction manual) shows that some of these metrics will be activated for funding during the first three years of the SMA3 period. The grey boxes show that this is the case for the indicator related to experiential learning. Definitions of the indicators are also included in the table.

Table 3: SMA3: Data, targets, bands of tolerance and annual results

	Historical Data			SMA3 Performance									
	Most recent dates available for data reflected in the top row of each metric row			2020-21		2021-22		2022-23		2023-24		2024-25	
	Year	Year	Year	Target and Tolerance	Actual Achieved	Target and Tolerance	Actual Achieved	Target and Tolerance	Actual Achieved	Target and Tolerance	Actual Achieved	Target and Tolerance	Actual Achieved
1. Graduate Employment in a Related Field: Proportion of graduates of bachelor or first professional degree programs employed full-time who consider their jobs either "closely" or "somewhat" related to the skills they developed in their university program, two years after graduation	Year	Year	Year	E.g. 81% (6%)									
	E.g. 79%	E.g. 80%	E.g. 79%										
2. Institutional Strength/Focus: Proportion of enrolment (FTEs, domestic and international) in an institution's program area(s) of strength	Year	Year	Year	E.g. 21% (1%)									
	E.g. 18%	E.g. 19%	E.g. 20%										
3. Graduation Rate: Proportion of all new, full-time, year one undergraduate university students (domestic and international) of bachelors (first-entry), or first professional (second entry) degree programs who commenced their study in a given fall term and graduated from the same institution within 7 years	Year	Year	Year	E.g. 75.4% (10.2%)									
	E.g. 76.5%	E.g. 78.2%	E.g. 75.4%										
4. Community/Local Impact: Institutional enrolment share in the population of the city (cities/towns/s) in which the institution is located	Year	Year	Year	E.g. 2.5% (1%)									
	E.g. 2.3%	E.g. 2.3%	E.g. 2.2%										
5. Institution-Specific (Economic Impact)													
6. Research Funding & Capacity: Federal Tri-Agency Funding Secured Amount and proportion of funding received by institution from federal research granting agencies (SSHRC, NSERC, CHRI) in total Tri-Agency funding received by Ontario universities	Year	Year	Year	E.g. \$1.2M									
	E.g. \$1.2M	E.g. \$1.2M	E.g. \$1.2M										
	E.g. 20%	E.g. 20%	E.g. 25%										
7. Experiential Learning: Number and proportion of graduates in programs, who participated in at least one course with required Experiential Learning (EL) component(s)	Number:			E.g. 7,000									
	Proportion:												
8. Innovation: Research Revenue Attracted from Private Sector Sources: Research revenue attracted from private sector sources	Year	Year	Year	E.g. \$400k									
	E.g. \$400k	E.g. \$500k	E.g. \$500k										
9. Graduate Employment Earnings: Median employment earnings of university graduates, two years after graduation	Year	Year	Year	E.g. \$65,000									
10. Skills & Competencies: Participation in ESO assessment and posting results online (domestic and international)								Results posted	E.g. Yes				

Source: MTCU 2020-2025 SMA Instruction Manual

In addition to the ten metrics, the ministry wishes to strengthen accountability by requiring institutions to include two reporting metrics in their SMA. The metrics relate to faculty compensation and faculty workload. However, these metrics are not tied to performance funding.

3.8 Experiences and opinions

So far, there have been two rounds of SMAs: for the periods 2014-2017 and 2017-2020. A third round, planned for 2020-2025, was temporarily halted. The developments in the SMAs over time can be interpreted as incremental changes that aim to lead up to a higher education

accountability and funding system that gradually becomes more streamlined, performance-based and focused on outcomes instead of inputs.

The SMAs are a key component of the Ontario government's accountability framework for higher education. Institutions are required to report on the basis of a set of indicators/metrics. In their SMAs, institutions are allowed to also provide contextual information and a narrative associated with performance in the government's priority areas.

Institutions were not required to set targets in the first round, and no money was attached to the SMA. However, in the second round (SMA₂), they did set targets, and in the third (SMA₃), funding will be attached to the targets. According to our interviewees, the first round was mainly a trial round, while the second round was meant to get agreement on indicators, data sources, and the way performance-based funding was to be introduced.

In the third round, the number of indicators has been reduced to ten. There still is some room for the institutions to include an institution-specific indicator. The main change in the third round is a link between the SMAs and the institution's public operational grant. Quite a few mechanisms we built into the system to allow the institutions to express their individual strengths and missions into the indicators used and how these connect to funding. This was in line with the government's original idea to use the SMAs as instruments for strengthening differentiation in the higher education system.

Over the years, institutions were consulted about the choice of indicators, and how the SMAs might be connected to funding. As concerns the latter, in the performance evaluation by the ministry an institution is not compared to other institutions, but compared against its own targets and its own performance history. This avoids zero sum games (one institution winning at the expense of another). It also avoids comparing apples and oranges. The way the performance-based funding component is designed helps build a situation of trust between institutions and the ministry.

This is not implying that all institutions like the system, or its performance-driven elements. However, the institutions do see the benefit of an SMA, because it gives them a way to engage in a dialogue with the ministry about 'what they are good for', while it gives the education minister ammunition for the debate in Parliament about investments in higher education (including preventing cutbacks on the higher education budget).

To make the SMAs more acceptable for the institutions, buffers were put in place for the SMA₃ round in terms of tolerance bands and metric weights, while some of the indicators were phased in gradually, allowing for gaining experience.

The annual evaluation of an institution's progress in achieving its targets is considered as a smooth process. The reporting to the ministry and the collection of data is a quite streamlined process. The administrative burden is not unnecessarily high – one of our respondents used the phrase "it's only one phone call". Data sources for the metrics are derived from quality sources and validated by institutions. The essential information about the SMAs is included in a technical

manual and there is a template that for institutions to use.

What is interesting to note is that Ontario over time has pushed institutions to pay more attention to the students' learning outcomes, labour market relevance. The reason for this is that in Ontario the main problems of higher education are not so much the completion rates of students or students' time to degree. In Europe and the US performance agreements have tended to focus in particular on students' graduation rates and reducing drop-out. In contrast, our informants from Ontario mentioned that the quality assurance system in higher education in their province is not as well-developed as in countries like the Netherlands or Denmark. This may have contributed to the emphasis placed on student learning – graduates' skills and competences – in the SMAs.

The interviewees also made clear that the choice of goals and metrics is also partly related to the political colour of the government. This may help explain the increased focus on indicators of students' skills or economic relevance of universities and colleges. The fact that a conservative government is in charge also contributed to the push for linking SMAs to the performance envelope in the funding model.

Finally, as concerns the future of the SMAs, the Ministry of Colleges and Universities recently stated that, given the current pandemic, it would be delaying SMA plans for two more years. This was done to provide financial stability and predictability to Ontario's publicly funded colleges and universities. However, the government stressed that it remains committed to moving ahead with performance-based funding.

4 The Netherlands: Performance Agreements

4.1 Introduction

In 2012, the first policy experiment with a system of bilateral performance agreements started in Dutch higher education. In this chapter we will present the run-up to and the characteristics of these agreements. After a short description of the Dutch higher education system, we will describe the aims, processes and procedures of these agreements. Next, we will present the experiences and follow-up of the agreements. Finally, we describe the current version of the agreements – known as quality agreements.

4.2 The higher education system

The Netherlands has a binary system of higher education. The system consists of 18 research universities (including one Open University) and 36 universities of applied sciences (UAS). The UAS have more of a regional function and focus in particular on their education mission, although in recent years they also have started to strengthen their practice-based research, partly thanks to dedicated public funds for research and research-oriented staff positions. Compared to the UAS, the programmes of the research universities not only differ in focus, but also in access requirements, length and degree nomenclature.

As far as the public funding of the university and UAS sector is concerned, the ministry of Education, Culture and Science makes use of a funding formula. Already since the early 1990s, this formula includes a significant performance orientation. In its current version, the institutions receive their annual core funds for education and research partly on the basis of the number of degrees (Bachelor, Master, PhD) and the number of students that are registered for less than the stipulated time to degree. About 20 per cent of the (separate) formula-based education allocation is based on degrees and – for the research universities – another 40 per cent of the (separate) research allocation is also based on degrees. Thus, on average, a quarter (for universities) to a third (for the UAS) of the public funding is based on performance.²⁴ The remaining parts of the allocations consist of fixed amounts per institution. When judging the Dutch performance agreements it is good to mention that the wider governance system therefore includes some performance-oriented elements.

4.3 The introduction of the performance agreements

In 2009, a government advisory commission, the *Veerman Committee*²⁵, was appointed by the

²⁴ See Jongbloed, B. & Vossensteyn, H. (2016), University funding and student funding: international comparisons. *Oxford Review of Economic Policy*, Volume 32, Number 4, pp. 576–595.

²⁵ Named after its chair. Officially the name of the committee is: Committee on the Future Sustainability of the Higher Education System.

minister of Education, Culture and Science. In its advice²⁶, the committee suggested higher education to (further) differentiate along three lines: 1) a differentiation in institutional types, 2) a differentiation between institutions of the same type, and 3) a differentiation in the range of programmes offered. Apart from this focus on institutional profiling, the Veerman report paid a great deal of attention to issues such as study success, student drop-out and completion rates.

The ministry embraced the committee's suggestions, as was evident from its white paper – its strategic agenda for higher education, “Quality in Diversity”, published in 2011. This was illustrated by the paper’s chapter titles: ‘study culture, study success and educational quality’, ‘a more profiled and differentiated educational offer’, ‘research: more profile, more impact, and ‘funding: rewarding quality and profile’. One of the measures the ministry took to implement its national agenda was the introduction of performance agreements. The strategic agenda stated that the ministry was to make collective and individual agreements with universities and universities of applied science about quality, profiling and valorisation. According to the minister, institutions should strive for ambitious but achievable agreements. A financial consequence was attached to the agreement. The institution’s progress and results were to be monitored on the basis of indicators that particularly addressed issues of educational quality and study success.

The performance agreements were a new steering instrument of the ministry. Until that time, Dutch higher education already had a long tradition of steering by means of a strategic dialogue between ministry and institutions. However, there had never been bilateral agreements – let alone agreements that had a link to funding. There had been multi-year agreements in the period leading up to the performance agreements, for instance to improve student performance, but these agreements had been between the ministry and the associations of research universities and UAS as a whole. While the ministry had attached funds to the latter agreements, the agreements were non-binding agreements – more like commitments focusing on efforts, rather than the delivery of performance.

While a formalized dialogue between the ministry and individual higher education institutions had been introduced in the late eighties of the last century, over time this dialogue became less frequent and more informal. Gradually the dialogue was replaced by meetings between the ministry and the rectors’ conferences (representing, respectively, the research universities and the UAS). In the year 2011, therefore, there was a situation where there was not a strategic dialogue between the ministry and an individual institution.²⁷

²⁶ Veerman Committee (2010), *Threefold Differentiation. For the sake of quality and diversity in higher education. Recommendations of the Committee on the Future Sustainability of the Dutch Higher Education System*. The Hague: Ministry of Education.

²⁷ See De Boer, H., R. Kolster & D. Westerheijden (2019), *Beleidsdoorlichting Hoger Onderwijs 2015-2018. Sturing en beleidsinstrumentanalyse. Report for the Netherlands Initiative for Education Research (NRO)*. See: <https://www.utwente.nl/en/bms/cheps/news/2019/12/483528/governance-and-policy-instrument-analysis-in-dutch-higher-education>

In its 2011 strategic agenda, the ministry indicated the overall goals of the performance agreements. These goals, as well as the indicators were agreed with the rectors' associations that represent the interests of the research universities and the universities of applied science (VSNU, respectively, VH). In December 2011, the ministry concluded a separate outline agreement with both organizations that would serve as the foundation for the performance agreements that were introduced in the summer of 2012. These outline agreements stated, among other things:

“Principles for relations between universities and government are trust, autonomy and accountability. Performance agreements between the State Secretary of Education, Culture and Science and the individual universities fit in with this governance philosophy. The universities agree to be responsible and accountable for their results. Agreements should primarily relate to goals and results. The way in which these goals and results are realized is the responsibility of the universities, which are accountable to the government and society for their choices and the results they have achieved”.

The outline agreements specified the definitions of indicators to be used by the institutions to state their ambitions with respect to improving student success and educational quality. However, institutions were allowed to use their own definitions and data sources if they had good reasons to do so. There were seven mandatory indicators, shown in the box below:

Mandatory indicators

1. student completion (Bachelor students only)
2. student drop-out rates in Year 1
3. share of Year 1 students switching to other programmes
4. the number of students in honours programmes (aimed at students selected on the basis of their talents and motivation), or another indicator that allows for the measurement of student participation in programmes that are deemed to be of excellent quality
5. teaching intensity (i.e. the number of student contact hours per week in the first year of degree programmes)
6. academic staff qualifications (e.g. the share of academic staff holding a University Teaching Qualification)
7. the share of overhead costs (i.e. indirect costs).

Apart from the seven indicators, institutions were allowed to add their own indicators to express their ambitions.

The time schedule for the introduction and preparation of the performance agreements was tight (about six months) and the minister had to make a short-cut to ensure a proper legal basis. Instead of a change in the law, she used the ‘experiment article’ in the Act on Higher Education and Scientific Research.²⁸ This allowed the minister to implement the performance agreements

²⁸ Article 1.7a of the Act allows the Minister to introduce a temporary measure (an *experiment*) to improve the quality, accessibility or efficiency of higher education (subject to conditions such as a maximum duration of 6 years and

as a 4-year policy experiment. The legal basis also ensured that a link could be made between the performance agreements and the funding that the higher education institutions (HEIs) were to receive from the ministry for the years ahead. This link had already been announced in the 2011 outline agreements.

For the HEIs, the start of the policy experiment was the preparation of a proposal for the performance agreement. The draft agreement stated the institution's wished-for educational and research profile and its targets with respect to the seven indicators. The HEIs had to submit their agreement before 1 April 2012. In the period April-June 2012, the institutions then had to discuss their proposals with an independent Review Committee²⁹, installed by the minister to advise on the agreements and to monitor the progress made by each institution.

The final agreements between the ministry and the institutions were concluded on 1 July 2012. From 2013, the Review Committee reported annually on the progress that the collective institutions made with respect to the ambitions included in their performance agreements. To this end, the Review Committee published system performance reports. A total of four of these reports were published.

4.4 Performance agreements: aims and link to funding

The performance agreements aimed at the following goals:

- Improving the quality of education in higher education institutions (HEIs) in terms of, among other things, indicators of students' success and other indicators of quality;
- Enhancing programme differentiation within and between HEIs; encouraging HEIs to exhibit clearer education profiles and focused research areas. This should produce a higher level of diversity in the higher education system;
- Strengthening the focus of HEIs on their valorisation function (i.e. knowledge exchange, research commercialization, promoting entrepreneurship, regional engagement).

In terms of the link between the agreements and the HEIs' budget, it was decided that for the contract period 2013–2016 a share of 7% of the education component in the institutions' annual government grant was tied to performance agreements. The remainder of the core grant continued to be based on a funding formula.

For the year 2013, the total budget at stake represented € 123 million for the research universities and € 162 million for the universities of applied science (UAS). This budget then grew to € 144 million, respectively € 185 million for the research universities and the universities of applied sciences in the year 2016.

evaluation of the experiment at its conclusion). There are different views on the desirability of this article. On the one hand, it offers the opportunity to learn (at little cost) and can be introduced fairly quickly. On the other hand, it can lead to a lack of clarity and can be at odds with principles of legality and legitimacy ('a carte blanche for a policy maker').

²⁹ The Review Committee consisted of five independent higher education experts selected and appointed by the Ministry.

Of the seven percent education budget set aside for the performance agreements, five-sevenths was tied to the seven indicators shown above. This budget was known as the *conditional budget*: If institutions did not meet their targets at the end of the four-year period they stood to lose part of this for the next four years. The remaining two-sevenths of the money set aside for the performance agreements was allocated competitively in the form of a *selective budget*, awarded in proportion to the quality of an institution's performance agreement plans for programme differentiation and research concentration.

To judge the quality of the plans, the Review Committee assessed the draft performance agreements on the basis of scoring it on three criteria, that is: (1) the level of ambition, (2) alignment with national policy agendas, and (3) feasibility. The Review Committee assessed the proposals and awarded scores on each of the three criteria on a five-point scale, ranging from insufficient to excellent.³⁰ Only the institutions with a sufficiently ambitious and realistic plan received a conditional budget for the next four years. The actual size of the conditional budget depended only on it meeting this criterion – not on the actual scores. The amount available at the system level for the conditional budget was then divided pro rata among all institutions, based on their student numbers. The conditional budget was awarded for four years, but the condition attached to it was that if an institution did not achieve its targets related to the seven mandatory indicators it would lose part of the budget for the years after the performance agreement experiment had finished.

In the distribution of this selective budget, the quality of the proposal was taken into account. The institutions that submitted the best plans in 2012 received relatively more selective funding than the ones with a more mediocre proposal. The Review Committee in particular took into account the alignment criterion (i.e. the goals with respect to profiling, focus and valorisation).³¹

For the selective budget there was a mid-term review carried out in 2014 by the Review Committee to establish whether sufficient progress had been made by the institutions in terms of realizing their differentiation ambitions and their wish to concentrate research on areas of strength. It turned out that two years after the start of the experiment all institutions had made sufficient progress and they were granted the second instalment of their selective budget.

In 2016, the Review Committee made a final assessment as to whether the institutions had achieved their ambitions on the seven indicators shown in the above text box. Also the

³⁰ In 2012, 33 institutions (25 universities of applied sciences and 8 universities) were assessed as 'very good' in terms of their aggregate score. Three institutions were rated 'excellent'. The proposals from the other institutions (11 universities of applied sciences and 4 universities) were assessed as 'good'. One proposal (by the Open University) was found to be insufficient – it was re-assessed after one year and then passed the hurdle.

³¹ For the UAS sector, it was decided in the outline agreement of 2011 that at least half of the selective budget would be allocated to strengthening priorities in practice-oriented research. To this end, the UAS were invited to develop research centers, *Centers of Expertise*, that combined expertise from within and outside the universities of applied sciences. In the end, the competitively awarded selective funds helped create 17 Centers of Expertise that each received € 1 million per year.

achievements with respect to profiling and differentiation were evaluated. For this evaluation, the Review Committee made use of the reports provided by the institutions as part of their annual report. It invited each institution for a face-to-face meeting to discuss the achievements, the indicators and the story behind the numbers. If an institution had not met some of its targets but could either sufficiently explain the reasons for this, point to multiple efforts to achieve the goals and show promising progress, the Review Committee had the freedom to still express a positive judgement. The latter indeed was the case for a number of institutions – in particular in the UAS sector.

All in all, in 2016 the Review Committee concluded that six institutions – despite their efforts – had failed to achieve their ambitions, either fully or partly. All of them were in the UAS sector. The ministry accepted the assessments of the Review Committee but decided to implement only 50% of the financial penalty that was foreseen in terms of the discontinuation of the conditional funding.

4.5 Experiences and evaluation

Throughout the entire process, the Review Committee actively communicated with the higher education institutions and the other stakeholders. The committee held various consultations with the rector's conferences, the ministry, the accreditation organization, student organizations and the inspectorate of education. The most important events were the bilateral discussions organized with the institutions on three occasions: the start, half-way through the contract period (at mid-term), and at the conclusion of the contract period.

In 2012, the institutions were invited to explain their ambitions to the Review Committee. In 2014, their mid-term progress was discussed and, in 2016, an overview of the institutions' achievements was discussed as a prelude to the Review Committee's final assessment. During all these occasions, the Review Committee provided comments, suggestions and compared the institution's ambitions and performance to that of other institutions – insofar as these were comparable to the institution under review.

In these discussions, the institutions were given the opportunity to tell the story behind the numbers. All parties experienced this as a meaningful exercise.

By means of a website, the Review Committee informed all stakeholders about matters such as the evaluation framework, important dates, and definitions of indicators and how the final assessment was organized. In 2012, for example, an overview was drawn up of indicators (mandatory and additional indicators) for the three profile dimensions of education, research and valorisation. For the mid-term review, an overview of the international literature on factors influencing study success was shared. During the course of the experiment, various questions asked by the institutions were answered. Again, this contributed to building a climate of trust between the institutions and the Review Committee.

The performance agreements were discussed intensely during the 2012-2016 period. In the administrative circles – the institutions' executive board, the rectors' conferences, umbrella

organizations, ministry and in Parliament – there was a lot of talk about the agreements. Opinions differed widely about the process and the usefulness of a system of agreements. Among academics and students there was much less discussion.

An assessment of the performance agreements can be made in different ways. One might assess whether the strategic objectives of the performance agreements have been achieved: Did they contribute to a more differentiated higher education system? One might also look at whether the operational objectives were realized. For example: have the agreements led to a rise in the indicators related to student success (completion rates; reducing drop-out) and education quality? And, would some of the achievements also have been realized without the performance agreements? The latter refers to the causality question – a question that is extremely difficult to answer, as it would have to acknowledge the place of the performance agreements in the broader governance framework affecting performance in higher education. Furthermore, for an assessment one can also study the process and the instrument itself: how did the stakeholders experience their space to manoeuvre, deadlines and workload? We will focus on some of these questions, using three comprehensive evaluation reports published in 2017.

Overlooking the outcomes of the performance agreements experiment in the Netherlands, the evidence from the Review Committee's system performance reports³² shows that the research universities managed to increase quality and completion in education, while the universities of applied sciences experienced several problems in achieving the wished for completion rates. In terms of the diversity goal, results are inconclusive.

The performance agreements pushed institutions to become more transparent about their efforts and success in areas such as improving students' degree completion. Transparency also improved in other areas, due to the fact that the agreements in principle cover multiple dimensions of institutional performance, that is: education, research and the ways in which institutions relate to their stakeholders/communities and regional partners.

When it comes to the goal of programme differentiation and encouraging institutions to exhibit more distinct profiles in education and research, there is no clear sign of increased diversity. Most institutions show a tendency to spread their degree programmes more equally across disciplinary areas – and this was also the case for research.³³

This shows that the performance agreements have produced mixed results. However, in evaluations of the policy experiment published in 2017 by three different committees, the conclusions were much more positive. First, the Review Committee itself produced an

³² See: Review Committee (2017), *System Report 2016*. The Hague: Higher Education and Research Review Committee .

³³ Jongbloed, B., F. Kaiser, and D.F. Westerheijden (2019), Improving study success and diversity in Dutch higher education using performance agreements. *Tertiary Education and Management*, pp. 1-15. <https://doi.org/10.1007/s11233-019-09055-8> .

evaluation report.³⁴ Second, the association of universities of applied sciences produced its own evaluation.³⁵ Third, the minister ordered an (other) independent committee to evaluate the experiment and make recommendations for a future system of performance agreements.³⁶ The three committees agreed on many issues. On the positive side, they concluded that the performance agreements had contributed to the following outcomes:

- Putting the improvement of students' study success more prominently on the institutions' agendas;
- Intensification of the debate about the drivers of study success (both among universities and within the universities' departments);
- More attention for the profiling (differentiation, focus areas) of institutions;
- Improvement of the dialogue between stakeholders in higher education (i.e., the executive boards of universities, Ministry, department heads, rectors' conferences, Review Committee, representatives of business and community), including the possibility for the institutions to share their 'story behind the numbers' with the Review Committee;
- Increased transparency and accountability, thanks to the setting of targets and the use of indicators.

Less positive were higher education institutions and student associations about:

- the decline of institutional autonomy, due to the setting of national targets and the use of mandatory indicators;
- the additional bureaucracy and administrative costs, due to the emphasis on reporting and indicators;
- the financial penalty associated with the non-achievement of goals;
- the choice and definition of indicators, which in some cases contributed to unintended effects (e.g. an over-emphasis on quantitative outcomes instead of qualitative achievements);
- the lack of time available for a well-considered design of procedures and 'rules of the game' with respect to the policy experiment;
- the impression that the experiment was managed largely by stakeholders (executive boards, managers, ministry, national committees and organisations) that were quite distant from the 'shop floor level', with a small role only for students in this process.

In the evaluations of the performance agreements by the three evaluation commissions the

³⁴ Review Committee (2017), *Prestatieafspraken: Het Vervolgproces na 2016. Advies en Zelfevaluatie*. Den Haag: Review Commissie. Available from <https://zoek.officielebekendmakingen.nl/blg-802517.pdf>

³⁵ Slob, A., Jeene, B.G., Rouwhorst, Y.T.M., Theisens, H.C., & van Welie, E.A.A.M. (2017), *Kwaliteit door Dialoog. Eindrapport van de commissie prestatieafspraken hbo*. Den Haag: Vereniging Hogescholen.

³⁶ Evaluatiecommissie Prestatiebeprestiging Hoger Onderwijs (2017), *Van Afvinken naar Aanvonken*. Den Haag: Ministerie van OCW.

need was reaffirmed for incorporating a performance-oriented component in the funding mechanism for higher education institutions. The then minister of Education, Culture and Science expressed her intention to continue with some form of performance agreements, but was keen to stress that the agreements should ultimately be about the quality of higher education and that quantitative targets should not receive priority over qualitative ones.

There were different opinions on the topic of potential financial sanctions tied to agreements. On the one hand, the Review Committee in its evaluation concluded that attaching financial consequences to agreements fosters their effectiveness. It argued that both the international literature and the Dutch experiment have shown that agreements are taken more seriously by all the parties, and have greater impact, if financial consequences are attached.³⁷ Elsewhere there was a preference for rewarding institutions that fully delivered on the performance agreement, but not punishing them if they had not met their agreement. In particular, the financial penalty associated with the non-achievement of goals perceived as unfair by the UAS sector.

The rectors' associations showed little enthusiasm for performance agreements and stated that the institutions should always have autonomy to decide on their ambitions in dialogue with their internal and external stakeholders and be accountable to those same stakeholders. They indicated that as institutions they should primarily be accountable not to their hierarchical superiors (i.e. the ministry) but to their students, regional stakeholders and professional organisations (e.g. research foundations, industry).

4.6 Quality agreements

In 2017, the minister decided to end the performance agreements policy experiment and to replace it with a new policy instrument: *quality agreements*. This was done in response to some of the findings in the evaluations referred to above. The rectors' associations unequivocally indicated that they (that is, the research universities and the universities of applied science) did not want to continue with the performance agreements. For example, the universities' rectors conference indicated that "the development of new top-down performance agreements with which institutions are assessed on measurable indicators is extremely undesirable".

The UAS and the student organizations were also critical towards the agreements. Many UAS had been so from the outset. Moreover, during the final two years of the performance agreements experiment, there was quite some social unrest among students. Student fiercely expressed their dissatisfaction with the 'efficiency thinking' in their institutions and the audit culture in higher education. The belief that everything should be expressed in terms of outcomes, outputs and results, with little attention for the human dimension or the immaterial nature of education was heavily resisted. In this light, performance agreements were seen as a

³⁷ Review Committee (2017), *Prestatieafspraken: Het Vervolgproces na 2016. Advies en Zelfevaluatie*. The Hague: Review Committee.

highly suspicious and undesirable steering instrument. There clearly existed a negative social sentiment towards the agreements, and this affected the continuation – or rather the discontinuation – of the policy experiment.

The quality agreements that were replacing the performance agreements partly built on the experiences with the performance agreements. The quality agreements, however, had a different character, placing quality – and students - at the centre. The reason for this was that in 2015 the students support system was drastically reformed and student grants were abolished and replaced by student loans. The government’s promise at that time was that the public funds that were released as a result of this would be reinvested in education and would be channelled to the higher education institutions (i.e. no longer to the students). The financial resources (known as the study advance funds) were intended to improve the quality of education. Compared to the performance agreements, the quality agreements therefore only focus on education, and not on research, knowledge transfer and community engagement.

The start of the new agreements was in 2018, when the minister of education, culture and science signed sector agreements with the universities’ and the UAS umbrella organizations. In the agreements was specified how the ‘study advance funds’ would be used. The funds were to be invested in the quality of education and the quality agreements between the ministry and the institution were describing the institution’s plans and measures. The agreements cover the period 2019 to 2024. The sector agreements of 2018 specified the six themes on which the quality agreements would have to focus and the areas where the study advance funds should be spent:

- 1) More intensive and small-scale education (educational intensity).
- 2) Educational differentiation, including talent development within and outside the study.
- 3) Further professionalization of teachers (teacher quality).
- 4) Appropriate and good teaching facilities.
- 5) More and better guidance of students.
- 6) Study success, including throughput, accessibility and equal opportunities.

The institutions were asked to submit concrete plans on one or more of these themes. A condition was that the plans are developed with substantial involvement of students, teachers, and relevant external stakeholders such as companies, regional governments, other educational institutions, administrators and supervisors. This reflects the earlier concerns that performance agreements were primarily a matter for institutional management.

The plans and the realization of the plans are assessed by an independent body. In order not to create additional bureaucratic layers, the Dutch-Flemish Accreditation Organization (NVAO)³⁸ was assigned with this task. The accreditation agency will integrate the monitoring of the quality agreements in its regular assessment of the institution’s educational quality. This monitoring will be linked to the process of the (voluntary) institutional quality assurance test.

³⁸ See: <https://www.nvao.net/en/procedures/the-netherlands/quality-agreements>

The accreditation agency provides advice to the minister. An institution only qualifies for 'study advance funding' if its quality plan has been approved by the minister. The institutions' plans are assessed on the basis of the following criteria:

- The plan makes a reasoned contribution to improving the quality of education.
- The internal stakeholders are sufficiently involved in drawing up the plan and the plan is sufficiently supported by internal and relevant external stakeholders.
- The institution's intentions are realistic in terms of the proposed use of instruments, resources, organizational processes within the institution.

A panel appointed by the accreditation organization assesses institutional plans. For this, it makes site visits to the institution. If the assessment is negative, the institution has one year to come up with a new plan. Ultimately, the minister is responsible for the allocation of study advance funds. At this moment (September 2020) 16 university plans have been approved and there is one negative decision (resubmission). For the universities of applied sciences 19 plans have been approved and 12 have been rejected (resubmission).

The institutions have to account for the progress of the quality agreements in their annual reports (content and process). Assessment of their progress is scheduled for the autumn of 2022 and is based on the realization up to and including the year 2021.

The accreditation organisation will conduct its mid-term assessment on the basis of the institutions' 2021 annual reports. The institutions are obliged to also submit a reflection report written by their internal participatory governance council. This reflection report will address the realisation of the plans, the involvement of stakeholders and the facilitation that these have received.

The third phase is the evaluation of the realisation of the plans from the year 2023 onwards. A panel will visit the institutions and review existing documents (annual reports, reflection by the participation council). The evaluation will take place six years after the assessment of the plans (2025). The evaluation of the plans may be incorporated into an institutional accreditation audit. In such cases, the assessment can take place between 2023 and 2026, depending on the timeframe for the institutional audits.

After all three assessment stages, and following a decision by the minister, the accreditation organization will publish the panel recommendations and advisory reports on its website. In 2020 and 2022, it will also draw up a national report on the state of affairs.

It was agreed there will be mild financial consequences attached to the quality agreements and less steering by the government in the process. Indicators will play a role, but their role is determined by the higher education institution itself. The budget attached to a quality agreement is the institution's share in the student advance grants - with the share dependent on the relative size of the institution's student enrolment. Quality agreement funds will be added to the institution's public grant – its block grant.

The link with funding is, firstly, relevant at the moment the plans are assessed by the

accreditation agency. If the quality plan is deemed to be of insufficient quality the ministry can temporarily withhold money and request a resubmission of the plan within a year. If the plan still does not meet the criteria, the institution will not receive quality agreement funds for the period 2021-2024.

If progress (mid-term – in 2022) is insufficient, again there will be a negotiation and the institution is invited to prove (within a year) that it did make sufficient progress. If at that point the re-assessment confirms there still is no indication of progress, money is withheld from the institution. In that case, this money is awarded to the teaching staff of the institution in the form of scholarships to help staff improve the overall quality of teaching.

There are no harsh financial consequences attached to the final evaluation of the quality agreements that are due to take place after the year 2024. The institutions are expected to use the results of the mid-term evaluation for their own strategy development and, when a new cabinet again opts for quality agreements, for drafting their future strategy.

What is clear from this description is that the quality agreements have no ingredients that remind of a New Public Management rationale. There is less emphasis on quantitative indicators, rewards or sanctions. Education quality and student guidance are key. The fact that ambitions are to be agreed in close dialogue with the relevant (local) stakeholders implies that the agreements have developed into a steering instrument that fits in a trust-based governance paradigm. The role of students (unions) is strengthened compared to the performance agreements.

The financial consequences attached to the agreements are very mild and are not expected to lead to a withdrawal of funds for the institution. All of this was negotiated between the ministry, the institutions, and student representatives. In particular, the institutions and the students felt that the performance agreements paid too much attention to indicators and left too little room for institutions to plead their unique situation. All of this illustrates that the higher education institutions have managed to protect their autonomy and that the students have succeeded in claiming a seat at the table.

5 The three systems: comparison, observations and lessons

5.1 Comparing the three systems

This chapter presents the similarities and differences found across the performance agreement systems in the three higher education systems. The comparison is made on the basis of the characteristics and design parameters that we identified in the first chapter of this report. The results are summarized in table 4 below.

A first observation is that the number of similarities between the performance agreements in the three countries is rather limited. The duration of the agreements in each country is 3 to 5 years, agreements are concluded with all higher education institutions and all institutions are legally obliged to enter into such an agreement. Moreover, although the rationale for performance agreements varies from country to country (see below), in all three countries performance agreements are linked to differentiation and profiling. Bilateral agreements, institutional profiling and consequently system differentiation seem to go along well, at least on paper.

The table further illustrates that there are quite a few differences across the three systems. Obviously, this relates to the different rationales for introducing performance agreements (see first line in the table) – an issue already discussed in the beginning of this report. For Denmark the rationale lies foremost in strengthening the dialogue, for Ontario it is about improving accountability and outcome orientation, and for the Netherlands it is improving education quality and differentiation.

The answer to the question of what the policymakers actually wish to achieve with the performance agreements will depend on the challenges for their higher education system – the key problems to be addressed and the goals to be achieved. In the Netherlands, the goals very much relate to student completion rates and education quality. In Denmark and Ontario, there is quite some attention for institutional differentiation – with Ontario stressing the contribution of higher education to the economy (including the labour market). It is however good to bear in mind the ‘policy mix’. For Denmark, for example, we could mention that the overall funding system is already focusing on student completions, thus there is less of a need to further stress student performance in the agreements. Institutions in Ontario are to a large extent funded through tuition fees, making them in many ways determined to deliver students value for money. The design of the performance agreements therefore will depend on the place it occupies within the broader governance and funding system (referred to in our first chapter as the policy mix).

The key problems to be tackled will co-determine the design of the performance agreement: how many goals it is trying to achieve, the emphasis placed on each goal, and the choice of indicators to be included in the agreement. Here, countries will differ, and each will choose its own design and rules of the game. Although experiences are regularly shared between

Table 4: Comparison of the performance agreements in the three countries

	Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements
Rationale	Strengthen the strategic dialogue between ministry and institution	Strengthen institutional profiling; improve student success and teaching quality; Alignment of institutional goals with national higher education agenda	Increasing trust and accountability through transparency and improved performance outcomes
Duration of agreement	4 years	4 years	3 years (SMA2) 5 years (SMA3, to be implemented in 2022)
Institutions included	All HEIs	All HEIs	All HEIs
Legal status	Mandatory	Mandatory	Mandatory
Number of goals	Goals are limited in number and differ per institution	Three broad goals: (1) improve education quality & student success; (2) institutional profiling & programme differentiation; (3) strengthening valorisation (i.e. knowledge transfer & societal engagement)	Five broad goals/priorities for SMA2. Goals for SMA3: (1) incentivizing positive economic outcomes; (2) alignment with labour market outcomes; (3) incentivizing differentiation and specialization
Goal setting / process of concluding the agreement	Ambitions set jointly by ministry and institutions. Contracts contain institution's own goals. Renegotiation of goals and indicators possible (in case of unforeseen circumstances) and when both parties agree). Negotiations conducted by the chair of the	On basis of sector-wide agreement about goals and related indicators, the institutions set their own ambitions and goals (including quantitative ambitions). An independent Review Committee discusses ambitions with the executive board of the institutions and advises the ministry about the consequences for the institution's performance funding.	Institution representatives negotiate with ministry on basis of agreed plans and framework (including indicators/metrics) for higher education. SMA2: institutions set their goals for year 3, using system-wide and institution-specific metrics SMA3: Institutions set their (annual) goals for each of the ten metrics. Targets are based on an institution's historical data & established criteria and presented along with a narrative.

	Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements
	institution's board and the ministry's director-general.		
Document size	Concise document with uniform lay out	Up to 50 pages, no template	About 20 pages, based on template (including tables and narratives)
Type of indicators	Indicators determined in negotiations. Goals and indicators are of general and broad nature (consciously not 'smart').	Seven mandatory indicators focusing on education (student success; quality). Institutions can choose to incorporate additional (non-mandatory) indicators to express further ambitions.	SMA2: Several (about 20) system-wide metrics and choice of institution-specific metrics. SMA3: 10 mandatory performance metrics (9 system-wide and one institution-specific), plus two reporting metrics.
Monitoring of progress on agreements	Yearly dialogue, based on the institution's annual status review. Also reporting in annual report. Bilateral meetings (stocktaking/progress) can lead to adaptation (revised action plans). Data are provided by the institution on the basis of jointly agreed data sources.	Each institution reports on progress in its customary annual report. This acts as input for the Review Committee's System Performance Reports that were published annually. Data are reported by the institution itself but are checked for accuracy by accountant. There is a mid-term evaluation meeting between the Review Committee and each institution to discuss the institution's progress.	SMA2: The institution's SMA Annual Report includes the system-wide metrics and institution-specific metrics. Reportbacks are followed up by the ministry ('one phone call' monitoring). SMA3: Performance on each metric monitored and evaluated annually on basis of streamlined reporting process based on annual reports. Some metrics to be activated gradually over 5 year period, allowing for their further refinement. Data for the metrics are predominantly from existing data collections.

	Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements
Final evaluation of agreements	<p>Goal achievement assessed upon expiry of the contract, followed by ministerial overall assessment.</p> <p>Overall ministerial assessment is done in broad terms – is more about strategic direction than about ‘nitty gritty’ target achievement.</p>	<p>Review Committee advises the Minister about each institution’s goal achievement. The minister then takes final decisions about performance budget.</p> <p>After contract period: Review Committee published its final system performance report and its advice on the future of the performance agreements.</p>	<p>SMA3 to be evaluated each year on metric-by-metric basis. This will have funding consequences.</p> <p>Evaluation takes place against the targets set by the institutions themselves (no inter-institution comparisons).</p>
Link to budget	<p>Funding attached: 1,25% of basic educational grant as potential penalty for underperformance.</p>	<p>7% of the basic operational education grant for the period 2013-2016 is tied to goal achievement. This consists of two parts:</p> <p>5% is tied to the seven mandatory indicators;</p> <p>2% is tied to the institution’s plans for profiling and differentiation.</p> <p>Based on the advice of the Review Committee, the minister decides on consequences for funding.</p>	<p>SMA2: The SMA acts as an accountability requirement with no explicit link to an institution’s budget</p> <p>SMA3: Explicit link between each metric and an institution’s budget. Metric weightings will impact the share of an institution’s notional funding that can be received for successful performance related to a particular metric. Metric weightings are set by the institution. Performance is evaluated using a pass/fail approach, with bands of tolerance and scaling for under-achievement.</p> <p>At end of SMA3, 60% of the institutions’ total operating grant funding will be tied to performance.</p>

	Denmark: Strategic Framework Contracts	The Netherlands: Performance Agreements	Ontario: Strategic Mandate Agreements
Consequences for non-compliance	<p>Potential financial penalty seen as symbolic, given its moderate size.</p> <p>In case of underperformance, the <i>naming and shaming</i> of the institution in question is seen as more effective than the financial consequence.</p>	<p>A reduction in the institution's future budget (i.e. after the contract period) to be potentially applied (by Minister) in case of underperformance. Final financial consequence depends on outcomes for the mandatory performance indicators and the advice of the Review Committee.</p>	<p>Performance assessed on a metric-by-metric basis. An institution will receive 100% of the funding for a metric by meeting or exceeding its target. If target is not met, partial funding, commensurate with actual performance, will be received</p>

countries, for example during international peer learning activities³⁹, important differences remain. Traditions and the political climate also affect the way in which some of the design dilemmas identified in the first chapter of this report are addressed. In this respect, the Netherlands and Denmark traditionally are characterized by their culture of negotiation and dialogue.

When it comes to the influence of the political climate, we should mention that priorities and governance rationales may be subject to change. Political sentiments towards initiatives that resemble steering by numbers or placing particular issues on the agenda may change – sometimes at the instigation of a new coalition. We have seen an example of this in Ontario, where issues of the relevance of higher education and its economic impact have become more prominent on the (conservative) government’s agenda for the system. How to translate these into the agreements and how to choose the proper goals and indicators for this clearly is not an easy task – and the Ontario experience shows that it takes a few iterations to ‘get the indicators (metrics) right’. Clearly the SMA exercises in that respect have also been part of a learning process, requiring an open dialogue between ministry and institutions.

The focus on dialogue has helped to create a sense of ownership of the contracts in the case of Denmark. The room given to the institutions in setting their own goals and targets also is believed to contribute to achieving the government’s goals around institutional profiling and programme differentiation. The mandate agreements in Ontario also are intended to stimulate the institutions to profile themselves, given their strengths and specific opportunities. For the Netherlands, profiling was one of the important starting points for the introduction of the performance agreements. In addition, alignment was sought with the Dutch government’s education and research agendas. For too long, insufficient progress was made on policy issues such as study success and completion rates and the Dutch minister of education felt it was time to encourage the institutions more strongly by linking performance agreements to funding.

The question of what constitutes performance needs to be delivered differs across the three higher education systems. In all countries we observe a tendency to reduce the number of targets. In Denmark and Ontario, for example, there has been a growing understanding that the number of targets and associated indicators should not be too high. In its current system of quality agreements, the Netherlands decided to focus on education alone and not to incorporate research or valorisation in the agreements.

The way in which targets are set also differs considerably. In Denmark, the government and institutions jointly set targets and targets may differ from one institution to another. The starting point is the strategic plan of the institution. In the Netherlands, the umbrella organizations (i.e. the rectors’ organizations) played an important role in the kick-off to the agreements by first defining the priorities for the performance agreement in close consultation with the government. This led to a set of seven mandatory indicators that were to be used by the institutions in specifying their targets related to education quality and student success. In Ontario, too,

³⁹ ET2020 Working Group on Higher Education (2018), *The power of funding in steering performance of higher education institutions*, Peer Learning Activity (PLA), Zagreb, 7-8.11.2018

agreements were made on the indicators (metrics) to be included in the SMAs. As in the Netherlands, targets are then set in a negotiation process.

The difference between the Netherlands and Ontario lies in the fact that the target setting by the Ontario institutions is done against the backdrop of an institution's past performance, whereas in the Netherlands, the Review Committee from time to time compared the institution's performance to that of other (similar) institutions. In the view of the institutions, the latter contributed to the New Public Management appearance of the Dutch performance agreements system.

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

In all three countries, target achievement is directly linked to funding but the degree to which this is the case differs, along with the method of implementation. In Ontario, the plan is to increase the amount of funding that is at stake in the third round of the strategic mandate agreements (to be implemented in about two years' time). In Denmark, the amount of performance agreement-related funding is relatively small and it is foremost perceived as a symbolic link. If an institution does not manage to meet its targets, the negative publicity and newspaper articles this will generate are supposed to act as a mechanism to ensure that the institution delivers as agreed. In the case of the performance agreements in the Netherlands, there is relatively more money at stake, ensuring that institutions will take the agreements seriously and implement activities to achieve their targets.

Although so far there was no explicit link between the SMAs and funding in Ontario, the implementation of the third round of these agreements (SMA₃) will connect a sizeable part of an institution's funding directly to its goal achievement on each of the ten metrics. At the end of the SMA₃ period, the relative share of public funding connected to performance will have grown to 60% of the institutions' operational budget received from the provincial government. While at first sight this percentage appears to be exceptionally high, there are quite a few stabilizers built into the system, preventing an institution against budget shocks. For instance, an institution can compensate underperformance on some of its metrics with good performance on the other metrics and it can assign its own metric weightings to the ten performance metrics.

5.2 Observations and lessons

In this final section we will present some reflections on the three systems and try to deduce some

lessons for countries that consider introducing or revising performance agreements. We are doing this by giving the three most interesting lessons we think we can derive from our descriptions and assessments of each of the systems. Table 5 shows the three lessons per country.

Goals: be careful what you wish for

Be selective in terms of the number of goals to be addressed by the performance agreements. Do not place financial rewards on the achievement of goals that are already incentivized by other policy instruments, such as research grants or targeted subsidies. Allow institutions room to propose their own goals (sense of ownership) and to prioritize them, as this acknowledges their individual strengths and encourages differentiation in the higher education system.

Indicators: be selective in what you measure

The choice of indicators is a common theme across the systems and has been discussed frequently. Issues for discussion relate to the number and the character of the indicators. There is overall agreement that it helps to have reliable evidence on the multiple dimensions of an institution's performance, but whether all that evidence is reported in terms of quantitative indicators is dependent – once again – on the overall governance framework. The performance agreements and the reports delivered to monitor progress should allow sufficient room for the institutions to express their activities in quantitative terms – in narratives – also to contextualize indicator performance.

Dialogue: to build trust and agreement on the rules of the game

It takes time not just to get the indicators right, but also to agree on how institutional goals and indicators are to be connected to funding. It may take one or two iterations of the performance agreements before a fair and legitimate system is agreed upon. Too much haste in introducing a new instrument such as performance agreements can easily undermine trust in the process and its outcomes. When the priorities for the higher education system change (for instance, a requirement to strengthen quality, learning outcomes, or experiential learning, or a bigger emphasis on the socio-economic impact of universities), consultations and dialogue between institutions and ministry will be needed to agree on how the performance agreements, the indicators and their weights will have to change. Unilateral government intervention will lead to frustration and resistance.

Template for agreements & reports: to streamline proceedings and reduce administrative burden

To communicate to institutions their obligations in terms of contents of the agreements, the indicator definitions, data sources, the length of the narrative sections in agreements and progress reports, a template is an extremely useful feature. It provides clarity and reduces transaction costs. Care will have to be taken to avoid duplicating other accountability arrangements and increasing the administrative burden for the institutions.

Evaluation: avoid zero sum games

From the Dutch and Canadian experiences it became apparent that institutions would like to emphasize their individual strengths and position in the system. This implies that care must be

taken to judge the performance of an institution by comparing it against institutions that work in a different environment or that have a different mission. The performance evaluation preferably should acknowledge these differences. This might be done by comparing an institution against the targets that it set themselves and that build on its historical performance record. Institutions regard it as fair if they are rewarded for increased performance and find it unfair if they were to receive a financial penalty if relative to others that improvement is smaller.

Finally

Performance agreements have the potential to be a policy tool that contributes to a more interactive trust-based type of coordination in the higher education system that increases transparency and performance at system and institutional levels. However, very much depends on how they are designed, what freedom they leave to the higher education institutions, and how they are integrated within the overall policy context.

In the design of performance agreements, a balance has to be found between nationally imposed performance objectives and locally defined ambitions, in order to diminish any tendencies towards uniformity that performance-based systems have, while at the same time preventing the agreements from reverting to new public management tools that leave little room for institutional autonomy.⁴⁰

⁴⁰ See: Review Committee (2017), *Prestatieafspraken: Het Vervolgproces na 2016. Advies en Zelfevaluatie*. The Hague: Review Committee. And also see: Review Committee (2017), *System Report 2016*. The Hague: Higher Education and Research Review Committee .

Table 5: Three lessons per country

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

