

Current Status of Higher Education

Matt Smith

Indiana University – Bloomington

Professor De Sawal, Ph.D.

7-28-2017

In some form or another, performance-based funding (PBF) in higher education, or state funding for public universities based on performance in a variety of metrics such as retention, grade point average and graduation rate, among other things, has been around since 1979 when Tennessee enacted the first such measures. Since then, the number of states which base or have based funding on performance metrics increased to 38 by 2016 (Wayt & LaCost, 2016, p. 1). Is PBF an effective tool for increasing the very metrics it measures, though? The answer to that question is simultaneously nuanced and straightforward. This paper will first look at how PBF models function, then at how they positively and negatively impact universities in states which have such laws before delving into further topics for consideration.

#### The PBF Model

At its root, the PBF model is designed to encourage and reward higher education institutions for improving the level of service and support it provides the student body, ultimately resulting in more graduates. Another way in which to view PBF is it rewards those universities which, on paper, prove successful in educating learners and punitively punishes and/or provides trainings to those which do not show successful outcomes. According to Klein (2015):

Performance-based funding is a resource-distribution strategy used in education to reward service providers for the outcomes they achieve. School districts or postsecondary institutions that produce above-average results earn additional financing, while those that fall short may face funding reductions and be targeted for technical assistance to address their performance deficits. (p. 2)

This is the general framework for PBF, though the metrics used to gauge performance and funding allocation varies by state.

The Pennsylvania State System of Higher Education (PASSHE), for example, has eight percent of its annual higher education appropriation tied directly to institutional performance in a variety of categories. For each goal hit, a university receives a proportional cut of funding based on the number of schools achieving said goal. If a PASSHE school does not meet a particular goal, the associated funding is not allocated (Hillman, Tandberg, & Gross, 2014, p. 831). The funding mechanism put in place in Ohio in 2011 will eventually lead to the entirety of higher education appropriations being based on performance, while Colorado and Arkansas will end up tying 25 percent to PBF (McLendon & Hearn, 2013).

Applicable metrics are as varied as funding structures. Per the National Conference of State Legislators (2015), Florida places premiums on, among other things, six-year graduation rates, conferred graduate degrees and the median average full-time wages of graduates employed in-state one year after completion, while Indiana bases their PBF model on retention, degree completion and the success of at-risk students. Maine looks specifically at STEM, Allied Health and other high impact programs along with federal research grants secured by an institution. Oklahoma, on the other hand, cares little for area of study, instead looking at retention broken up into those receiving Pell recipients, course load, graduation rates and accreditation. It is a complex system set up to, in theory, meet the needs of individual states.

#### Positive Impacts of PBF

Does PBF work, though? The answer in some circumstances is absolutely. Klein (2015), for example, notes “performance-based funding systems focus the attention of program administrators and other key stakeholders—including state legislators, educational administrators and taxpayers—on program and learner outcomes,” and the resulting increase in “awareness of performance and its financial implications can generate cost efficiencies” (p. 11). These “cost efficiencies” often play out in

the form of non-academic hiring freezes or layoffs, of course, though if austerity is the goal, PBF will force higher education providers to limit outlays in favor of maximize operational efficiency. Dougherty and Reddy (2011) term this phenomenon “institutional self-awareness” (p. 17).

Performance-based funding is also responsible for an increase in the use of data in institutional planning and impacts numerous organizational practices and policies. This shows up in numerous PBF reports and surveys. To a survey, responding institutions note data now informs decision-making at a level not seen when funding was allocated based on incoming class size (Dougherty and Reddy, 2011, p. 20). And if efficient management of state resources is the goal of funding legislation, this is certainly a beneficial outcome.

Another byproduct of PBF is a race for recognition within state systems. In Washington State, for example, one community college president stated PBF allocations following yearly reporting windows led to administrators claiming “bragging rights” over other community colleges (Dougherty and Reddy, 2011, p. 18). This competition, then, has led to changes directly benefiting low-income students. In this same state, community colleges eliminated several graduation obstacles for low-income students, including “certificate or diploma fees and increased credit requirements for certain shorter occupational certificate programs” (Jenkins, Ellwein, & Boswell, 2009, p. 32). Even PBF’s staunches opponents would agree removing unnecessary fees and shortening certification programs benefits those students without the financial means to cover excessive costs, whether they be direct or indirect.

Decreased graduation obstacles aren’t the only student benefits reportedly associated with PBF. Dougherty and Reddy (2011), for example, list several beneficial student-centered outcomes, including improved registration procedures, increases in available aid for low-income students, additional counseling and advising services, improved first-year support services, advances in job placement assistance (especially in those states with performance metrics tied to median average wage one year

after graduation) and supplemental instruction (pp. 22-24). And in private report commission on behalf of various state policy makers, Snyder (2015) notes numerous states reported higher enrollment, retention and graduation rates after several years of using PBF as a supplemental finance structure.

#### Negative impacts of PBF

Do the positive outcomes lead to actual learning and benefit students, though? The answer, in the aggregate, has to be no. At odds with what proponents of PBF claim, for example, *Declining by Degrees* (2005) points out several concerns directly and indirectly tied to PBF. Grade inflation, which is a form of metric manipulation, for instance, is a problem at schools across the country. Not challenging students from an academic perspective during their first year (a key performance indicator in several states) is a rather universal complaint amongst students and faculty. There is a trend toward hiring adjunct professors or full-time faculty members with no chance of tenure in an effort to keep costs down. And which institutions developed the additional services mentioned earlier? In the literature review conducted, no note was made of the size of the university relative to new service creation, and in *Declining by Degrees* (2005), even large state schools such as the University of Arizona had co-eds complaining about lack of administrative support. So if only certain unnamed schools have the financial wherewithal to implement new programs which support learner needs, then is it really a benefit? The answer has to be no.

Another criticism levied against PBF is it rewards larger institutions. Hillman, Tandberg and Gross (2014) write:

Performance funding programs make the basic assumption that institutions can do more to improve completions; however, if they lack the necessary resources to make the changes (e.g., student support services, financial aid, or technical assistance) to respond to the incentives, the program will inevitably fail. (p. 852)

If that isn't concerning enough, some schools will actually implement programs which mirror larger universities in an effort to make themselves more marketable. On the surface, this seems reasonable enough and does not appear to have a negative impact on student learning. Unfortunately, replicating programs and services offered at competing schools can have damaging impacts on support programs, student diversity and enrollment. As Ellis (2015) opines in a report on PBF efforts in Texas:

...a 10% allocation of state funding for performance appears minimal, for smaller institutions it represents a larger proportion of their operating budget. It may force smaller, regional institutions to develop academic and support programs that other institutions already have. Instead of promoting diversity, Texas could see a shift toward homogeneity of programs, services, and outcomes. This is particularly troublesome for institutions, since they cannot control who decides to attend college. (p. 9)

In essence, those things which differentiated colleges disappear in a race to acquire funding. And when difference evaporates, university nuance and uniqueness is diminished or eliminated, potentially leading some students to choose larger institution.

Tying funding to retention and performance has another drawback in the form of increased tuition. Simply, if states tighten the amount of money given to public institutions, those universities oftentimes raise tuition to make up for any gaps (Hillman, 2016). The increased tuition expense has two outcomes. First, enrollments drop precipitously when tuition rises (Deming & Dynarski, 2010). Second, less money from decreased enrollments and lessened state funding leads to cuts in academic support services, increasing the impact on lower-income and working class families as a greater reliance on tuition versus state funding dramatically lessens the likelihood someone without financial means can afford a four-year degree. As Hillman (2016) noted:

State appropriations help colleges serve students by offering better academic support services, lower faculty-to-student ratios, and reducing tuition—all of which are shown to be effective ways to increase degree attainment. If a college does not have adequate financial resources to support student success, then it becomes even more difficult to meet performance goals. Many of our nation's lower-income, working class, and racial/ethnic minority students are enrolled in colleges that have the fewest financial resources, suggesting performance-based funding models could exacerbate inequalities if they do not account for this context.

Simply, PBF can have devastating impact on low-income and average to below-average students. Schools with financial means resulting from large endowments or research grants end up at an economic disadvantage almost impossible to overcome. And in trying to overcome these shortfalls, smaller universities and colleges end up caught in a battle they have no way of winning, furthering institutional inequality.

#### Further Discussion

When analyzing PFB, several questions emerge. How, for example, do we prevent the key performance manipulation mentioned above and protect disadvantaged students? And make no mistake, malfeasance in data reporting is a concern. In an exhaustive report for the National Center of Performance Incentives, Rothstein (2008) wrote:

In education ..., most policy makers who promote performance incentives and accountability seem mostly oblivious to the extensive literature in economics and management theory, documenting the inevitable corruption of quantitative indicators and the perverse consequences of performance incentives which rely on such indicators. If ignorant of this literature, proponents of performance incentives in education are unable to engage in careful deliberation about whether, in particular cases, the benefits are worth the price.

So while there are certainly benefits in PBF in the form of operational improvements, we must find a way to ensure greed and corruption are not negatively impacting our institutions. Another thing to consider when examining the effects of PBF is the impact on student affairs (SA) personnel. As Ellis (2015) noted, PBF funding systems “could force institutions toward budget cuts. Administrators may choose to reduce their budgets by the amount of performance-based funding available since there is no guarantee their institution will receive it” (p. 9). And as Romano, Hanish, Phillips and Waggoner (2010) explore, SA staff often bears the brunt of austerity measures. So how do we balance a fear of lost funding with ensuring SA, a segment of the administration critical to student learning, is not negatively impacted?

What other option is there, though? After all, we probably all agree universities misusing public funds is not in student’s best interest and there must be some mechanism to ensure college completion remains at the forefront of the conversation. Hillman (2016), for one, believes need-based funding is the appropriate model. In such funding structures, resources are directed to those universities and colleges with the greatest amount of demonstrated student need. This removes competition from the equation and does not push students at academic disadvantage further toward the periphery of educational priority. This also levels capacity concerns insomuch as smaller institutions would not scramble to create services (think additional support services or facilities improvements) to keep up with larger schools of more means.

All told, PBF is a volatile issue. There are certainly some benefits to using such a model. That said, those benefits revolve around increased operational efficiency. This is not always in the student’s best interest. And as is demonstrated in the pages above, the negative impact of PBF outweigh any perceived benefit. We must find a way to foster equity, driving student learning in the process. Needs-based funding is a strong option. Surely, there are others to explore.



## References

- Deming, D., & Dynarski, S. (2010). College aid. In Levine, P. B., & Zimmerman, D. J. (Eds.) *Targeting investments in children: Fighting poverty when resources are limited* (pp. 283–302). Chicago: University of Chicago Press.
- Hillman, N. (2016, May 25). *Why performance-based college funding doesn't work*. Retrieved from <https://tcf.org/content/report/why-performance-based-college-funding-doesnt-work/>
- Hillman, N. W., Tandberg, D. A., & Gross, J. P. (2014). Performance funding in higher education: Do financial incentives impact college completions? *The Journal of Higher Education*, 85(6), 826-857.
- Jenkins, D., Ellwein, T., & Boswell, K. (2009). *Formative evaluation of the student achievement initiative "learning year"*. New York, NY: Columbia University, Teachers College, Community College Research Center.
- Klein, S. G. (2015). Using performance-based funding to incentivize change. Occasional Paper. RTI Press Publication OP-0020-1501.
- McLendon, M. K., & Hearn, J. C. (2013). The resurgent interest in performance-based funding for higher education. *Academe*, 99(6). Retrieved from <https://www.aaup.org/article/resurgent-interest-performance-based-funding-higher-education#.WWPVJIQrJhE>
- Merrow, J. (Producer). (2005). *Declining by degrees: Higher education at risk* [Motion picture]. United States: Public Broadcasting Service.
- Romano, C. R., Hanish, J., Phillips, C., & Waggoner, M. D. (2010). The new normal: Senior student affairs officers speak out about budget cutting. *New Directions for Student Services*, 129, 59-70.
- Rothstein, R. (2008). *Holding accountability to account: How scholarship and experience in other fields inform exploration of performance incentives in education*. Nashville, TN: Vanderbilt University Peabody College.
- Snyder, M. (2015, February 12). Driving better outcomes: Typology and principles to inform performance-based funding models. HCM Strategists. Retrieved from <http://hcmstrategists.com/analysis/driving-better-outcomes-typology-principles-inform-outcomes-based-funding-models/>
- Wayt, L. K. & LaCost, B. Y. (2016). Transitioning to performance-based state funding: Concerns, commitment, and cautious optimism. *Educational Considerations*, 43(2), 1-6.