

Performance Funding 2.0

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This paper will draw upon the existing scholarly literature base to examine how and why certain states have moved toward performance-based funding of higher education, who seem to be the major players, and what political forces are advocating for such funding formulas. This will be accomplished through an analysis of the performance funding models in states where such models have been most prevalent in recent years. This paper will also provide an analysis of institutional behavior in these states in response to their respective performance funding models.

Dougherty and Reddy (2011, 2013) posited that over the last three decades policymakers have been actively seeking new ways to improve the performance of higher education institutions. A popular approach to achieve this goal has been performance-based funding. According to Miao (2012), “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” (p. 1). This model creates a broad picture of the level of success to which postsecondary institutions are using their state appropriations to support students throughout their college careers and to promote course and degree completion (Miao, 2012). Furthermore, performance funding is a structure that incorporates both enrollment and performance metrics as incentives for colleges and universities to continue to improve in these areas (Miao, 2012).

Although performance funding for higher education has existed for many years, the details of some of these funding programs have changed—sometimes dramatically—over time (Dougherty, Natow, Jones, Lahr, Pheatt, & Reddy, 2014). Dougherty et al. (2014) declared that “a new form of performance funding often called *performance funding 2.0* (PF 2.0) represents

a major shift in performance funding and in higher education funding more generally” (p. ii), and despite their common goals, states that incorporate PF 2.0 differ widely in the structure of these programs (Miao, 2012). The emergence of PF 2.0 is a result of a shift in focus in recent years by state officials from decision-making authority and processes to outcomes in terms of institutional performance on key metrics (Layzell, 1998, 1999; McLendon & Hearn, 2013). This paper will draw upon the existing scholarly literature base to examine how and why certain states have moved toward performance-based funding of higher education, who seem to be the major players, and what political forces are advocating for such funding formulas. This will be accomplished through an analysis of the performance funding models in states where such models have been most prevalent in recent years. This paper will also provide an analysis of institutional behavior in these states in response to their respective performance funding models.

Methods

This paper offers a synthesis of the existing literature. Much research already exists around the broad topic of higher education finance. When overlaid with the subject of performance-based funding, there are still a sizable number of publications. To remain focused on the purpose of this paper,

only the literature on the relationship between state appropriations for higher education and performance-based metrics was fully explored.

Of the literature on state appropriations for higher education, the following types of information were used in the conceptualization and writing of this paper: (a) findings from studies conducted on performance-funding systems and (b) data on national trends in performance funding and their effect on institutional behavior.

Performance Funding: Nature and Forms

Sizer, Spee, & Bormans (1992) identified five primary uses of performance indicators: monitoring, evaluation, dialogue, rationalization, and resource allocation. Before launching into a review of the research literature on performance funding, it is imperative to review relevant terms and make important distinctions. Particularly, one must distinguish between the three main forms of state accountability for higher education: performance funding, performance budgeting, and performance reporting (Dougherty & Reddy, 2013).

Performance Funding versus Performance Budgeting and Reporting

According to Dougherty and Reddy (2013), “*Performance funding* connects state funding directly and tightly to institutional performance on individual indicators” (p. 5). Formulas are created in which specific institutional outcomes, such as the number of graduates, graduation rates, and persistence and retention rates, among others, are tied to specific, discrete levels of funding (Dougherty & Reddy, 2013). This concept is grounded in the notion that higher education institutions (HEIs) are resource-seeking organizations that aim to maximize revenue and minimize loss (Burke, 2002; Dougherty & Reddy, 2013). Therefore, institutional improvement is a byproduct of

the aims of HEIs (Burke, 2002; Dougherty & Reddy, 2013).

Performance budgeting does not have an explicit formula connecting performance to funding (Burke, 2002; Dougherty & Reddy, 2013). Instead, institutional achievements are evaluated on performance indicators by state governing bodies, such as state governors, legislatures, boards of education, and Boards of Regents (Dougherty & Reddy, 2013). Dougherty and Reddy (2013) noted that “in recent years, this form of performance accountability has greatly receded in attention, in good part because it is difficult to differentiate it in practice from performance reporting” (p. 6).

Performance reporting involved little or no explicit relationship between performance and funding (Dougherty & Reddy, 2013). While the indicators may be the same, funding parties do not commit themselves to basing funding on that performance (Dougherty & Reddy, 2013). In fact, changes in institutional self-awareness and public reputation are more likely to spur institutional improvement than threatened shifts in government funding (Dougherty & Reddy, 2013). “The acquisition and dissemination of performance data may compel institutional change by making institutions more aware of their performance or of state priorities, or by fostering status competition among institutions desirous of being seen publicly as effective organizations” (Dougherty & Reddy, 2013, p. 6). Moreover, such healthy competition among postsecondary institutions competing in an arms race for state funding can allow institutions to differentiate themselves by meeting prescribed performance metrics. A knowledge of the historical development of state accountability systems for higher education is paramount to understanding the current state of higher education funding in the United States. This topic is discussed below.

Historical Background

Before the 1980s, accountability in public higher education was marked by challenges of state authorities to balance needed public oversight of HEIs with the valued traditions of campus autonomy (Layzell, 1998, 1999; McLendon & Hearn, 2013). There was debate over whether campuses should have their own boards or whether boards should oversee multiple campuses (Layzell, 1998, 1999; McLendon & Hearn, 2013). There were also concerns over who should have powers of oversight and control: campuses or state boards of higher education and other executive-branch agencies (Layzell, 1998, 1999; McLendon & Hearn, 2013). Questions lingered about how to delegate responsibility for decisions regarding tuition rates and budgeting (Layzell, 1998, 1999; McLendon & Hearn, 2013). In recent years, the focus of state officials has shifted from decision-making authority and processes to outcomes in terms of institutional performance on key metrics (Layzell, 1998, 1999; McLendon & Hearn, 2013). McLendon and Hearn (2013) described a new movement that took hold in higher education funding:

This “new accountability” movement took shape as incentive systems have been designed to link campus funding levels to desired institutional performance outcomes in such areas as student retention and graduation rates, undergraduate access, measures of institutional efficiency, student scores on licensure exams, job placement rates, faculty productivity, campus diversity and, increasingly, student learning. (para. 4)

Tennessee was the first state with a formal performance-funding program in 1979-1980 (Dougherty et al., 2014; Dougherty & Reddy, 2011, 2013;

McLendon & Hearn, 2013). In 1985, Connecticut launched its own performance-funding system (McLendon & Hearn, 2013). Missouri and Kentucky followed suit by adopting similar systems in 1991 and 1992, respectively (McLendon & Hearn, 2013). Twenty-one more states had adopted performance-funding systems by 2001 (McLendon & Hearn, 2013). According to McLendon and Hearn (2013), “Moves to adopt such systems have sometimes been followed by retreats, however, and the current number of states with active systems is appreciably lower than the number that adopted such systems at some earlier point” (para. 6). As of July 2015, there are 32 states with active performance-funding systems in place “to allocate a portion of funding based on performance indicators such as course completion, time to degree, transfer rates, the number of degrees awarded, or the number of low-income and minority graduates” (National Conference of State Legislatures [NCSL], 2015, para. 2), and five states are currently transitioning to some sort of performance-funding model, meaning the programs have been approved by legislatures or governing boards, but the details are still being worked out (NCSL, 2015). Thirty-six states have had a performance-funding system in place at some point (Dougherty, 2014). Tennessee’s performance funding is discussed further in the next section.

Tennessee: An Early Adopter

McClendon and Hearn (2013), Dougherty et al. (2014), and Dougherty and Reddy (2013) asserted that Tennessee is a pioneer in the development of performance funding 1.0 (PF 1.0), and the state’s initial model and its current reformulation are illustrative of the factors driving the initial and now resurging interest in performance funding as an approach to funding higher education. According to McLendon and

Hearn (2013), “The state’s goal in establishing the first performance-funding system was to address widespread dissatisfaction with enrollment-based funding formulas and a growing public concern over performance assessment” (para. 7). Tennessee received support from the federal Fund for the Improvement for Postsecondary Education, the Ford Foundation, and the Kellogg Foundation, which allowed it to implement the performance-funding policy at several pilot campus sites, with close involvement of the Tennessee Higher Education Commission (Dougherty & Reddy, 2011, 2013; McLendon & Hearn, 2013). Under this system, HEIs could earn a bonus of two percent “over and above their annual state appropriations for achieving certain goals based on five performance indicators, each of which was worth 20 out of 100 points” (Banta et al., 1996; Bogue & Johnson, 2010; Levy, 1986; as cited in Dougherty & Reddy, 2013, p. 30).

The original indicators were program accreditation (proportion of eligible programs in the institution’s inventory that are accredited); student major field performance (student performance in major fields as assessed by examinations that have normative standards for state, regional, or national referent groups); student general education performance (student performance in general education as assessed by a nationally normed exam such as the ACT-COMP examination); evaluation of instructional programs (evaluative surveys of a representative sample of current students, recent alumni, or community members or employers); and evaluation of academic programs by peer review teams of scholars from institutions outside the state

and/or practicing professionals in a field. (Banta, 1986, pp. 123–128; Bogue, 1980; Bogue & Johnson, 2010; as cited in Dougherty & Reddy, 2013, pp. 30-31)

The success of the pilot program propelled legislative action (Dougherty & Reddy, 2011, 2013; McLendon & Hearn, 2013). At the time, campus administrators hoped to avoid, or at least stall, the imposition of a more restrictive state accountability system for higher education by demonstrating the higher education community’s commitment to active performance assessment (Dougherty & Reddy, 2011, 2013; McLendon & Hearn, 2013).

Burke (2002) and McLendon and Hearn (2013) noted that, from early on, Tennessee’s performance-funding program had many features that made it attractive to other states: (1) it featured twin goals of external accountability and institutional improvement, (2) it focused on a set of performance indicators that were varied in scope but limited in number, (3) it specified a phased implementation and periodic reviews afterward, (4) it stressed institutional improvement over time, (5) it provided limited but still significant supplementary funding for institutions, and (6) it maintained reasonable stability in its priorities and program requirements. The innovation, not surprisingly, spread quickly (Layzell, 1998, 1999; McLendon & Hearn, 2013).

The Spread of Performance-Funding Systems

At first, the spread of performance-funding innovation was primarily regional (Dougherty & Reddy, 2013; Layzell, 1999; McLendon & Hearn, 2013). States adopting the performance-funding approach in 1997 were clustered mostly in the South and Midwest, but, by 2000, the states adopting

the performance-funding approach had become more evenly spread throughout the country (Dougherty & Reddy, 2013; Layzell, 1999; McLendon & Hearn, 2013). Adoption of performance-based budgeting systems followed similar patterns (McLendon & Hearn, 2013).

A very intriguing pattern marked the development of state performance-funding schemes, as much volatility emerged over time: “there are numerous instances of states adding and dropping accountability emphases and features” (McLendon & Hearn, 2013, para. 10). McLendon and Hearn (2013) asserted that “in reality, these programs are extremely difficult to design and maintain, both fiscally and politically” (McLendon & Hearn, 2013, para. 10). Therefore, undoubtedly, some of this effervescence was a result of the difficulties of translating the theoretical and policy attractiveness of the programs into effective, efficient implementations (Dougherty & Reddy, 2013; Layzell, 1999; McLendon & Hearn, 2013).

Burke (2002), Dougherty and Reddy (2011, 2013), Layzell (1998, 1999), and McLendon and Hearn (2013) argued that, ultimately, the stability of performance-funding programs is significantly influenced by the degree of political force over the design and development of these performance-funding systems. McLendon and Hearn (2013) explained that, “specifically, the least stable programs have been those in which legislators, governors, businesspeople, and community leaders have been most influential, while the most stable ones exhibit the greatest involvement of state higher education officials” (para. 11). Additionally, “political, corporate, and community leadership can play an important role in both the adoption and the long-term success of performance regimes, but effective leadership in this arena may be as much about informed deference as about

command” (McLendon & Hearn, 2013, para. 11). South Carolina’s performance-funding initiative is illustrative of a program that was unstable and, ultimately, unsuccessful, as discussed below.

South Carolina: An Unsuccessful Story

According to McLendon and Hearn (2013), “South Carolina is most often cited as an example of a state that has pursued an overreaching and ultimately unsuccessful performance initiative” (para. 12). South Carolina initially attempted to base its appropriations for higher education entirely on performance metrics and to use a rather uniform allocation approach that poorly distinguished among institutions’ missions (Dougherty & Reddy, 2013; McLendon & Hearn, 2013).

As legislated, the South Carolina performance funding program was to be based on 37 indicators grouped into nine Critical Success Factors (in priority order): mission focus, quality of faculty, instructional quality, institutional cooperation and collaboration, administrative efficiency, entrance requirements, graduates’ achievements, user friendliness of institution, and research funding. (Dougherty & Reddy, 2013, p. 29)

As a result, not surprisingly, implementation of this system was extremely controversial and extraordinarily costly in political and economic terms (Dougherty & Reddy, 2013; McLendon & Hearn, 2013). These problems, coupled with sharp drops in the availability of higher education tax funds and a lack of evidence that performance systems enhance institutional performance in a cost-effective way, prompted retreat from such approaches in South Carolina and in many other states (Dougherty & Reddy, 2013; McLendon & Hearn, 2013).

Performance Funding 2.0: The Modern Era

A resurgence in state performance approaches. Interestingly, however, today there are early signs of a resurgence in state performance approaches, “perhaps rooted in wisdom and experience gained from the earlier problems in this arena yet influenced unmistakably by the changed political context for higher education in many states” (McLendon & Hearn, 2013, para. 13). McLendon and Hearn (2013) posited that “The Lumina Foundation funded quality-improvement efforts in eleven states, each featuring substantial commitment to what is being termed ‘Performance Funding 2.0,’ a systematic effort to tie state funding explicitly and significantly to quality improvements on various dimensions of campus performance” (para. 13). In parallel, several states have decided to move along similar lines without foundation support (Dougherty & Reddy, 2013; McLendon & Hearn, 2013). About half of all currently operating performance-funding programs take the form of performance funding 2.0 (PF 2.0) (Dougherty, 2014). The PF 2.0 movement has several distinctive features (McLendon & Hearn, 2013):

First, the funding of degree production for the emerging economy has been much more strongly emphasized than in earlier efforts. Second, the development of workforces specifically prepared for the states’ perceived future needs has become a greater focus. Third, there is increasing recognition that missions, measures, and incentives must be more tightly and efficiently linked. Fourth, these newer efforts have begun incorporating into performance-appraisal systems certain “throughput” indicators of

success, as well as output or outcome measures. (para. 14)

Examples of throughput indicators include rates of student completion of “gateway” courses (like those in biology, chemistry, mathematics, or psychology), “where poor academic performance by students often creates bottlenecks impairing student transition to upper-level curricula and contributes to student dropout” (McLendon & Hearn, 2013, para. 14). Different states have approached the new performance-funding movement in varying ways, as outlined below.

Varying approaches to PF 2.0.

Dougherty and Reddy (2013) and McLendon and Hearn (2013) declared that the most important factor influencing the PF 2.0 movement is the financial and political stakes, which have become appreciably higher. Again, Tennessee provides an illustrative example. In its first three decades, Tennessee’s performance funding stated that an institution’s score on its individually prescribed performance indicators would determine how additional funds would be allocated to supplement core state funding (Dougherty & Reddy, 2011, 2013; McLendon & Hearn, 2013). The percentage of an institution’s state appropriations based on performance funding increased over time but still remained limited (Dougherty & Reddy, 2011, 2013; McLendon & Hearn, 2013). In 2010, though, Tennessee stopped its enrollment-based core funding approach and moved to an output-based approach, “thus providing an incentive for campuses to build staffing and services for improving graduation rates, including fast-track majors, increased advising, expanded tutoring and remediation efforts, and expanded course offerings” (McLendon & Hearn, 2013, para. 15).

Other states have pursued similar approaches (Dougherty & Reddy, 2011,

2013; McLendon & Hearn, 2013). In 2008, Ohio adopted a performance-funding model that over time will lead to all state appropriations being based on higher education outputs, namely course and degree completions (Dougherty & Reddy, 2011, 2013; McLendon & Hearn, 2013). Colorado and Arkansas have developed formulas that reward institutional success in degree production, and they have implemented performance-funding systems that eventually will allocate up to 25 percent of state funding for higher education on the basis of these formulas (McLendon & Hearn, 2013). In Texas, legislators are working out the details of a law passed in 2011 that redirected up to ten percent of the state's enrollment-driven funding for allocation to colleges and universities based on certain performance metrics, "such as the six-year graduation rates of an institution's undergraduate students, the total number of bachelor's degrees awarded, the number of degrees awarded in certain 'critical fields,' and the number of degrees awarded to 'at-risk' students" (McLendon & Hearn, 2013, para. 16). In 2013, Texas lawmakers debated further increasing the share of performance-based funding to 25 percent of total state funding for higher education (McLendon & Hearn, 2013).

Theoretical Frameworks for Performance-Based Funding 2.0

A state's decision to pursue performance-based approaches to higher education funding is influenced by many variables. In order to examine how PF 2.0 initiatives have been carried out in different states and their effect on state appropriations as well as on institutional behavior, it is important to understand the concepts that undergird the political process behind performance-based funding models. To understand this political process, one must

examine theoretical perspectives within policy: Advocacy Coalition Framework, Policy Entrepreneurship theory, and policy diffusion theory (Dougherty et al., 2014). These three perspectives, which "powerfully illuminate different facets of the origins of PF 2.0 policies when treated as complementary rather than as mutually exclusive explanations" (Dougherty et al., 2014, p. 3), are reviewed below.

Advocacy Coalition Framework

Dougherty et al. (2014) explained that "the Advocacy Coalition Framework (ACF) (Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007) conceptualizes policy change as occurring within a 'policy subsystem' consisting of actors (individuals, interest groups, and government agencies) that interact regularly to formulate and implement policies within a particular policy domain" (p. 3). Within a policy subsystem, there are various advocacy coalitions comprised of different actors, and the various advocacy coalitions each champion different policy problems and solutions to the actors (Dougherty et al., 2014). "The coalitions may include elected officials, government agency personnel, interest group members, and researchers" (Dougherty et al., 2014, p. 3). Therefore, the coalitions can encompass a wide variety of individuals and entities.

The ACF states that advocacy coalitions integrate mainly around the layered shared beliefs, rather than the shared interests, of their members (Dougherty et al., 2014). Dougherty et al. (2014) described the beliefs of the advocacy coalitions: "'Deep core' beliefs concern fundamental social values, the nature of society and humanity, what the appropriate role of government is, and the importance of different social groups" (p. 3). "Policy core beliefs," which reflect the application of deep core beliefs to specific policy areas and typically involve views

about a problem's import, its causes, and the most effective potential solutions, stem from deep core beliefs and are particularly important to the formation of advocacy coalitions (Dougherty et al., 2014).

The ACF outlines various means through which policy changes occur (Dougherty et al., 2014). One mechanism is policy learning, "in which advocacy coalition members gain knowledge about policies and their contexts, causing the coalition members to modify some of their beliefs" (Dougherty et al., 2014, p. 4). Policy change can also occur through "shocks" to the policy subsystem "that cause the dominant coalition in a policy subsystem to change its beliefs or to lose power to other coalitions" (Sabatier, 1993; Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007; as cited in Dougherty et al., 2014, p. 4). Examples of such shocks to the policy subsystem can include economic downturns, large shifts in public sentiment, changes in the government-controlling political party, and major policy events taking place in other subsystems (Dougherty et al., 2014).

Dougherty et al. (2014) asserted that "the ACF provides a powerful lens through which to view the politics of performance funding" (p. 4). Dougherty et al. (2014) offered a critique of the ACF: the ACF does not analyze how and why advocacy coalitions appear and formulate their policy agendas and lacks sufficient detail to explain how shocks to the policy subsystem produce changes in policy. Dougherty et al. (2014) also pointed to the ACF's concept of policy learning, which they posited "focuses too much on processes that are internal to a policy subsystem and pays insufficient attention to external sources of ideas" (p. 4). However, according to Dougherty et al. (2014), "these shortcomings can be overcome by complementing the ACF with the Policy Entrepreneurship and policy diffusion perspectives" (p. 4).

Policy Entrepreneurship Theory

Policy Entrepreneurship theory "stresses the role of policy entrepreneurs, whose initiative is key to publicizing public issues, promoting particular policy solutions, and mobilizing the advocates for those solutions (Mintrom & Norman, 2009; Mintrom & Vergari, 1996; see also Kingdon, 1995; Roberts & King, 1996)" (as cited in Dougherty et al., 2014, p. 4). Essentially, Policy Entrepreneurship theory thus "helps to illuminate political dynamics that the ACF tends to overlook" (Dougherty et al., 2014, p. 5).

The Policy Entrepreneurship theory adds clarification to the process of advocacy coalition organization (Dougherty et al., 2014). The Policy Entrepreneurship theory contends that, by identifying points of ideological commonality, policy entrepreneurs are able to pull together political supporters (Mintrom & Norman, 2009; see also Mintrom & Vergari, 1996; as cited in Dougherty et al., 2014). Dougherty et al. (2014) noted that "policy entrepreneurs also are key to the process by which political coalitions decide on what policy proposals to push them onto the decision agenda of government" (p. 5). Policy entrepreneurs allure opposition and capture the attention of policymakers through persistent and energetic advocacy (Mintrom & Norman, 2009; Mintrom & Vergari, 1996; see also Kingdon, 1995; as cited in Dougherty et al., 2014).

The Policy Entrepreneurship theory also helps explain how policy change is spurred by the ACF's external shocks (Dougherty et al., 2014). Policy Entrepreneurship theory states that policy entrepreneurs are a vital link in realizing the "windows of opportunity" provided by political events (Dougherty et al., 2014). Dougherty et al. (2014) further explained that "by noticing and providing persuasive interpretations of

the meaning of political events, policy entrepreneurs can use them as openings to call attention to particular problems and policy solutions" (Kingdon, 1995; Mintrom & Norman, 2009; Mintrom & Vergari, 1996, p. 5).

But Policy Entrepreneurship theory fails to explain where these policy ideas come from (Dougherty et al., 2014). Policy learning internal to a policy subsystem is not sufficient; outside influences also play a crucial role (Dougherty et al., 2014). Policy Entrepreneurship theory outlines the role of policy networks across political jurisdictions (Mintrom & Norman, 2009; as cited in Dougherty et al., 2014), which is developed further by policy diffusion theory (Dougherty et al., 2014).

Policy Diffusion Theory

Policy diffusion theory suggests that policy learning is often an interstate process, with state policymakers frequently designing policies based on what they have seen in other states (Dougherty et al., 2014). Dougherty et al. (2014) further explained that "states turn to other states' policy innovations in order to learn about what works, compete for economic advantage, or adhere to national or regional standards of the hallmarks of progressive state government" (Berry & Berry, 2007; McLendon et al., 2005; Walker, 1969, pp. 5-6).

Traditionally, under the policy diffusion perspective, a state's neighbors were the main sources of policy ideas (Berry & Berry, 2007; McLendon et al., 2005; McLendon et al., 2006; as cited in Dougherty et al., 2014). However, Dougherty et al. (2014) pointed out that "a growing body of research indicates that neighboring states often do not have much influence on a given state's policy innovations" (p. 6). In recent years, scholars and researchers have studied the role of

interstate organizations and government agencies (such as the National Governors Association and the National Conference of State Legislatures) in spreading policy concepts across states that may be far away from each other as a mechanism of non-proximal policy diffusion (Balla, 2001; Berry & Berry, 2007; McLendon et al., 2005, 2006; see also Walker, 1969; as cited in Dougherty et al., 2014). Used in tandem, these three theories illuminate different aspects of the policymaking process (Dougherty et al., 2014).

Revisiting the Effects of Performance Funding on Institutional Behavior

The author of this paper has chosen to examine the performance-funding systems in Indiana and Ohio since performance funding models have been prevalent in these two states in recent years. An examination of the effect of Indiana and Ohio's performance-funding programs on Indiana University Bloomington and The Ohio State University's main campus will be conducted since the two campuses share many similar characteristics. It should be noted that this analysis utilizes 2015 data from Indiana University Bloomington and 2013 data from The Ohio State University. This is potentially a large limitation; however, earlier data from Indiana University Bloomington was not publicly available as of this writing.

In both Indiana and Ohio, the performance funding (PF) programs involve embedding performance funding indicators in the base state funding for higher education (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014; Miao, 2012). Both Indiana and Ohio have performance-funding systems in place at both two-year and four-year institutions (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014; Miao, 2012; NCSL, 2015). However, there are considerable

differences among these two states' PF programs in the amount of state funding based on performance indicators and in the precise way they embed the indicators (Lahr et al., 2014; Miao, 2012). Ohio uses "a formula to determine state funding for higher education operations, with about four fifths of the funding of those operating appropriations based on performance indicators" (Lahr et al., 2014, p. 63). In Indiana, "performance funding involves a much smaller amount (6 percent of state operational funding), and that funding involves both bonus funding and withheld funding that is paid back based on performance" (Lahr et al., 2014, p. 63). Indiana thus utilizes a performance-based structure that leverages both bonus and withheld funding.

Performance Funding in Indiana

According to a 2011 report by HCM Strategists, Indiana first adopted performance funding in 2007 in the form of a bonus on top of the base state funding for higher education (as cited in Lahr et al., 2014). "However, this program was quickly replaced in 2009 by a new program in which five percent of each institution's base allocation would be withheld and then all or some of it would be awarded based on performance on certain metrics" (Lahr et al., 2014, p. 63). According to data from the Indiana Commission for Higher Education (2013), in the period 2011–2013, this five percent withholding amounted to roughly \$61 million dollars (as cited in Lahr et al., 2014). In 2013, the state general assembly increased PF to six percent for both fiscal years 2014 and 2015 but changed the allocation method (Lahr et al., 2014). Of the six percent devoted to performance funding, 3.8 percent was in new money, and 2.2 percent was from withholding funds from institutional appropriations (Lahr et al., 2014). Lahr et al. (2014) explained that "the

portion withheld is put into a funding pool and institutions can then earn back some or all of that withheld funding depending on how well they perform during the year and how well other institutions perform (Authors' IN interviews)" (p. 63).

One of the goals of the PF indicators is to measure change over time, based on comparing two- to three-year averages of institutional performance (Lahr et al., 2014). The PF indicators Indiana has used have changed every two years (Lahr et al., 2014). However, certain indicators have persisted (Indiana Commission for Higher Education, 2013; as cited in Lahr et al., 2014); change in number of degrees awarded (2009–2011, 2011–2013, 2013–2015 biennia); change in number (or rate) of resident, undergraduate, first-time, full-time students graduating on-time (2009–2011, 2011–2013, 2013–2015); change in degree completion by low-income students (2009–2011, 2011–2013, 2013–2015); and change in number of successfully completed credit hours (2009–2011, 2011–2013) (Lahr et al., 2014).

Performance Funding in Ohio

Ohio joined the performance-funding movement much earlier than Indiana, as Ohio established two performance funding programs in the 1990s (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014). Ohio's first PF 1.0 program was launched in 1995 with a new legislation introduced in 1997 (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014). Both of these PF 1.0 programs were replaced with a new PF 2.0 program established in 2009 (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014). In 1995, Ohio adopted the Performance Challenge, which "rewarded colleges on the basis of nine different 'service expectations' but only one focused on outcomes versus process variables, such as amount of vocational education programming" (Lahr et al., 2014, p. 65). Community colleges, technical

colleges, and branch campuses were rewarded on this single outcome-oriented service expectation awarded based on the number of students who transferred or relocated after completing at least 15 quarter hours or 10 semester hours of coursework and on the number of transfer or relocated students who completed baccalaureate degrees (Dougherty & Reddy, 2011, 2013; Dunlop-Loach, 2000, Appendix B; Ohio Board of Regents, 1996; as cited in Lahr et al., 2014). The Performance Challenge was abandoned in 2000 (Dougherty & Reddy, 2011, 2013; Moden & Williford, 2002, pp. 174, 176; as cited in Lahr et al., 2014).

In 1997, Ohio established the Success Challenge (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014). The Success Challenge provided a bonus to universities based on the number of students who earned a bachelor's degree until it ended in fiscal year 2010 (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014). Lahr et al. (2014) explained that "two thirds was based on numbers of in-state at-risk students graduating in any year; one third was based on numbers of any in-state students who earned a baccalaureate degree 'in a timely manner' (generally in four years, but extended for majors that required more than four years)" (p. 65). The metric measured the number who graduated, and not the graduation rate (percentage graduating), within four years (Dougherty & Reddy, 2011, 2013; Moden & Williford, 2002, pp. 173, 178; as cited in Lahr et al., 2014).

In 2009, Ohio passed a budget bill embedding performance indicators in the state's formula for higher education appropriations, known as the State Share of Instruction (SSI) (Dougherty & Reddy, 2011, 2013; Lahr et al., 2014). For public universities, 80 percent of state funding was based on course and degree completions, with the remainder being set aside for doctoral and medical education (Dougherty

& Reddy, 2011, 2013; Lahr et al., 2014). The portion of state funding based on degree completion rose from 15 percent in fiscal year 2011-2012 to 50 percent in fiscal year 2013-2014 (Alstadt, Fingerhut, & Kazis, 2012; Ohio Board of Regents, 2011b, 2012, 2013b; as cited in Lahr et al., 2014). Meanwhile, course completions share dropped from 65 percent in fiscal year 2012 to 30 percent in fiscal year 2014, with the remaining 20 percent representing the set-aside for doctoral and medical education (Lahr et al., 2014).

Institutional Effect on Indiana University Bloomington and The Ohio State University

Administrators at Indiana University Bloomington (IUB) seem to think that the university has fared quite well with Indiana's PF 2.0 system. According to IUB Provost Lauren Robel, "Indiana University is the big winner on performance metrics" (Indiana University Bloomington Faculty Council [IUBFC], 2015, p. 11). IUB receives \$2.5 million over three years for every one percent increase in retention (IUBFC, 2015). Compared to Purdue University, another large, public, four-year, residential, research university located in Indiana, IUB is receiving 21 percent of Indiana's state appropriations for higher education, while Purdue is receiving 14.7 percent (IUBFC, 2015).

It is even more interesting to compare IUB to its peer institutions. The Ohio State University is a large, public, four-year, flagship, residential, National Collegiate Athletic Association (NCAA) Division I, research university in the Big Ten athletic conference (the same conference as IUB). The Ohio State University's main campus in Columbus, Ohio, receives about 19 percent of Ohio's state appropriations for higher education, but when one takes into account The Ohio State University's five regional

campuses, this number increases to approximately 20 percent of Ohio’s SSI (Ohio Board of Regents, 2013). Indeed, The Ohio State University seems to be faring quite well with Ohio’s PF 2.0 program. Yet, IUB—as a single flagship campus (not including Indiana University regional campuses)—receives a larger proportion of Indiana’s state appropriations for higher education than the proportion that all of The Ohio State University’s campuses receive from Ohio’s SSI. This could be because these figures reflect 2015 statistics for Indiana, but 2013 statistics for Ohio, meaning there is a two-year gap in the data between the two states. Nisar (2014) argued that higher education governance and performance-based funding are an ecology of games. Therefore, Nisar might assert that IUB has found a way to “game the in-state metric somehow” (IUBFC, 2015, p. 10). Regardless of how one thinks, one fact is hard to argue: in the words of IUB Provost Lauren Robel, “Performance really, really is a political question” (IUBFC, 2015, p. 11). McLendon, Hearn, and Mokher (2009) corroborated this sentiment.

Implications

The range of state policies in existence today suggests there are a variety of factors that influence the structure of a performance-based funding system (Miao, 2012). Some items that policymakers and legislators should consider when implementing or reforming a performance-based funding system for higher education include the following:

- Who is implementing the system?
- Who are the key stakeholders that should be involved in the discussion?
- What state- an institution-specific performance goals should be incorporated in funding? How can states allocate funding for

performance most effectively? What additional funding provisions are necessary to remain sensitive to the needs of individual colleges? (Miao, 2012, pp. 7-8)

The multitude of state experiences with performance-based funding underscores a number of best practices in the system design-and-implementation process (Miao, 2012). The following tips should help guide states that are looking for ways to hold higher education institutions accountable for success (Miao, 2012):

- (1) Actively involve key stakeholders in the funding model’s design.
- (2) Ensure that enough money is apportioned for performance to create strong incentives.
- (3) Recognize institutional differences with separate funding formulas or differently weighed metrics.
- (4) Integrate all metrics and provisions into the same formula.
- (5) Use indicators that emphasize progress.
- (6) Incorporate stop-loss provisions that prevent institutions from losing more than a certain level of funding each year.
- (7) Gradually phase in new measures.
- (8) Subject the system to frequent evaluation. (Miao, 2012, pp. 9-10)

Miao (2012) declared that “Going forward, a careful analysis of the impacts of ‘performance-based funding 2.0’ measures should help revise and expand on these best practices” (p. 10). This paper has some notable limitations that warrant further description below.

Limitations

Much of the existing research on higher education funding is not limited specifically to state appropriations and key performance-based metrics. Though such research was

used in constructing the arguments presented in this paper, the differences between federal funding models and state funding models for higher education, as well as the difference between appropriations to public institutions and appropriation to private institutions, have not been presented here. Rather, these research findings were closely examined to identify the traits applicable to state appropriations tied to performance metrics and outcomes.

Viewing all of the information collected in tandem, the author offered a set of recommendations on tactics and methods that may help to improve state performance-funding systems. The recommendations offered should be helpful for policymakers and legislators focused on appropriately allocating funds to higher education institutions (HEIs) when faced with a limited amount of financial resources.

Conclusion

Miao (2012) asserted that “the recent wave of ‘performance-based funding 2.0’ measures signals a change in the way states are prioritizing goals in higher education” (p. 11). Institutions must do more than

simply increase enrollment; “they must also ensure that students complete their degrees and graduate with the skills to be successful in an evolving economy” (Miao, 2012, p. 11). Miao (2012) eloquently concluded:

As the national conversation on higher education shifts toward completion, it must be accompanied by equally significant changes in institutional behavior. Performance-based funding is a necessary step toward aligning the objectives of state and institutional leaders, while ensuring that states are investing their limited funds wisely and productively. (p. 11)

Indeed, given the present landscape of the American higher education system where resources are scarce—both for HEIs and for the state legislatures that hold them accountable—performance funding has become the new measure to ensure that specific goals and objectives are being met. Performance funding does not seem to be going away anytime soon, at least not for the foreseeable future. Performance-based funding for higher education is here today and here to stay.

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