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# PERFORMANCE AGREEMENTS IN DUTCH HIGHER EDUCATION

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## Introduction

In the last decades, most governments have been concerned to balance public expenditure. The result has been the growth of funding mechanisms associated with market mechanisms. The governments' main objective has been to increase the efficiency and effectiveness of HEIs, within a regulated context which is clearly related to the state supervision model, where the state fosters competition between the institutions in a higher education market (Horts 2008). Funding allocation methods can be utilized to stimulate universities into more competitive behavior. The reward for a better performance, at least in principle, is supplementary funding (Orr 2007).

Performance-based funding is ex post model. Few countries have implemented this approach, but among them Britain has led the way. The main virtue of performance-based approach to funding is that it is ostensibly meritocratic, rewarding success and improving quality. A performance-based system increases efficiency in the short term. It also provides greater accountability. Performance -based funding is a rational method of moving resources from less well-performing areas to areas where they can be used to greater effect (Geuna, 2003).

Public funding for higher education institutions is mostly oriented to support organizational expenses. Although varying among countries, the major share of this funding is usually attributed directly to higher education institutions and calculated through formula based on the number of students and/or on a historical basis, This funding is critical for supporting the salaries for faculty and administrative staff as well as the support services such as libraries, student administration, human resource department (Horts 2008).

Scarcity of public resources, public budget constraints and constantly reduced public funding for university forces the states to carefully

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consider how effectively their finance is spent on higher education (Horta 2008). In most countries the funding was allocated on the basis of the enrollment which is regarded as input based funding. But the scarcity of public resources led to the emergence of a strong tendency which can be seen towards contract management in higher education sector of USA and of many European countries (Austria, Finland, Germany, the Netherlands, Norway).

Austria, Finland, Germany, the Netherlands, Norway include agreement negotiations, role-statements or performance contracts as substantial elements in the government-institution relationships but in most cases such contracts have multiple purposes, like stimulating overall performance, quality and national proprieties. These performance contract activities appear to include a multitude of dimensions and indicators. In Germany and Norway it leads to such a broad range of performance areas that all institutions develop in the same direction. The performance contracts do not always appear to result in the intended profiling effects, quality improvement and strategic positioning, in many cases they have transformed the government-institutional relationships into more transparent processes based on dialogue. In addition, like the German Excellence Initiative as well as the performance contracts (Zielvereinbarungen) made HEI much more aware about their own identity (Benneworth, 2011). Contracts and multi-year agreements between the state and higher education institutions are examples of new governance instruments.

As a result of the New Public management policy with the introduction of more market-oriented governance approaches, public authorities have started to use contracts and performance-oriented approaches to shape the budgets of national higher education institutions. Implementation of the New Public Management policy in public sector since 1990s (Pollitt et al., 2007) has led to reforms in the funding of higher education. «Together with the introduction of more market-oriented approaches, public authorities have started to use contracts and performance-oriented approaches to shape the budget of national higher education institutions. Performance-based budgeting seeks to link performance measures to budget allocations and as such it is expected to improve the management and accountability of higher education institutions (Jobbloed, 2011, 173)

Performance-based funding is higher education finance strategy that links state funding for public higher education institutions with

institutional performance. It represents a fundamental shift in higher education finance – a shift from state inputs to campus outcomes and from institutional needs to state priorities. Performance-based funding is an incentive-based policy instrument predicated on resource dependency theory. This theory posits that changes in resource availability will threaten organizations and encourage adaptation for continued existence. This approach to higher education finance has three main components: goals, measurements and incentives (Harnisch, 2011).

Performance-based funding is a system based on allocating a portion of a state's higher education budget according to specific performance measures such as course completion, credit attainment and degree completion, instead of allocating funding based entirely on enrollment (Miao, 2012)

In the Netherlands performance-based budgeting has been in place since the early 1990s. Performance contracts were introduced recently. Whilst contracting allows for more differentiation between institutions/departments and gives budget holders more freedom to choose their strategy within (national/institutional) budget guidelines, it also has disadvantages. Contracts may have high transaction costs and a tendency to turn into yet another accountability instrument (Jongbloed, 2011, 183)

### **Higher education sector in the Netherlands**

'Government policy on higher education in the Netherlands has over recent years, been strongly focused on enhancing the institutional autonomy of universities, particularly in relation to their non-academic affairs' (de Boer et al., 2007, p.45). The Higher Education and Research Act (WHW) entered into force on August 1993. The Act redefined the administrative relationship between the government and the higher education and research institutions. Previous legislation provided to a large extent for ex ante regulation and planning, assigning a central role to government (de Weert et al., 2007). In 1985 the Ministry published a white paper entitled Higher education: autonomy and quality (HOAK-nota, 1985). 'This is a policy statement heralded a new governance approach, characterized as 'steering from a distance'. Within this approach, the Ministry became less directly involved in the regulation of universities' operations and concentrated more on determining their longer-term orientation' (de Boer et al., 2007, p.47).

Since the mid-1980s in sector of higher education universities received increased entitlements of the ownership of public property, were introduced not only new quality assurance systems but new funding schemes (de Boer et al., 2005; Neave, 1998)

### **Results of research**

In July 2011, the Dutch Ministry of Education, Culture and Science published its White Paper on Higher Education, Research and Science, entitled *Kwaliteit in verscheidenheid* (Quality in diversity). All of the Dutch universities were invited to indicate by spring 2012 how they would respond to the major themes included in the White Paper: improvement of their teaching and learning performance, enhancement of their teaching and research profiles, and alignment with the future's grand challenges and the needs of business and society (Profile of the University of Amsterdam, 2012, p.iii). The parameters for these agreements were defined in a broad agreement with the Association of Cooperating Dutch Universities (VSNU)

In December, the Association of Universities in the Netherlands and the Ministry of Education, Culture and Science signed a *Hoofdlijnenakkoord* (General Agreement), in which the Dutch universities pledged to sharpen their respective profiles and enter into contracts on their teaching and learning performances based on their profiles. The Ministry subsequently appointed a Review Committee to compare and reflect on the profiles and contracts submitted. The task of the Committee was to evaluate the level of ambition in these submissions, together with the viability of their proposals and the anticipated contribution of these proposals to national policy goals (Profile of the University of Amsterdam, 2012, p.iii). The Review Committee assessed the universities' plans on the basis of certain criteria:

- level of ambition,
- sense of reality,
- alignment with the desired developments on the system level, determination of priorities, differentiation and feasibility.

The Review Committee announced its results in September sending the institutes a letter with the findings and the Committee's chairman, Frans van Vught, officially presented these findings to the State Secretary.

Table 1. Scores for all Dutch universities

University	Selective budget score
University Maastrich	Very good(15)
University Utrecht	Excellent (19)
Erasmus University Rotterdam	Good (14)
RUG	Very good (16)
Wageningen University	Very good (16)
LEI	Very good (16)
Rotterdam University	Very good (16)
University Twente	Very good (16)
UvA	Good (13)
VU	Good (13)
Technical University Eindhoven	Very good (15)
TiU	Good (12)
TUD	Very good (15)

Besides passing its own opinion the Committee also makes a recommendation to the state secretary for Education, Culture and Science on the performance agreements with the higher education institutions. The institutions had to do a final agreement with the state secretary in early November. Part of the financing (7%) will then be dependent on the agreed goals being met (Plans for agreements on performance given the go ahead, 2012).

The Ministry made 5% (€105 million) of the annual teaching grant conditional upon agreement having been reached on the White Paper targets, for example for Maastrich University 5% of the state funding is over €6 million. A further 2% (€38 million) was withheld and will be assigned selectively to the universities on the basis of their profiles (Profile of the University of Amsterdam, 2012, p.iii).

The agreed targets in performance agreements relating to education and success rates are linked to a form of conditional funding, which means that failure to achieve them either in full or in part would put even greater pressure on universities' revenues

### **The aim of the performance agreements**

Government introduced performance agreements in order each university to adopt a more distinctive profile in education and research, both nationally and internationally. The curriculum will also allow for

greater variation, to correspond more effectively with the specific needs and requirements of students.

Government expects that universities in cooperation with industry will translate research results into products and services. In signing the performance agreements, the government gives a guarantee for these ambitious plans with the provision of necessary funding and legislative support.

Performance agreements together with the strategic plan of the university define the directions of development for the following years, for example University of Twente examined the alignment of the ambitions defined in the performance agreements and 'already deployed strategies established in RoUTE'14 plans' (University of Twente Performance Agreements, p.1)

As we can judge from the title 'performance agreements' this type of document must concern setting of the goals and aims of performance in different directions of activity of HEIs - education, research, valorization - 'these agreements are designed to deliver a higher level of performance in a range of areas'.

Universities define the purpose of the agreements of performance in the following way -agreements set out concrete ambitions for the coming years and goals aimed at creating a system that is not only sustainable but first and foremost internationally competitive (University of Twente Performance Agreements).

Performance agreements are aimed to resolve the problem when students fall behind with their studies. One way of achieving this is universities to provide a more ambitious culture in which to study, by improving the quality of teaching staff, by working to ensure a good match between students and their programmes, by selective intake of students and by offering broad-based Bachelor's programmes.

Beside declaring goals and aims in performance agreements, universities define certain measures aimed at the achievement of the beneficial performance, for example, though these measures, the University of Twente aims to substantially improve the pass rates for its Bachelor's programmes, to a greater extent than other universities of technology.

Performance agreement of Utrecht University received the highest score. This document consists of such units as:

- quality and excellence;

- study success expressed in terms of dropout rate, number of switches and study success rate;
- measures regarding educational intensity and the quality of teaching staff;
- educational profile;
- development of core research areas;
- valorization;
- effective allocation of funds.

Performance agreements of Wageningen University contain the following chapters:

- research ambition (ambitions related to content of the research domain, ambition on the quality of research);
- education ambition (ambition for education, improving study success, quality measures);
- valorization ambition;
- cooperation ambition (international partnership, national partnership).

University of Twente performance agreements concern the following issues: education, research and valorization.

### **Areas presented in the performance agreements of Dutch universities**

#### Education

The main issues about education: quality and excellence. As it concerns excellence the most important indicator is the number of students enrolled in honours programmes which must rise each year (5% in 2006, 9% in 2010 and 12% in 2016) in Utrecht University. At the same time Wageningen University only plans to start an excellence programme. And University of Twente launched excellence programme called ATLAS, its unique University College of Engineering, in September 2013. The new educational model in place at the University of Twente from September 2013 with a view to enhancing appeal, quality and efficiency is regarded by the Review Committee as an example that 'the University of Twente is pursuing a sound policy with regard to educational differentiation' (Performance agreements signed: government backs ambitious university plans (2012).

As it concerns Bachelor programs Utrecht University will manage to retain 3<sup>rd</sup> place in the top six of general research universities with the highest number of Bachelor's programmes rated good/excellent by NVAO.

Study success starts with a conscious choice for a study programme, that is why Wageningen University asserts on importance to provide prospective students with realistic information and to be available for personal advice, university should guide students in choosing the options in their learning track that best match their talents and interests (Profile and Performance Agreements Wageningen University, 2012). Study success is expressed in terms of dropout rate, number of switches and study success rate:

- Dropout rate: the percentage of all full-time Bachelor's students (first-year higher education students) no longer enrolled at the institution after one year will decline from 20% in 2006 to 18% in 2010 and to 15% in 2016 (Performance agreements for Utrecht University, 2012). The drop out in the first year in Wageningen University plans is low (15 %). Part of the drop out is inevitable because students were unable to take their first study choice, but the university expects that the first year drop out to increase slightly as a result of both governmental policy, intensive study advice and, possibly a negative BSA. The aim of the Wageningen University is to keep it below 20% (Profile and Performance Agreements Wageningen University, 2012).

University of Twente also plans to have a first year drop-out rate less than 20%.

- Switch: the percentage of all full-time Bachelor's students (first-year higher education students) to switch to another study programme at the same institution within one year will develop from 6% in 2006 to 7% in 2010 to a projected total of 6% in 2016 (the percentage will remain stable due to more effective matching/selection before the start of the study programme and better options for students seeking to switch to another study programme in the first year) (Performance agreements for Utrecht University, 2012, p.4). Switching study programmes in the first year in Wageningen University is a rare phenomenon, 3.5% of the students switched in 2010-2011 in the first year (Profile and Performance Agreements Wageningen University, 2012). University of Twente plans to have first year switch major less than 10 % (University of Twente Performance Agreements, 2012).

- Study success rate: the percentage of all full-time Bachelor's students (first-year higher education students) to re-register at Utrecht University after the first year and obtain a degree certificate at Utrecht University within four years will develop from 69% in 2006 (2003 cohort) to a projected total of 77% in 2016 (2013 cohort) (Performance agreements for Utrecht University, 2012). University of Twente plans to have Bachelor efficiency after 4 years more than 70% (University of Twente Performance Agreements).

Measures regarding educational intensity and the quality of teaching staff:

- Quality of teachers staff: the percentage of permanent lecturers with a basic teaching qualification will grow from 20% in 1999 to 60% in 2010 to a projected total of 80% in 2016. Utrecht University will retain its position as the Dutch university with the largest percentage of lecturers with a BKO or SKO qualification (Performance agreements for Utrecht University, 2012). At the Wageningen University only 24% of lecturers have a formal University Teacher Qualification (UTQ, BKO). For 2015 the university aims that 45% lecturers are qualified by BKO or SKO, with another 30% are following the UTQ-track. University expects all lecturers to obtain official Teacher Qualification. UTQ is a starting qualification and these courses are focused on strengthening three Wageningen University educational characteristics: relevance for society and industry (translating developments to course content, knowledge of labour market), international (English, multicultural skills and didactics), and inspiring students (innovating education, study skills). (Profile and Performance Agreements Wageningen University, 2012). In University of Twente in 2015 - 45% of the lecturers will have BKO qualification, and university plans that in 2020 their amount will increase to 70 % (University of Twente Performance Agreements).

- Educational intensity: by 2016, the number of scheduled contract hours and other structural education-related hours in the first year of all full-time Bachelor's programmes will total 12-18 hours per week. By 2016 the average number of scheduled contract hours and other structural education-related hours in the second and third years of all Utrecht University Bachelor's programmes will total 12-18 hours per week (Performance agreements for Utrecht University, 2012, p.4). University Wageningen states that education programmes have a relatively high number of contact hours and small groups of students. None of the bachelor programmes has less than 12 contact hours per week. In the

contract hours university are included the hours programmed for lessons and practicals, and examinations. In the social sciences programmes, the contract hours range from twelve to fourteen, in the beta sciences, the contract hours vary from fifteen to twenty-two per week (Profile and Performance Agreements Wageningen University, 2012).

## **Research**

When the government took office in 2010, it appointed nine key sectors that it deems crucial to the economy and employment in the Netherlands. These sectors have been highlighted in the innovation and stimulation policy for the coming years: 1) Agro & food; 2) Horticulture & plant reproduction material; 3) High-tech industry; 4) Energy; 5) Logistics; 6) Creative industries; 7) Life sciences; 8) Chemistry; 9) Water.

Such sectors as agro & food, horticulture & plant reproduction material, life sciences and water are at the core of Wageningen UR's domain, and there are also clear overlaps with such areas of research as energy, logistics and chemistry (Profile and Performance Agreements Wageningen University, 2012).

Utrecht University plans to invest in four strategic themes and research focus areas (including the recruitment of exceptionally talented staff, partnerships and additional funding) as a part of its contribution to nine Dutch Top Sectors and six EU Societal Challenges (Performance agreements for Utrecht University, 2012).

In order to develop research profile Wageningen Universities defined two instruments - chair plan and strategic funding. Wageningen University has a chair plan in place which registers the chair groups and the chair holders. 'The chair plan policy can be described as 'new for old': when a chair becomes vacant, the university investigates whether developments in research and in education require a new purpose for that chair' (Profile and Performance Agreements Wageningen University, 2012, p.25).

Strategic funds support the development of the research profile of Wageningen University and consists of a fund for investments in the investment themes of Wageningen UR, special PhD programs and a strategic fund for the Wageningen graduate schools. Besides Wageningen University defined ambition on the quality of research which concern the following issues: PhD-candidates, postdocs, tenure tracks, grants, publication and ranking. For example, an important indicator for the efficiency of the PhD. training is the time-to-degree and at Wageningen University the median time to graduation lies at 4.8-4.9 years, in line with

the national average. Wageningen university will implement the 'talents and topics' programs for all graduate schools to further develop the competencies and to increase the employability of postdocs. The tenure track system is focused on attracting top talents, to stay in tenure track, staff have to meet targets set for research, education and valorization. As it concerns ranking, Wageningen University aims to improve its Shanghai ranking in 'Life and Agricultural Sciences' from the current position (36) to within the top 30 (Profile and Performance Agreements Wageningen University, 2012).

### **Valorization**

'Although valorization and transfer of knowledge is a core activity, students and staff are not always aware that it plays an important role in their education and research' (Profile and Performance Agreements Wageningen University, 2012, p.32). Wageningen University asserts that in order to bring innovation in its domain to its full potential and contribute to the major challenges that the world is facing, university needs to expand and improve its valorization aspect. Wageningen University defines two directions of valorization - valorization through research and its output and valorization through education. For research the university aims to maintain the currently high level of third party funding. Wageningen University supports the knowledge chain within Wageningen UR and works on the improvement of the valorization infrastructure (Profile and Performance Agreements Wageningen University, 2012).

By 2016 Utrecht University will spend at least 2.5% of all public government research grants on activities in the area valorization. The percentage of students enrolled in entrepreneurship courses will increase from 1% in 2006, via 3% in 2010 to a projected total of 5% in 2016 (Performance agreements for University Utrecht).

University of Twente in the context of valorization pays great attention to the number of spin-off companies (University of Twente Performance Agreements, 2012).

Besides education, research and valorization Dutch universities take into consideration such issues as effective allocation of funds and cooperation ambitions. Utrecht University focuses on the allocation of its funds in an effective manner, ensuring that the ratio between overhead and turnover does not exceed 20%. Wageningen University seeks partnerships with strong national and international partners at university

level because university wants to be a major global player in its 'domain with an international profile, relevant for (international) society and industry, inspiring Dutch and international students and staff' (Profile and Performance Agreements Wageningen University, 2012, p.34)

### **Conclusions**

Performance agreements of the Dutch universities which are focused on such areas as education, research and valorization provides a basis for the increase of the efficiency and performance of higher education institutions. They contain qualitative indicators and that is why can be used not only as instrument for planning but also as instrument of evaluation and control of performance. Performance agreements increase the accountability of the higher education institution before state and provide the basis for the efficient funding allocation of the state budget. Besides performance agreements contribute to the positive development of competition between higher education institutions as it concerns such issues as quality of education, research and valorization. The positive experience of the Dutch higher education institutions can be used as the higher education institutions of other countries.

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