

Managing public performance through budgetary incentives: appropriate regardless the consequences?

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Abstract

The current budgetary crises can be seen as a test case for New Public Management (NPM) reforms that have been adopted worldwide during the last two decades. One of these tools, performance based budgeting (PBB), is the subject of this paper. Although the roots of Performance Based Budgeting can be traced back as far as the early 20th century, PBB gained worldwide popularity in the 1990s and early 2000s as part of the NPM agenda. NPM introduced a set of recipes that were meant to transform the public sector towards more result orientation and efficiency. It is not clear yet what the post NPM era will look like exactly, but it looks like NPM's heyday is well behind us. In the meantime, many traces of these reforms still dominate today's public sector landscape.

It can easily be argued that PBB has become and remained so popular more because of the promises that it holds than the results that can empirically be attributed to its introduction. Regarding PBB, Allen Schick once noted that: governments that don't manage for results will not budget for results [Schick 2003]. Expanding on Schick's observation, the very type of result orientation that PBB was intended to achieve may turn out to be its main unarticulated premise. In other words, did PBB indeed modify public organizations and their steering relationships? Or did it merely codify existing behavior in those cases that report success?

This paper presents a theoretical framework and method to assess this question. Lending from neo-institutional, more precisely principal-agent theory, alternative explanations for the use of performance information will be tested in international cases that share successful PBB implementation. The incentives PBB creates strongly rely on the logic of consequence. The alternative explanations sought follow the logic of appropriateness by focusing on the concepts such as of path dependency, cultural appropriateness and cognitive frames.

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Introduction

It was Winston Churchill who allegedly said that success is the ability to go from failure to failure without losing enthusiasm. Measured by this standard the performance budgeting movement should be credited with quite a successful history. Attempts of governments worldwide to structurally integrate their budgets with performance planning and reporting, was expected to lead to more efficient allocation of public spending and provide tools to cut wasteful ineffective spending. However, so far, there has not been much evidence supporting major reallocation of spending as a result of performance based budgeting (PBB) reforms. At the same time occasional success stories have kept the promise of more objective, performance informed decisions by public sector managers and politicians on government's agendas worldwide for at least the last two decades.

The current economic downturn and the austere fiscal outlook it brings for governments around the world can be viewed as a test for NPM reforms in general and PBB in particular. What has been the usefulness of PBB reforms in bringing about what they were originally intended for: making government more efficient and cut wasteful spending? Can PBB fulfill a future role in building sound public finances or will it turn out to have been a temporary distraction, rendered unfashionable due to the new harsh financial outlook? This study looks more deeply into the effects of this particular NPM tool.

1. What is PBB?

Although the roots of Performance Based Budgeting can be traced back as far as the early 20th century, PBB gained worldwide popularity in the 1990s and early 2000s as part of the New Public Management agenda. NPM introduced a set of recipes that were meant to transform the public sector towards more result orientation and efficiencyⁱ. Several forms of PBB have been defined by different authorsⁱⁱ but key elements of PBB reforms include budgeting on the basis of output and outcome targets and financing executive agencies on the basis of output targets. Using a PBB system is commonly associated with the following activities:

- setting measurable objectives and performance indicators for government programs
- presenting expected results alongside spending levels in budget documents
- measurement and reporting of results during or afterwards program execution
- evaluation of results and use of this information for strategic planning and budgeting

It is not clear yet what the post NPM era will look like exactly, but it looks like NPM's heyday is well behind us. In the meantime, many traces of these reforms still dominate today's public sector landscape. One of them, performance based budgeting (PBB) is the subject of this paper.

2. Results of PBB

Although the attempts to link government spending to public sector performance seem to have increased transparency of budget documents to a certain extent (Curristine 2005 in Redburn 2008: 216/17, GAO 2004: 11, Van Nispen & Posseth 2006: 57), there is disappointment as well. Experience in the federal US, the Netherlands and other OECD countries demonstrate that the effects of PBB on budgetary allocation by parliaments have been nearly absent (Frisco and Stalebrink 2008, Wanna et. Al. 2010, Curristine 2007 respectively).

Less visible and harder to substantiate are claims that PBB enabled better control of government agencies and installed result oriented behavioral incentives within government agencies. On the effects of performance based monitoring of government agencies, the evidence is mostly anecdotal and inconclusive. This study focuses on this particular on the use of PBB within government agencies and in the steering relation with their principal (s). Although one can have serious doubts about the attempts to 'rationalize' budgetary decision making using PBB, some claim that performance management reforms can change managerial behavior and performance information does get used, be it at a different place and time. According to several authors, benefits of PBB reforms mostly occur at the agency levels and in the budget preparation and budget execution phase and not in the budget approval and evaluation phases (Joyce 2003, Moynihan 2008, Posner 2009).

With regard to using PBB for agency management, the assumption that the NPM-ideal type agency modelⁱⁱⁱⁱ enhances the performance of public sector organizations is largely untested (Verhoest and Laegreid in Verhoest et al 2011). However there is evidence that increased autonomy and result control can lead to more innovative behavior or an increased use of result oriented management tools within agencies. Both can be considered as preconditions for better performance. (Verhoest et al 2010 in Verhoest et al 2011).

It can be concluded that the budgetary impact of PBB is not to be expected from political decision making on the level of allocative efficiency between government programs. Instead, PBB's budgetary impact lies mainly in its ability to improve technical efficiency within government programs. Or put differently:

Regarding PBB's effects on a more effective allocation of resources in the public sector, the most credible remaining claims for PBB success lie in its possible indirect, less visible effects, most notably in agency management.

3. Research question

When talking about the conditions for success of performance budgeting, Allen Schick noted in (Schick 2003):

How much influence performance budgeting has depends on who else is at the table-that is, the orientation of the politicians and managers who make budget....Performance budgeting can thrive only when it is embedded in managerial arrangements that make results paramount. This writer is not aware of a single sustained implementation of performance budgeting that was not accompanied and reinforced by transformations in public management that enhanced performance. Governments that do not manage for results do not budget for results, even if they install the outward trappings in performance budgeting.....

Rather than being the locomotive that drives government to change, performance budgeting is the caboose that confirms the transformations that have been made. To achieve true reform, it may be better to follow the parade than to lead it.

Expanding on Schick's observation that governments that don't manage for results will not budget for results, the very type of result orientation that PBB was intended to achieve may turn out to be its main unarticulated premise. In other words, did PBB indeed modify public organizations and their steering relationships? So, in the cases where PBB success is reported, did these tools indeed modify behavior or did they merely codify existing behavior? In other words: does successful PBB implementation **create** favorable circumstances for result orientation? Or can successful PBB implementation **only result from** favorable circumstances for result orientation? Applied to the steering relationship between a government principal and a Public Sector Bureau (PSB) acting as agent, the central question to this research is therefore:

Can cases of successful PBB implementation in a PSB-Principal relationship generally be explained by favourable conditions for result orientation that are independent from the adoption of the PBB system?

This paper presents a theoretical framework and method to assess this question. Lending from neo-institutional, more precisely principal-agent theory, alternative explanations for the use of performance information will be tested in international cases that share a record of successful PBB implementation.

As NPM in general and PBB in particular have been presented as solutions to challenges characteristic to public sector organizations (lack of incentives to perform, no competition, bilateral monopolies) it is all but impossible to separate the effects of these reforms from their institutional context. In fact it can be argued that PBB is deeply rooted in the neo-institutional tradition.

4. (Neo) Institutional theory

Because the institutional context is a likely factor that could explain why PBB does or does not result in the intended effects highlighted here, I will turn to institutionalism and some of its schools of thought. Attention to the influence of institutions on political and social outcomes is known as institutionalism and can be viewed as a wider trend of applying social theory to economic rationalist assumptions.

Institutionalism can be traced back to the 18th and 19th century as some of its key notions were already discussed by classical philosophers in those days. For example, Rousseau stressed the difference between the public interest and the aggregation of individual interests and De Tocqueville saw in local political institutions an antidote for despotism (Immergut, 1998).

Expanding the definition of an institution beyond the formal arrangement or organization, an institution can be viewed as a relatively stable collection of practices and rules defining appropriate behavior for specific groups of actors in specific situations. That way, institutions socialize individuals by legitimizing behavior associated with roles to be enacted or sanctioning behavior that differs from what is considered appropriate. Practices and rules are also embedded in resources and the principles of their allocation (March&Olsen 1998). A more simple definition of institutions was given by William Riker: rules about behavior, especially about making decisions (Riker 1982:4 in Ostrom 1986). Institutionalization refers to the emergence of institutions and individual behaviors with them (Olsen 1997). An institutional approach is one that emphasizes the role of institutions and institutionalization in the understanding of human actions within an organization, social order or society (March&Olsen 1998).

At the heart of the institutional debate is a central notion on the drivers of human behavior: Are actions driven by expectations of consequences, also referred to as the 'logic of consequence' or are actions driven by rules that come with a particular role or identity, also referred to as 'logic of appropriateness' ? The answer to this question affects one's view on how political life is organized to a considerable extent.

From a '*logic of consequence*' point of view, organization of political life is a result of actions by rational self-maximizing actors with conflicting interests and varying resources that negotiate a set of contracts. These actions are consequence based and are of an instrumental nature. Although theories of bounded rationality have modified this perspective somewhat, the central notion that behavior is primarily driven by expected consequences that will maximize one's benefits is left untouched (March&Olsen 1998).

From a *'logic of appropriateness'* point of view, political life is a result of rules that are socially constructed, publicly known, anticipated and accepted. These actions are rule based and reflect a perceived identity of the actor. The central notion here is that people are role players and rule followers that will act out of duty or social pressure (March&Olsen 1998). Behavior is therefore primarily driven by what people feel is appropriate behavior.

Neo institutionalism is commonly viewed as a response to the political behavior movement in the 1950s and 1960s. The critique of neo institutionalism on behavioralism centers around three main points (Immergut 1998).

- Behavior does not reveal preferences
- Preferences cannot be added up to become political preferences
- Institutions are biased and collective decisions are normative

Three branches of neo-institutionalism are generally recognized. They all developed their own reaction to behavioralism by blending institutional approaches with existing political theories. These three schools are: Historical Institutionalism, Sociological (or Organizational Theory) institutionalism and Rational Choice institutionalism. The first two are shared jointly under Historical Institutionalism by some (Bell 2002). Historical institutionalism is the broadest variant of the three incorporating both a calculus and a cultural approach and is sometimes referred to as eclectic (Immergut 1998). According to the calculus approach, institutions are shaped according to a sort of 'Nash equilibrium' maximizing each individual's benefit from strategic calculation. According to the cultural approach, people behave strategically albeit bounded by their worldview, which includes moral and cognitive templates provided by institutions. Institutions are therefore resistant to reform because they reflect the very choices about reform that the individual is likely to make. (Hall & Taylor 1996).

Looking at some similarities and differences between these three branches of neo institutionalism, it can be said that both rational choice and sociological approaches suggest that people are purposive, goal oriented and rational. Sociological institutionalism stresses that rational action itself is socially constructed. Rational Choice institutionalism explains the existence of institutions by the assumption that they provide efficiency (a logic of consequence) while sociological institutionalism claims institutions are there because they provide legitimacy (a logic of appropriateness). The central notion from both historical and sociological institutionalism is that new institutions arise amidst existing ones. Sociological institutionalism claims that new institutions borrow templates from existing ones while historical institutionalism stresses that a new institution is faced with set of existing power relations and path dependencies.

The rationale of NPM and PBB is primarily based on the assumption that behavior of people and organizations follows logic of consequence .

If result oriented behavior displayed by public agencies in PBB success stories, can found to be clearly in alignment with a perceived logic of appropriateness, this would cast additional doubts over PBB's contributions

5. PBB in the institutionalist tradition

When placing NPM and PBB in the institutionalist lineage it should be acknowledged that the Theory of Performance Based Budgeting is deeply rooted in the logic of consequence and thus fits the assumptions of Rational Choice Institutionalism. By integrating planned activities and expected outcomes and budgets, the existence of a predictable causality in policy theories is explicitly assumed. The expectation that this information will be used in the oversight of government by parliament and the management of government agencies assumes that politicians and managers are to a great extent driven by the expected consequences of policy choices. Furthermore, the need to produce and report performance information as a necessary precondition for managing government institutions and their relationships is an essential part of theory building on the part of Rational Choice theorists. A well known application of Rational Choice theory in economics has been in Agency Theory.

If both principal and agent try to maximize their utility, the agent is expected not to fully serve the principal's interests as it will have competing preferences. According to Agency Theory, the agent is the expert in performing the tasks that the principal orders it to do. The principal operates at a certain distance from the vital processes and relations, necessary for performing these tasks. As a result the agent has an information advantage that it may use to maximize its own utility at the expense of that of the principal. This so called information asymmetry is the central problem in Agency Theory (Ter Bogt 1997). According to Agency theory the interests of the principal compete with and are being sacrificed for conflicting interests of the agent. This results in efficiency losses due to rent-seeking behavior by the agent such as adverse selection^{iv} and moral hazard^v.

In order to align the agent's interests with his own, the principal can use incentives and monitoring. This is exactly what PBB intends to achieve in the principal-PSB relationship. Implementation of performance based contracts in the public sector was usually introduced as an element of broader performance budgeting (PBB) and matched the adoption of performance standards for public services. By suggesting these kinds of solutions, applied rational choice

institutionalism has had significant impact on the major reforms in public sector management in recent years (Bell 2002).

By translating political agenda's into performance based policy plans and contracts with agencies, PBB has become a tool to align the interests of political principals with those of public sector bureaus. An extensive performance monitoring structure was been put in place to bridge the information gap of principals. Sometimes direct financial incentives are being tied to meeting performance targets in attempt to influence behavior of the public sector bureau and its members. This way the expected behavioral effects from information asymmetry and their negative effect on the effective allocation of resources in the public sector are expected to be offset or prevented with the help of PBB. The linking of theoretical concepts used for this research is schematically displayed in Figure 1. Without going into all the theoretical concepts separately in detail here, it is meant to illustrate that PBB's assumptions towards performance information use are associated with one neo-institutionalist school of thought in particular, namely rational choice institutionalism whereas the other two schools might offer alternative explanations for organizational behavior perceived as a result of PBB reforms.

Figure 1 *Linking of Theoretical concepts*

6. Relevance of neo institutionalism for answering the research question

Turning back to the research question on the explanation of reported PBB success, alternative explanations can be sought following the logic of appropriateness. These may offer a different explanation of behavior perceived as resulting from successful PBB implementation. By focusing on selected neo institutional concepts, favorable conditions may be identified that explain result oriented behavior linked to the specific institutional context and independent from the formalized incentives a PBB system offers. If case-studies provide a credible alternative explanation for reported PBB success, the potential of PBB to change agency behavior ought to be seriously questioned. However, if the cases do not result in a convincing alternative explanation, at least one claim to PBB success still stands.

Having gained more theoretical background on the theoretical background and the variety of views associated with institutionalism, Schick's observation that '*governments that don't manage for results will not budget for results*' deserves a second look (see paragraph 3). If it is true what Schick says, introduction of PBB by a Public Sector Bureau or its principal(s) would only deliver results if a number of other, independent factors, are present. As a consequence, PBB successes that are reported from a PBS or their principal(s) would, according to Schick, only

have been made possible because '*managerial arrangements that make results paramount*' were already in place or because PBB was accompanied by other '*transformations in public management that enhanced performance*' (Schick 2003). The fact that internal result-orientation of a PSB has itself, also been reported as a consequence of adopting a PBB system, points at a possible fallacy of circular justification regarding successful PBB adoption: Does successful PBB implementation **create** favorable circumstances for result orientation? Or can successful PBB implementation **only result from** favorable circumstances for result orientation?

Finding an answer to this question can only proceed after the favorable circumstances for result orientation are identified and defined. The answer to the question what *managerial arrangements* and *transformations* are deemed necessary for PBB to work remains undisclosed by Schick. He does refer however to the politicians and managers as actors in the budgetary process relevant factors to the results of PBB. Applied to the research question this suggests that the managers within a PSB and those of their principals are of particular relevance for reported cases of successful PBB.

Managerial focus and organization development may be crucial or even indispensable for successful PBB reforms in government organizations.

Later on these factors will be utilized in an attempt to build a model suitable for testing in case-studies. In search of further specification of relevant explanatory factors, some of the criticism towards the assumptions of PBB reforms is particularly worthwhile examining.

7. Behavioral and Institutional critique to PBB

The notion that performance information will be used for decision making by public sector management that contributes to efficiency rests on the assumptions that the information gets used in an organizational learning process leading to more technical efficiency in executing government programs. Just how this is supposed to happen has remained largely unspecified in PBB theory building.

The likeliness that performance information is used for technical (intra-program) efficiency can be criticized when looking at alternative theories on the way policies are reshaped, conducted and adjusted. To agency managers, who are usually busy battling unexpected crises that can only be cured by resources rather than strategic thinking, performance management is often little more than a distraction (Moynihan 2008). Faced with the complexity of real world policy dilemmas, bureaucrats understandably opt for other ways to select policy alternatives than comprehensive systematic analysis. It can even be argued that their scientifically 'flawed'

methods are often superior to any futile attempt at superhuman comprehensiveness (Lindblom 1959).

The absence of intrinsic learning behavior within an organization can be explained by many factors. Among these are: the occurrence of specific learning disabilities that every organization is prone to. Peter Senge summed up seven general learning disabilities in his popular 1990 work on learning organizations (Senge 1990):

1. I am my own position is when people focus only on their position within the organization and have little sense of responsibility for the results produced when all positions interact. For example: 'I work as a budget advisor for the health department' instead of 'We try to control public health care costs'

2. The enemy is out there syndrome is when we blame some external reason without focus only on our position; we do not see how our own actions extend beyond the boundary of that position. For example 'politics is just an irrational business' without adding 'which I did not anticipate when making a policy proposal'

3. The illusion of taking charge is that proactiveness is really reactivity in disguise. Instead of facing up to difficult issues and solving them before they grow into crises, people rely on more of the trusted ineffective recipes. Illustrative is the attitude 'What we need is a bigger hammer'. Real proactiveness includes insight in your own contribution to the problem. This is a recognized phenomenon in public policy (see law of accumulation of policy CH...).

4. The fixation on events leads to "event" explanations that are true for now but distract us from seeing the longer-term patterns of change behind the events and understanding the causes of the patterns to events. Practitioners will easily recognize the dominant pattern of political leaders quickly responding to incidents by promising additional regulation and inspection before any deeper, long term analysis has taken place.

5. The parable of the boiled frog is in relation to the maladaptation of organizations to recognize gradually building threats to survival; just as the frog placed in a pot of water brought to boiling temperature will not attempt to jump out of the pot but adjusts to the temperature and slowly dies. The lesson of this story is that we are better equipped to respond to imminent threats than to incremental ones.

6. The delusion of learning from experience is when our actions have consequences in the distant future or are part of the larger operating system, which makes it impossible to learn from direct experience. The most powerful learning impulses stem from direct experience (e.g. tasting). An important notion in this respect is one's learning horizon. The learning horizon is the limitation in time and space for judging one's effectiveness. In time this is usually one or two

years. Beyond that horizon lessons will have less of an impact. The learning paradox refers to the conclusion that our most important decisions are beyond our learning horizon.

7. The myth of the management team because management teams tend to spend their time fighting for turf, avoiding anything that will make them look bad personally, and pretending that everyone is behind the team's collective strategy. Solving urgent problems is usually regarded higher than asking difficult questions on current policies. This poses a problem for organizational learning from performance flaws.

In addition Senge mentions a low degree of participative or reflective openness^{vi} and the absence of individual rewards or penalties (Senge 1990) as notable organizational learning disabilities. The latter point has also been made by public choice theory with regard to large group behavior (Olson 1965). In government organizations a focus on compliance instead of performance (Schick 2003, Osborne & Plastrik 1997) can provide an additional obstacle to result orientation and therefore learning behavior.

Given the obstacles to learning behavior in public organizations, it may appear unrealistic to expect an abundant use of performance for program learning or enlightenment. Or, as Allen Schick noted: *successful organizations learn and adapt, changing what they do and how they work in response to both internal and external signals. But performance is only one of the drivers of change, and not always the most important one* (Schick 2003). This may indicate that traditional PBB theory is flawed to a degree or at least does not take into account knowledge about learning behavior in public sector organizations, a point made earlier by Donald Moynihan (Moynihan 2005).

The problems encountered with the use of performance information by public sector organizations are summed up well by Moynihan in his Interactive Dialogue Model of Performance Information Use (Moynihan 2008). This model, or rather set of assumptions, challenges PBB theory at the micro level. In fact, what Moynihan expresses in his model is an institutionalist critique on PBB. The model's central assumptions are:

1. P.I. is not comprehensive,
2. P.I. is ambiguous
3. P.I. is subjective
4. Production of P.I. does not guarantee use
5. Institutional affiliation and individual beliefs will affect selection, perception, and presentation of P.I.
6. The context of dialogue will affect the ability to use P.I. to develop solutions

The first three assumptions reflect the idea that performance information usually consists of one or more indicators of actual performance and as such never reflect a whole universal truth about performance, the existence of which can obviously be debated in the first place. They partly mirror the 'misassumptions' of PBB as noted by Beryl Radin (Radin 2006) as she confronted six assumptions^{vii} that constituted what she called the 'unreal and naïve approach' of the performance movement, with reality (Radin 2006). The importance of these notions lies in the fact that once you accept that P.I. is not comprehensive, ambiguous and subjective, the rational basis for a performance informed dialogue between actors in the budget process, vital to PBB theory, is largely gone. What remains is a dialogue in which behavioral and institutional factors play a large role and are even likely to dominate.

The fourth assumption deals with problems regarding the use of performance data. Moynihan also notes that when PI is used, it is not always used in the way PBB reforms envisioned it to be used (Moynihan 2008). So, not only does production of PI not guarantee use, use itself may or may not contribute to efficiency depending on the purpose of use.

Taking the fifth assumption a bit further, the consequences of institutional affiliation and individual beliefs may well exceed the consequences of selection, perception and presentation of P.I. It is possible to assume that selection, perception and presentation of P.I., even if this is geared towards enlightenment or program learning, still does not result in the efficiency gains that PBB theory expects. There may be so because other organizational factors may form impediments to actually harvesting on the performance informed lessons.

The context of dialogue presented in the sixth assumption may be heavily influenced by institutional affiliation and individual beliefs as well. The way the organizational dialogue is conducted between those who measure and interpret performance and those who account for performance can prove to be an obstacle to applying the lessons to be learned. A dialogue that involves only a few parties that maintain a close relationship offers the best guarantee for efficient exchange of information because much information can remain implicit (Moynihan 2008:19, Wierdsma 1999). A drawback from such a dialogue is that only acceptable and predictable positions are taken and no truly new insights emerge. PBB can be viewed as an attempt to break open the policy dialogue to be able to involve other parties (e.g. the financial department, parliament). This is attempted by making many implicit assumptions explicit (e.g. policy objectives goals, expected outcomes, criteria for success). If a perceived outsider is forcing his insights into a policy dialogue, defensive routines are likely to occur on the part of the public sector bureau. This can result in a ritual dialogue in which referral is made primarily to a formal positions and documents rather than actual policy content (Argyris and Schön 1996, Van der Knaap 1997).

In PBB literature, the relevance of the institutional context has long been understudied. Especially the conditions for learning behaviour should receive more attention.

8. What does PBB success look like precisely?

In the previous paragraphs focused on organizational and behavioral obstacles that may prevent PBB from working in PSB and its principal. Nonetheless, some anecdotal evidence for PBB success in terms of technical efficiency does exist. The question remains just how does the measurement and reporting of performance and the analysis of these data contribute to efficiency in these cases.

The actual use of performance information (P.I.) by a public sector bureau and its principal(s) to inform management decisions is a vital link to PBB theory and has been studied by several authors. Although use of performance information by government agencies has been reported for a myriad of purposes, not all of them count as successful adoption of the underlying PBB goal of more effective allocation of resources. Use of performance information can be classified in five broad categories of use (De Lancer Julnes in Van Dooren & Van de Walle, 2008)

- Reassurance: Government shows it is doing what it is supposed to do with taxpayer's money (e.g. reporting performance information about cleans streets or safe neighborhoods)
- Compliance: Agencies demonstrate that they comply with performance measurement regulations (e.g. schools report test results to receive funding)
- Program learning: Learning from results may lead to program changes or maybe just to a better informed dialogue.
- Enlightment: Externally, enlightenment can lead to mobilization and put an issue on the political agenda (e.g. awareness of waiting lines in public service). Internally, enlightenment can lead to more informed decisions and better educated stakeholders. This can generate new insights and challenge previously held perceptions.
- Legitimization: Performance information can be used to rationalize, justify or validate current, past and future course of actions and decisions (e.g. justifying budget requests, or defending oneself towards critics)

Looking at these uses of performance, the use of performance information for the purposes of program learning and enlightenment seem to be relevant for both operational efficiency and internal result orientation thus indirectly contributing to the aim of more effective allocation of resources in the public sector. Reassurance seems to primarily address the transparency aim of

PBB while using performance information to legitimize existing positions like budget claims merely adds to existing dynamics. Finally compliance with PBB regulations, can, for the purpose of this study, not be counted as PBB success either. Doing so would indeed regard PBB reform as a self legitimizing exercise. A number of reported activities by government agencies involving the use of performance information can serve the purpose of program learning or enlightenment are illustrated in Table 1 (reported activities are based on Joyce 2003 in Breul & Moravitz, Wang 2000 as quoted in Redburn 2008 and GAO 2004).

Table 1 ***The utilization of performance information for technical efficiency***

So the role of performance information, when expected to contribute to efficiency and result orientation, would foremost be to contribute to program learning or enlightenment. Drawing a parallel with common literature on learning organizations, the difference between using performance information for program learning and for enlightenment resembles the difference made between single loop and double loop learning respectively. According to the classic work of Argyris and Schön with regard to learning organizations, single loop learning involves the detection and correction of errors given a particular goal or plan. Double loop learning involves questioning the underlying norms, values and objectives (Argyris & Schön, 1996). When studying the lessons the NL government learned from policy evaluation, Peter van der Knaap applied a similar difference between corrective learning and fundamental learning, the latter adding to the existing underlying policy assumptions (Van der Knaap, 1997).

The kind of anecdotal evidence often presented usually fits these categories like these ones Paul Posner mentioned, amongst others, in his testimony to the U.S. Senate Budget Committee on October 29th 2009 (Posner, 2009):

- *FDA's office of generic drugs used performance targets and monitoring to reduce the time to review generic drug applications. As a result, the percent of applications reviewed within 180 days went from 35 to 87 percent. In addition to tracking overall progress, performance data were used on a real time basis to monitor workload across units, enabling the agency to break through bottlenecks by shifting work to less burdened units.*
- *The National Highway Traffic Safety Agency used performance data to show the increases in seat belt use flowing from the "Click it or Ticket" safety belt program in three states. Performance data documenting the effectiveness of this strategy prompted its adoption by most states in the country, leading to dramatic increases in safety belt usage throughout the nation.*

Although the budgetary aspect may not be explicitly mentioned in these cases, it can be asserted that the use of performance information to increase a certain policy's output or outcome against a similar level of funding benefits effective allocation of resources in the public sector as a whole. Moreover a useful definition of *de facto* PBB success in agency management would contain the following elements:

- Performance information explicitly informs proposals prepared for the budgetary process;
- These proposals contribute to program learning or even enlightenment;
- The proposals result in decisions that demonstrate more efficient service delivery or even policy shifts increasing effectiveness. This should be recorded in documents related to the budgeting cycle or the principal-agent relationship.

In cases of successful PBB implementation at the PSB level, the use of performance information by a PSB and its principal are expected to result resulting in program-learning or even enlightenment, resulting in a more effective or efficient service delivery.

9. Building a model to be tested

The previous sections explained that agency theory highlights the possibility of information asymmetry helping the pursuit of agency interests at the expense of the principal's effectiveness and efficiency. In the tradition of rational choice institutionalism, the tendency of dysfunctional behavior by the agent, also known as the principal agent dilemma, has to be offset by other incentives that fit the same logic of consequence. These are financial incentives to perform and monitoring of the agent's performance by the principal. Implementation of a PBB system has been the weapon of choice by public sector budgeters worldwide to accomplish these tasks over the last couple of decades. If used successfully, PBB would help the agent use its resources to achieve the results requested by the principal in the most efficient manner. Result oriented allocation by the agent in this sense, contrasts with the expected tendency of a PSB to use resources for its own preferences. Looking more closely at PBB success in agency management, it was argued earlier on that only the use of performance information in decisions leading to program learning or enlightenment counts as PBB success. When looking at public administration following the logic of appropriateness, an agency that operates in an effective and efficient manner according to a principal is seen as testimony of the success of PBB used for agency management.

As shown earlier, the logic of appropriateness assumes that organizations and organization members are primarily rule followers driven by social pressure instead of anticipating

consequences in order to maximizing their own utility. This may offer an alternative explanation of a claim to success of PBB. Several neo institutional factors may explain why a certain PSB displays result oriented allocation and In fact bear reference to the absence of earning obstacles identified by Senge as well as Moynihan' s insitutional critique of PBB.

Sociological institutionalism challenges the distinction between rationality and culture. Institutional forms and procedures are largely adopted because they are culturally specific (referring to myths and ceremonies) and not necessarily because they were most efficient^{viii}. Institutions are defined in terms of symbol systems, cognitive script and moral templates. This determines how situations are recognized and responded to (Hall & Taylor 1996).

Cultural appropriateness: in a given public sector bureau, displaying result orientation behavior by conducting critical assessments or debating effectiveness may be supported or punished by the organization's leadership and culture.

Cognitive frames: The way (performance) information is selected, interpreted, presented and processed may be highly dependent upon shared cognitive frames that exist in a PSB. These frames may have originated from a shared organizational or professional or educational background. Implementation of the PBB idea of introducing accountability based on objective performance information is likely to be heavily influenced by shared cognitive frames.

Historical institutionalism developed notions of how, in the competition for scarce resources, some interests were privileged and others demobilized. Historical institutionalists stress asymmetries of power, path dependency, unintended consequences and inefficiencies of existing institutions. History is divided in periods of continuity altered by 'critical junctures'. Bearing in mind the 'managerial arrangements and transformations' referred to as essential for successful PBB reform by Schick , two notions in particular may bear relevance to the explanation of result oriented behavior by a PSB in a principal agent relationship

Asymmetries of power: Some groups or interests have disproportionate influence on decision making process. This formal or informal balance of power may be inherent to a certain institutional setting that characterizes a policy field or PSB.

Path dependency: A critical junction may be identified that created a branching point that explains the current path of the PSB in many different respects including de facto PBB implementation and result orientated allocation.

The unpredictable volatile reality of political life in which a PSB and its agent operate may yet offer other additional explanations that may have to be considered. These contextual explanatory factors are factors beyond the institutional sphere of the PSB itself. These will be included in the study insofar they provide plausible alternative explanations for an apparent display of result oriented allocation. Two notable ones stand out but are by no means limitative.

- Macro economic factors may influence the allocation of resources. The occurrence of financial crises can be powerful drivers of policy changes affecting the principal-agent relationship. The pressure from these factors may lead principal and agent to (temporarily) behave according to PBB expectations of result oriented allocation.
- Shifting political preferences can also be an explanatory factor. The dominant policy paradigm can shift because of changed political preferences resulting in a change in political leadership. If this occurs suddenly, a changed policy direction may be marketed as lessons learned from performance measurement or evaluation.

In Figure 2, the theoretical model of this research as explained above is shown graphically.

Figure 2 ***Theoretical model of PBB functioning according to logic of consequence and alternative explanations***

10. Refining the model with indicators

Because this study attempts to determine the actual contribution of PBB methods on apparent PBB success, cases are sought that could qualify as successful cases of PBB implementation. These cases ought to share a number of common characteristics, among which obviously the ability to qualify as a potential PBB success in terms of technical efficiency.

1. It involves a national policy goal and performance targets tied to the national budget
2. Policy execution takes place in principal-agent setting (preferably a National HQ and regional agents) with the (plausible) presence of the associated problems of:
 - conflicting goals and
 - superior access to information on the part of the agent
3. The program and its execution are regarded a PBB success
4. There is de facto performance steering on the part of the principal
 - PBB is used by the PSB's principal to control the PSB
5. There is de facto performance management on the part of the agent
 - PBB is used in addition to traditional budget preparation

Table 2 *Testing model with theoretical concepts and indicators*

If qualified cases are identified, the degree to which it is truly a textbook NPM/PBB success is to be measured as well as the potential presence of the selected alternative explanations for this success. In table 2 an approach for testing cases is presented. Obviously qualitative testing of a limited number of cases for plausible alternative explanations cannot provide the final word over PBB effectiveness. The presence or absence of alternative neo-institutional explanations for perceived success may however give an additional indication on the potential of this NPM tool to change behaviour in public organizations.

Epilogue

In this article it was argued that the classical notion that institutions matter to political outcomes and the conviction that political behavior can be explained by observed behavior rather than expressed preferences gave way to the rise of neo institutionalism. Depending on the neo-institutional branch, behavior of actors can be explained either by following rules about what is felt to be appropriate (historical/ sociological) or by calculation to maximize self interest (rational choice). The rational choice branch of neo-institutionalism highlighted the problem that a principal lacks adequate information to control its agent. The wave of New Public Management in the 1980s and 1990s reshaped governance relationships in governments worldwide. PBB was promoted as one of the tools of choice for implementing the NPM agenda.

Firstly this resulted in adopting public sector management methods and buzzwords like explicit performance standards, management by results, value for money etcetera. Second was an attempt to introduce incentive structures into public service. This meant disaggregating existing bureaucracies and contracting out to quasi markets (Rhodes 1997). Performance reporting was presented as part of the solution for the principal-agent dilemma and has been advocated worldwide since the era of New Public Management. As previously mentioned, the results of performance based budgeting (PBB), including this key element, has far from met all expectations. PBB theory itself has been accused of neglecting some important institutional variables when designed and implemented.

It may therefore be worthwhile to turn to the other two branches of new institutionalism (historical and sociological) when looking for explanations for the success record of PBB. These alternative explanations based on the logic of appropriateness may or may not provide plausible explanations why result oriented allocation occurred in selected cases. This may support or disregard the notion that PBB adoption is a plausible decisive factor contributing to result

oriented allocation. In order to be able to test these cases, the relevant neo institutional factor of the model introduced will have to be refined so it can be applied to the cases that report success of PPB in agency management.

The approach and method presented offers, once refined, an adequate method to assess the research question

Figure 1 Linking of Theoretical concepts

* IMPIU = Interactive Model of Performance Information Use

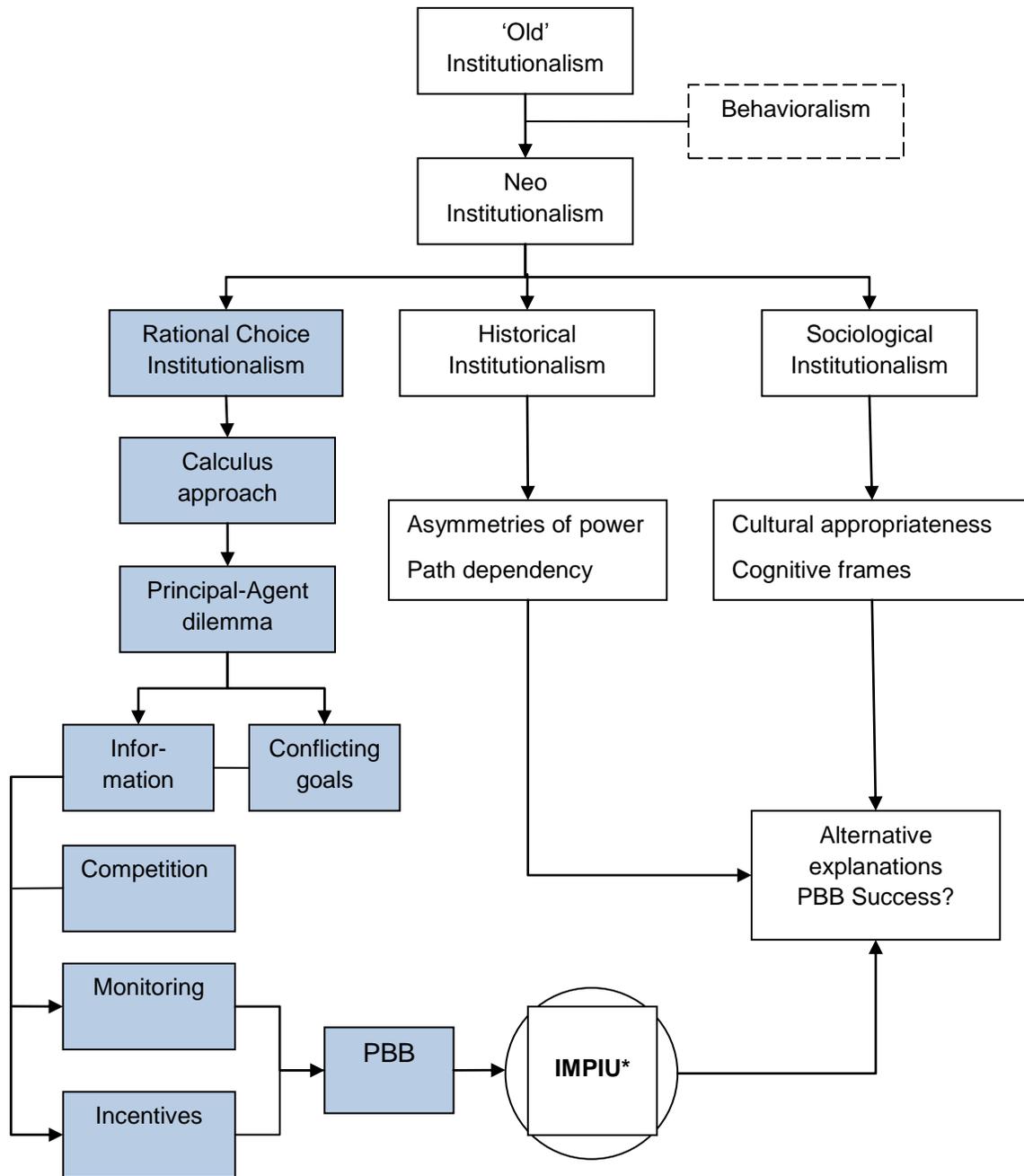


Figure 2 Theoretical model of PBB functioning according to logic of consequence and alternative explanations

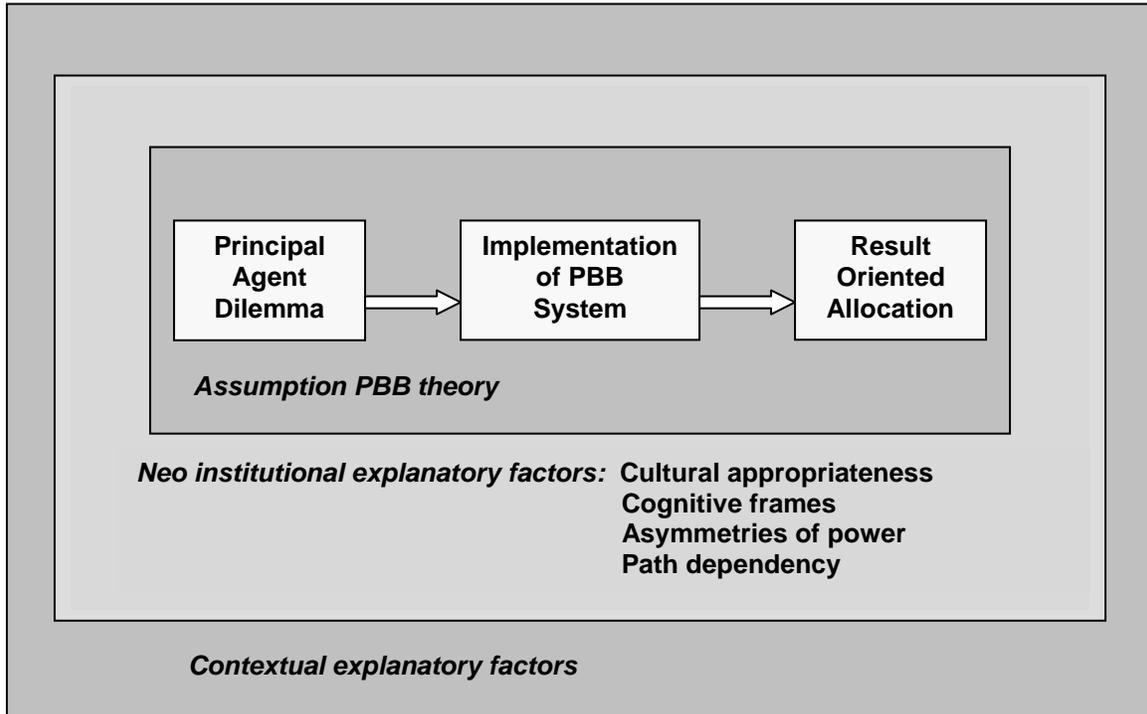


Table 1 The utilization of performance information for technical efficiency

<i>Using P.I. for the activities:</i>	<i>With the purpose of :</i>	<i>Can result in:</i>
<ul style="list-style-type: none"> - Performance reporting for external accountability - Setting program priorities - Strategically reallocate internal resources - Understand the impact of external events on PSB performance goals 	Enlightment	Support for major policy shifts or innovations
<ul style="list-style-type: none"> - Deciding on outsourcing decisions - Developing and managing contracts - Monitor cost and performance and contract management - Allocate funds to third parties 	Enlightment Program learning	Managing principal-agent relationships better.
<ul style="list-style-type: none"> - Coordinating program efforts with other internal or external organizations - Analyzing productivity and funding levels - Allocating internal funds - Identifying service problems and changing work processes - Adopting new program approaches following evaluation 	Program learning	Increased learning capacity within PSB

Table 2 Testing model with theoretical concepts and indicators

<i>Theoretical concepts</i>	<i>Indicators (occurs when...is found)</i>	<i>Absent</i>	<i>Present to some extent</i>	<i>Clearly present</i>
Agency Theory and Rational Choice Neo Institutionalism				
Successful PBB implementation in a PSB-Principal relationship	PBB is used by the PSB in addition to traditional budgeting			
	PBB is used by the PSB's principal to control the PSB			
Textbook example of PBB implementation	A high degree of de jure PBB implementation			
	A high degree of de facto PBB implementation			
Favourable conditions from Historical neo institutionalism				
Path dependency	A critical juncture after which PBB was felt as the solution to a broadly felt problem.			
Asymmetry of Power	An internal advocate or external champion of PBB in a powerful position.			
	A policy field in which specialists are dominant, relative to the other political actors.			
Favorable conditions from Sociological Neo Institutionalism				
Cultural appropriateness	A beneficial culture for organizational learning. This is characterized by a high degree of reflective and participative openness with regard to self reflection in discussing results.			
Cognitive frames	A positive attitude towards a formalized performance measurement system. This is expressed by the fit between the official performance measures and one's own measure for doing a job successfully.			
Favourable conditions beyond neo institutional factors				
Contextual explanatory variables	Macro economic factors			
	Shifting political preferences			
	Others			

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Endnotes

ⁱ *New Public Management generally refers to a set of reforms that intend to improve efficiency and effectiveness of the public sector by introducing different sorts of market style incentives. These include (Kraan 2010: 5):*

- *Separation of policy execution from policy development,*
- *Stimulating competition among service providers,*
- *Loosening of standards of operational management,*
- *Budgeting on the basis of output targets (performance budgeting)*
- *Financing agencies on the basis of output targets*
- *Outsourcing to the market.*
-

ⁱⁱ *There are several ways of categorizing performance budgeting systems. A common way is to do so according to the degree to which performance information is linked to funding . Allen Schick distinguishes between two polar versions of performance budgeting, a broad and a strict definition (Schick 2003: 101):*

Broadly defined, a performance budget is any budget that presents information on what agencies have done or expect to do with the money provided to them. Strictly defined, a performance budget is only a budget that explicitly links each increment in resources to an increment in outputs or other results. The broad concept views budgeting in presentational terms, the strict version views it in terms of allocations. Many governments satisfy the broad definition, few satisfy the strict definition.

Teresa Curristine uses a threefold typology of performance budgets in OECD countries (Curristine 2007). In some cases a direct link between performance, resource allocation and accountability is in place (direct/formula performance budgeting). More often the link is indirect and planned performance targets and results are used for planning and accountability purposes only (performance informed budgeting). Finally there are performance budgeting systems that have no link between performance and funding and use performance information for accountability only (presentational performance budgeting). In the NL, as in most OECD nations with a longstanding PBB record, all three forms are present in the budget bills.

ⁱⁱⁱ *This NPM-ideal type agency model is considered to be a model based on performance contracting between a principal (often Ministry) and a public agent (often public Sector Bureau). The principal is exercises performance control and used performance evaluation for budgetary purposes while the agent is managed in a performance driven manner.*

^{iv} *Adverse selection refers to a situation where the principal is presented incorrect or incomplete information by the agent. Given his inability to verify this information the principal may base his decisions on inadequate information. An example is an employer who relies on incorrect résumés presented by jobseekers.*

^v *Moral hazard refers to a situation where the agent, who has a better awareness of risks and consequences, takes inappropriate risks in the knowledge that the principal will pay for their consequences. An example is a painter who is paid by the hour for a job and therefore decides to take it slowly.*

^{vi} Senge identifies two types of openness that are required for a beneficial culture for organizational learning (Senge 1990: 276-286):

Participative openness: Important issues are being discussed openly and fairly

Reflective openness: The ability to continually challenge one's own thinking

^{vii} The 'misassumptions' of PBB according to Beryl Radin (Radin 2006):

- Information is already available
- Information is neutral
- We know what we are measuring
- We can define cause-effect relationships in programs
- Baseline information is available
- Almost all activities can be measured and quantified
-

^{viii} For example: departments of education show international similarities and companies producing similar products have similarities because of diffusion of techniques and similarities in training.