

Assessing the Underpinnings of Performance Funding 2.0: Will This Dog Hunt?

Executive Summary

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In pursuit of increased accountability for the funding they provide to public universities, many states now tie some proportion of their funding to desired outcomes, most commonly including improving student retention and graduation rates; increasing retention rates among students who are racial minorities, Pell-grant eligible, or first generation; and awarding more degrees in STEM fields. This approach to higher education budgeting is called *performance funding* and its latest manifestation is known as *PF 2.0*, which is distinct from earlier forms because funding is embedded into institutions' base budgets rather than awarded as a bonus, and the share of funding tied to performance is higher than in the past.

We examined implementation of and campus responses to PF 2.0 models in two states, Ohio and Pennsylvania. Ohio ties most of its state funding for four-year institutions to course and degree completions, with extra weights for STEM degrees and the success of minority, low-income, and older students. In Pennsylvania's State System, 2.4 percent of total institutional budgets (not just state funds) are based on outcomes including retention, degrees awarded, the improvement of such outcomes among students of color and Pell-grantees, and an optional STEM degrees indicator. The Pennsylvania performance funding regime was revised in 2010 and now provides institutions the opportunity to design individualized outcomes aligned with their strategic plans. In our research, we interviewed 56 individuals, including state-level policymakers and administrators, and faculty and staff at five campuses, to investigate approaches to and challenges faced in the implementation of PF 2.0 models.

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Key Findings

- *The message about the importance of student completions has penetrated, including to the faculty level. Messaging focuses on benefits to students, not on finances.*
- *Completion goals are linked to state and institutional strategic planning.*
- *Producing timely performance information from the state to facilitate orderly institutional-level budgetary planning is a challenge in Pennsylvania.*
- *Enrollments still matter.* Funding based on outcomes notwithstanding, institutions still derive the majority of revenue from tuition and have many reasons to continue to focus on enrollments, especially of students with academic characteristics associated with higher prospects for retention and completion.
- *Winners and losers.* Performance funding seems to work effectively for well-resourced, more selective institutions, but additional measures are likely to be necessary to assist institutions with limited capacity and less-prepared students.

Introduction

In recent years, states have faced serious challenges in continuing to fund public higher education at historic levels, and tuition and fees have climbed sharply (State Higher Education Executive Officers, 2016; Zumeta, 2016). At the same time, citizens and policymakers have sought increased transparency about results from entities that spend scarce taxpayer and student dollars, including colleges and universities. These trends date back to the 1980s and have led to a form of the accountability movement that has become fairly prominent in higher education—that is, *performance funding*, or “paying for results” (Zumeta, 2001). Burke and Minassians (2003) define performance funding as a policy that “ties specified state funding directly and tightly to the performance of public campuses on individual indicators” (p. 3). The basic idea behind performance funding is to explicitly link at least part of the state support of public colleges and universities to outcomes desired by policymakers rather than to the traditional benchmarks of cost inflation and enrollment—and to move away from simply negotiating

budgets based on the overall availability of funds and ad hoc political bargaining.

As described briefly below, performance funding has a lengthy history in state budgeting for higher education, and now appears to be in a period of ascendancy. Because the latest version, often called “Performance Funding 2.0” (or PF 2.0) is relatively new and represents a potentially substantial departure from the past (i.e., “Performance Funding 1.0”) and a raising of stakes, we set out to study its implementation in two states where it appears solidly embedded. In this study, we focus on implementation rather than trying to assess PF 2.0’s effect on targeted outcomes directly simply because too little time has passed for these recently strengthened performance funding regimes to produce discernible results on outcomes. Our basic aim is to assess if implementation steps taken by the focal states and institutions appear likely to produce the results sought regarding improving retention and graduation rates, enrolling more students from underrepresented populations, and/or increasing the number of degrees awarded in the STEM² disciplines.

Background on performance funding history in higher education

In its earliest forms in the 1980s, performance-based policymaking in higher education consisted mainly of what Joseph Burke (2002) has categorized as *performance reporting*. The primary focus at the time was on development of the data systems to support periodic reporting on indicators of outcomes of policy interest, such as numbers of degrees awarded and average time to degree, student retention or persistence, and external funding acquired, among a variety of other indicators across the states (*ibid.*). As it became clear that simply reporting on performance outcomes did not necessarily lead to improvements in those outcomes, states began linking performance results to budget allocations. Thus, by 2000, Burke and his associates found that 28 states were employing *performance budgeting*, in which outcomes reporting was designed and timed specifically to support the state budget decision-making process, although there was no formulaic link between outcomes and allocations, while a smaller number of states (19) were found to be employing the tighter linkage of dollars to outcomes—defined above as *performance funding*³ (Burke, 2005a, p. 222).

2. STEM is the commonly used acronym for science, technology, engineering, and mathematics fields in which increased numbers of graduates are widely perceived to be critical for future economic growth (National Science Board, 2016).

3. Many of the performance funding regimes in this era tied small amounts of money by formula to particular targeted outcomes, with the majority of state support determined on other bases while utilizing the performance results more judgmentally. These states were categorized by Burke and colleagues as employing both performance budgeting and performance funding

Researchers also found that the recession of the early 2000s, which led to some sharp cutbacks in state support for higher education, had resulted in the abandonment of a number of performance funding programs as institutions implored lawmakers to focus first on “core” institutional funding in hard times (*ibid.*; Dougherty, Natow, & Vega, 2012). Further, performance funding programs sometimes lost support when gubernatorial administrations turned over and priorities shifted, and often performance funding “pots” of money were too small to garner much enthusiasm from either institutions or legislators in such contexts and thus were unstable (*ibid.*).

Different reasons contributed to the demise of what might in retrospect be described as the first PF 2.0 regime. Beginning in 1996, South Carolina sought to base *all* state support to public colleges and universities on 37 indicators covering nearly everything from student satisfaction to faculty office hours (Zumeta, 2001). While this effort also suffered from the effects of gubernatorial turnover and recession, its foundering was widely attributed to its excessive complexity and a perception of state overreach. It was bitterly resisted by the institutions.

Overall, between 1979 (the year of the first performance funding policy initiated by Tennessee) and 2013, 38 states adopted performance funding at some point. Of these states, 24 discontinued the policy, yet 19 had later readopted some form of it as of September 2014 (Dougherty & Natow, 2015). Retrospectively, observers have characterized the era of 1979 to the early 2000s as the first wave of performance funding, with policies characterized as “Performance Funding 1.0” (with the exception of the extreme South Carolina initiative), and those initiated from approximately 2007 onwards as the second wave, or “Performance Funding 2.0” (*ibid.*).

From 2000 to 2007, interest in performance funding for higher education waned, for reasons noted above. Interest has waxed again in recent years, likely spurred in part by the sharp tuition spike that accompanied deep state funding cutbacks following the Great Recession. Also at work, it appears, is a more fundamental and growing sense that public higher education needs to become more focused and efficient to face a future of limited resources. As of FY 2016, 30 states were operating or developing a performance funding policy, with most already operative (Snyder & Fox, 2016). However, the majority of these 30 performance funding regimes were categorized by researchers as limited

due to few outcomes covered, low amounts of money at stake, and a lack of “embeddedness” of the performance regime in the budget allocation process (i.e., “base” or core funding is not necessarily withheld until goals are achieved). By most accounts, these more limited PF programs are still in the 1.0 phase developmentally though not historically. Moreover, empirical evaluation of PF 1.0’s impacts on the targeted outcomes of increased degree completions and retention rates has generally found mixed results, with, at best, a few instances of modest positive results that may or may not continue over time (Hillman, Tandberg, & Gross, 2014; Hillman, Tandberg & Fryar, 2015; Rutherford & Rabovsky, 2014; Sanford & Hunter, 2011; Tandberg & Hillman, 2014; Tandberg, Hillman, & Barakat, 2014).

“Performance Funding 2.0,” on the other hand, is defined somewhat variously in the literature but the basic desiderata are budget embeddedness (i.e., performance funding is part of the institution’s base support and is withheld if goals are not achieved), and the linkage of substantial funding to performance (usually measured as a percentage of total state support to institutions). Arguably, raising the stakes and making the rewards (and sanctions) more certain should improve institutions’ performance on what the state wants to “buy” from them. At the leading edge, the states of Tennessee and Ohio now determine 80 percent or more of each institution’s state support on the basis of performance results (Snyder & Fox, 2016). These high-stakes performance funding 2.0 regimes have been in place only for a few years, too short a time to tell if institutions will be able to respond to the states’ goals of greater degree output and efficiency, more degrees for underrepresented populations and in STEM fields, etc. Hence there is value in examining “theories of action” and early implementation steps to see if they are plausibly aligned with the ultimate goals, as well as to detect early signs of potential challenges and unintended consequences.

In particular, we examined the following research questions: First, according to state policymakers and college administrators, faculty, and staff, how is performance funding expected to work to improve performance? What policy tools are being employed to make it work? Second, have state policymakers responded to institutional feedback? How are policies being redesigned, revised, or refined over time? Third, what is happening at campuses in the implementation phase? How have administrators, faculty, and staff responded to the policy? Do these responses appear consistent with long-term efficacy in achieving the

policy's goals? We employed ideas and concepts from the principal-agent and policy implementation schools of thought within policy studies (e.g., Kivisto, 2008; Weimer & Vining, 2011) to guide our investigation of how state policymakers and institutional leaders and managers might seek to facilitate changes that could be expected to lead to improved student completion outcomes in response to performance incentives. These frameworks also provide concepts useful for considering how faculty and staff members might respond to leadership initiatives.

Selection of focal states for study: Ohio and Pennsylvania

In selecting states to study implementation of Performance Funding 2.0, we considered those whose programs clearly met the criteria of embeddedness in the budget base and having substantial funding at stake. We chose to focus on Ohio and Pennsylvania for the following reasons: First, Ohio has a considerable history of experimentation with performance funding (of the PF 1.0 variety, dating back to the 1990s), and has more recently put a full-fledged PF 2.0 regime in place that drives nearly all state funding for public colleges and universities on the basis of measured outcomes. As of FY 2014, 50 percent of funding for four-year institutions (the focal sector in this study) is based on degree completions and 30 percent is based on course completions, with the remaining 20 percent allocated to medical and dental schools (National Conference of State Legislatures, 2016). Ohio's latest performance funding initiative was launched with substantial bipartisan support in 2007, along with an effort to centralize what had been a loosely coordinated and somewhat inefficient array of higher education providers (Kinne-Clawson and Zumeta, forthcoming). Some new investment in higher education had occurred before the Great Recession began in 2008, but much of the initiative's focus was on making the state's higher education dollars go further in a strategically planned way so as to revitalize Ohio's stagnant "Rust Belt" economy and workforce (Fingerhut, 2008). Ohio's new performance funding initiative emphasizes efficient degree production, a STEM focus to serve economic development goals, and

greater equity across population groups in degree outcomes. Unlike the experience in most other states when a new governor comes to power—particularly one of a different party—the higher education reform initiative, including performance funding, survived the changeover from a governor of one party to one from the opposite party largely intact.

After a few years of phase-in, during which there was a rapid transition from enrollment to performance-based funding—as well as “hold harmless” protection against large decreases in any individual institution's state funding (Ohio Department of Higher Education, 2012)—beginning in 2014-15, Ohio's four-year colleges and universities were funded entirely on the basis of course and degree completions, with no more hold harmless provisions.

As previously noted, degree awards are weighted more heavily than course completions in Ohio's performance funding formula, which also provides extra weight for STEM courses and degrees, as well as for completions by students who are on Pell grants, over age 25, and/or who are African American, Hispanic/Latino, or Native American. Weights used are the product of extensive empirical analysis of extra costs, in 16 categories, of STEM programs, and the historically higher risk of non-completion by the targeted categories of students. The extra incentives allocated for STEM and for underrepresented students in both Ohio and Pennsylvania's policies enabled us to explore campus strategies to retain such targeted student subgroups—a topic of growing interest for many states looking to design or redesign their performance funding formulas (Davies, 2014).⁴

The second state chosen for study was Pennsylvania, which also has a considerable history with performance funding, dating back to the early 2000s. Although Pennsylvania's higher education enterprise is quite loosely managed at the state government level, its 14 “comprehensive” universities operate under a centralized Pennsylvania State System of Higher Education (PASSHE, aka State System) led by a powerful chancellor.⁵ PASSHE receives appropriations from the state and decides how to allocate funds among the

4. A previous study of performance funding that included Ohio, conducted during 2011-2013 before its phase-in period was over, found potential obstacles to accomplishing performance goals, such as insufficient campus knowledge about the policy and institutional resistance (Pheatt et al., 2014). We were interested in how implementation of Ohio's ambitious PF 2.0 policy was progressing several years later, now that it has been fully phased in.

5. The Pennsylvania State System of Higher Education (PASSHE) is the governing board responsible for oversight of the 14 teaching-focused (“comprehensive”) universities in this system. PASSHE does not include Pennsylvania's several “state-related” public research universities—Pennsylvania State University, Temple University and the University of Pittsburgh—which are separately funded by the state and not subject to performance funding.

individual universities. Led by the State System's Board of Governors and the Office of the Chancellor, Pennsylvania established its first performance funding regime in 2002, tying a substantial portion of allocations to institutions (8 percent of state funding) to a range of desired outcomes, with an emphasis on student persistence and graduation rates, degrees awarded, and other measures such as faculty productivity (credit-hour production), employee diversity, and instructional costs (Cavanaugh & Garland, 2012).

Of particular interest for our study, a significant redesign of the PASSHE performance funding arrangement was implemented in 2010, partially in response to institutions' dissatisfaction with certain elements. A change in State System leadership in 2008 created opportunities to re-evaluate the measures and better align the performance model with the state's changing strategic goals.

A State System task force assessment of Pennsylvania's original performance funding formula found that its measures did not account for significant differences in mission among the 14 institutions (e.g., an emphasis on workforce education versus a more traditional bachelor's degree focus). Additionally, institutions sometimes sustained unexpected funding losses during years when their performance improved, albeit not as much as the performance of competing campuses. As a result of the task force's work, the amount of performance funding was re-based from 8 percent of state funds to 2.4 percent of the total instructional budget provided to each university by PASSHE so as to help stabilize performance funds in light of overall state funding declines since 2008 (Cavanaugh & Garland, 2012). Further, all of the performance funds are withheld from the initial state appropriation and must be "earned" by the institutions based on performance.

Additionally, the number of performance measures was reduced from 17 to 10. Five standard measures ("Group 1" indicators), including degrees completed, closing of achievement gaps for Pell recipients and African American and Hispanic/Latino students, and faculty diversity, were applied to all campuses. Institutions then were able to choose up to four measures from a list that included staff diversity, student experience with diversity and inclusion, and credit-hour productivity. Most significantly, institutions were provided flexibility to create up to two measures directly aligned with their own strategic plans, which are an important mission-focusing and planning tool in the

Pennsylvania State System. Examples of these institutionally chosen measures include foci on STEM, distance education, sustainability, and study abroad. Finally, some institutional strategic plans are also linked to local workforce and economic development needs, which is similar to the emphasis in Ohio.

Methods

Sampling state policy organizations and universities

In both Ohio and Pennsylvania, we engaged in purposeful sampling by initiating recruitment of the state-level higher education organization that designed the performance funding policies. In Ohio, we contacted the Department of Higher Education (formerly the Board of Regents), which is charged by the governor to oversee the performance funding policy, in order to recruit staff participants holding various pertinent roles (e.g., legislative relations, finance, data analysis, and institutional relations). We also recruited policymakers at the Inter-University Council, an organization that represents interests of all four-year universities before state agencies, and works with university leadership. In all, we interviewed nine state-level officials in Ohio.

In Pennsylvania, we contacted the PASSHE office and requested to interview individuals directly involved with the funding formula. Individuals occupied roles related to academics, institutional relations, finance, research, and compliance. Recruitment also consisted of opportunistic or snowball sampling (Miles, Huberman, & Saldana, 2014), whereby participants suggested additional individuals to contact, which led to the inclusion of individuals actively connected to the funding formula. In all, we interviewed five officials from the Pennsylvania state system office.

To identify institutions for study within the two focal states, we first sought variation in institutional missions and student demographics served. In Ohio, we selected a research university, a doctoral-granting institution with both research and teaching missions, and an "access" institution, i.e., a teaching-oriented institution with a mission to serve underrepresented students and minimize barriers to entry. In Pennsylvania, all PASSHE universities have a primary teaching mission, so we considered campuses that served a comparatively high proportion of low-income students as well as those with more affluent populations. Additional sampling criteria in Pennsylvania required one campus that had chosen to be funded in part by the optional

STEM performance funding metric (in fact, both of our focal campuses had chosen the STEM metric), and one campus that, according to PASSHE staff, had implemented notably innovative ideas to bolster student retention and completion. Discussions with State System senior staff led to identification of five potential campuses to study, and ultimately, two of these were selected based on the sampling criteria described and campuses' openness to participation. To the extent possible, within both Ohio and Pennsylvania, campuses varied in their geographic locations (e.g., rural, suburban, urban), the socioeconomic status profiles of their students, and their missions.

Sampling participants at the campus level

Within each campus, we sampled individuals in three main professional role categories: 1) high-level administrators (presidents, vice presidents, provosts); 2) mid-level administrators (associate/assistant vice presidents, directors of institutional research, deans); and 3) faculty and staff (department chairs, faculty members, and staff such as academic advisors, financial aid counselors, and data analysts).

In the administration category, we recruited presidents, provosts, and vice presidents or directors of units representing budgeting and finance, enrollment planning and recruitment, student success, student affairs, multicultural student success, and institutional research. Within the faculty category, we recruited faculty leaders and those known to be involved with performance funding, for example, those who served on pertinent committees such as a student outcomes evaluation committee. Since faculty might hold different perspectives depending on their discipline, one group of faculty from the social sciences and practice-oriented fields (e.g., political science, public affairs, education) was recruited, while the second group was strategically recruited from STEM fields in order to uncover departmental strategies responsive to the two states' STEM performance metrics. Staff members recruited included advisors working directly with students in financial aid or academic advising, or in data analysis within colleges, schools or departments.

Data collection and interviews

We interviewed 28 campus informants across the three focal universities in Ohio and 14 campus informants from the two Pennsylvania institutions. Consistent with previous studies of performance-funding policy implementation, we

employed semi-structured interviews to explore the research questions (Dougherty et al., 2014; Merriam, 2009). We drafted generic interview protocols that we used as guides in conducting interviews of subjects in various roles, varying the questions as appropriate based on the role and what we had learned from previous interviews. Since many of the interviews covered similar or related subject matter, we were able to triangulate many facts and impressions from multiple sources.

Findings

We present our main findings along seven key themes. We cannot claim that these inferences drawn from a few dozen interviews across five campuses and two state capitals are fully representative of what was occurring everywhere in these two states in 2015-16, nor that they represent how performance-funding policy implementation may be playing out in other states. Nonetheless, the findings are plausible and generally consistent with theory and prior research on similar topics, and they apply to two important states in this arena.

Our seven thematic findings are:

The message about outcomes has gotten through. We found strong indications that the message from state policymakers about the increased importance of outcomes—specifically those related to student retention, degree completion, STEM degrees, and underrepresented students—has, for the most part, gotten through to campus constituencies, including the faculty and front-line staff. Campus leaders and those who work directly for them, such as deans, chairs, financial officers, institutional research directors, enrollment managers, and directors of campus advising offices, are all well aware of the incentives to retain and graduate a greater share of students. Similarly, faculty- and department-level staff appear aware of this push and could describe steps being taken at their level in response to it.

What we don't know is how much of this effect can be attributed to the performance funding regime relative to the numerous similar messages from leaders about the issues of student progression and degree completion. The rhetorical air is full of messages from the nation's president; state governors; national foundations; and policy, business, and university leaders about the urgency of graduating more students and achieving related goals. Performance-funding policies are part of this messaging, but the extent

of their influence is difficult to parse out, as Dougherty and colleagues also found in their studies of Indiana, Tennessee, and earlier in Ohio (Dougherty & Reddy, 2013; Dougherty et al., 2014). Not surprisingly, state-level interviewees tended to credit the performance funding regime more than did those on campuses, who instead emphasized that graduating students at higher rates and more quickly is “the right thing to do,” in students’ interest and aligned with academic values.

Yet in making the kinds of changes we describe below, the academics were clearly responding to something different in their environment, although most would deny they were motivated by budgetary incentives for student outcomes *per se*. Regardless of the relative importance of performance funding among all the messaging calling for improved completion rates, withdrawing or de-emphasizing performance funding at this point could conflict with the signals coming from other sources. We found no indications of retreat from the performance funding regimes in either state.

Faculty support is hard to gauge, but there is little evidence of strong resistance to performance funding. Several observers of performance funding in higher education have pointed out that faculty support for its goals is highly desirable; in fact, stiff faculty resistance or token compliance would undermine success (Burke, 2005b; Dougherty et al., 2014; Li, 2016). Faculty, along with front-line staff, constitute the “street-level bureaucrats” whose enthusiastic support and performance is required for policies to be installed successfully and work (Lipsky, 2010; Meyers and Vorsanger, 2003). We were able to interview just a small number of faculty, despite active recruitment efforts to do so. Thus, responses are not necessarily representative of all faculty, as we sought out faculty leaders, those specifically knowledgeable about performance funding, and representation from particular disciplines.⁶ Faculty did not necessarily endorse the performance funding regime explicitly, as is described below. Moreover, campus leaders did not specifically task faculty to pay attention to performance funding *per se*, but rather did so in general terms that did not incorporate direct incentives within faculty reward structures (e.g., using course failure rates in

retention and promotion decisions). Administrators more commonly appealed to broader academic and professional values about better serving students.

Faculty leaders and administrators observed varying levels of faculty enthusiasm for the completion agenda, but noted no large-scale resistance. They also suggested that support was slowly increasing. Consistent with what Dougherty et al. (2014) found, we did not hear concerns about pressure to lower academic standards in order to increase student retention or completion. We did learn of some efforts to “streamline” program requirements to reduce credits required for completion, which could conceivably compromise quality if pushed too far, but informants generally saw the changes as desirable “house cleaning” that benefited students.

Ohio and Pennsylvania varied in campus use of internal financial incentives and concerns about their effects. In Ohio, we did not find instances of internal budgeting via performance formulas similar to the formulas by which universities “earned” their state funds. Instead, university leaders appealed to professional norms and values, and made specific efforts to facilitate increased focus on student outcomes, while informing deans and chairs about how the institution acquired state funds. Leaders seemed to feel that this approach would be better received by chairs, faculty and staff than hard-edged internal financial rewards and sanctions. This is not to say that such internal budgetary mechanisms might not exist somewhere in the Ohio system, or that they might not be used in the future, but we did not see evidence of such mechanisms at present.

In Pennsylvania, performance funds were also allocated to the unit level through standard annual budgeting processes, with some funds strategically reallocated at the central level based on institutional priorities such as student retention and completion. A key challenge reported by institutions in Pennsylvania was that performance funds allocated for their current budget cycle were not finalized until midway through the budget year because performance data that affected budgets were not available sooner. Indeed, this caused problems that were widely noted, as represented by the statements below:

6. In Pennsylvania, it was especially challenging to recruit faculty and staff members in part because of issues linked to collective bargaining. Faculty were not available to be recruited at all from one of the Pennsylvania campuses and we were able to recruit only one faculty respondent at the other campus.

“The fundamental flaw in this performance thing is I just found out in January what my performance funding was for the fiscal year that started last July. That makes no sense to me whatsoever. They should be telling me in January what my number’s going to be for July. I don’t even know what some of my indicators are that I’m being measured against until it’s all over. So how do I manage those numbers when I don’t even know what the number is?”

A State System official agreed:

“So they’re [colleges] already a quarter of the way into their fiscal year before they know how much money they got from performance funding. So, if last year you got a million dollars, we tell you, plan on getting a million dollars this year, but it could be that this year they’re going to get 500,000 or they’re going to get two million, and they don’t know. There’s less swing like that occurring right now, although I can tell you this year, there’s one university that lost a million dollars in performance funding this year. So that’s a pretty big swing. So how do you budget for performance funding?”

The instability made it difficult to fund and sustain efforts to improve student retention and completion, and to manage the overall budget due to the size of the performance component. While the problem was recognized at the State System level, there seemed to be little impetus to address it.

On the positive side, we found evidence in Pennsylvania of internal, campus-level financial incentives in the form of small seed grants and rewards for faculty innovations in instructional practices and online delivery of course material aimed at increasing accessibility and student success. In some instances, these incentives appeared designed to motivate cultural shifts among both junior and senior faculty, as illustrated in the following statement by a dean of arts and sciences about the effect of the incentives:

“And then what happened was I got, actually, a large number of more senior faculty, which is a bit surprising. The junior faculty aren’t afraid of technology. They grew up with it. They’re, like, of course I’ll do that. You don’t have to pay me extra... The senior faculty...it’s a bigger learning curve, and they’re not necessarily sold on the idea. So the key

was getting senior faculty who are well respected here to try it, find out that it’s useful to students, and then show everybody else the way. And those are your peer changers. They change the culture.”

Such efforts were particularly notable on the campus we visited that had opted for use of “high impact practices” as one of its optional performance funding indicators. From the State System perspective, this incentive could provide a store of effective innovations to publicize and diffuse across other campuses, provided that impacts were thoroughly evaluated.

Connections between performance funding and strategic planning. In the Pennsylvania State System, institutions’ strategic plans are taken seriously, which was a key reason for permitting institutions to opt for up to two explicit performance indicators tied to their plan priorities. More broadly, other choices that the PASSHE universities have within the performance funding regime, such as opting for a STEM indicator, allow for a tie-in to strategic planning as well. The overall performance funding emphasis on student retention and completion also features prominently in institutions’ strategic plans.

In Ohio, as part of the implementation of the performance funding regime, institutions were required to produce completion plans and subsequently keep them up-to-date. This makes sense since the Ohio approach drives essentially all institutional state funding on the basis of student outcomes. Nonetheless, the initial set of completion plans were deemed by state officials to vary widely in terms of depth and prospects for success. The Department of Higher Education has since given considerable attention to monitoring institutions’ implementation and success with their completion efforts, upgrading its own data systems, offering technical assistance to campuses, piloting innovative ideas, and seeking to diffuse successful practices across institutions. The state has created a program, funded at \$10 million over the 2015-17 biennium, to fund special grants that support student completion initiatives, among other purposes. Given high priority concerns of the governor regarding the cost of higher education, the aim is that the bulk of funding for such efforts be derived from savings flowing from increased efficiencies. Likewise, the governor established a major Affordability and Efficiency initiative charged with aggressively pursuing efficiencies and using the savings for both tuition containment and efforts to speed

student progression to degree. The Department of Higher Education also oversees related gubernatorial initiatives to increase prior learning assessment (PLA) procedures for awarding credits and to develop a three-year bachelor's degree.

Enrollments still matter. Although leaders in Ohio and Pennsylvania have sought to shift institutional focus from student access to student completion, evidence indicates that enrollment levels are still crucial for institutional finances: State support in both Ohio and Pennsylvania has declined sharply in recent years (Zumeta, 2013, p. 32), such that tuition revenue per student now exceeds state funding per student by a considerable margin. Therefore, institutions must ensure that their enrollments are, at minimum, not decreasing.

Further, the number of high school graduates is declining in both states and competition for students is keen, especially among the less-selective universities and those located in more rural areas. Thus, institutions continue to pay a great deal of attention to recruitment efforts and enrollment numbers in their strategic and tactical planning. This focus is not inconsistent with performance indicators, however, given that retaining a higher percentage of students also boosts enrollments. And of course, students must be enrolled in order to complete the degrees that also earn budgetary support.

To partially counter the relatively small portion of institutional funding coming from the state in the wake of the Great Recession, and to direct campus attention to the state's completion goals, at the governor's initiative, Ohio sought to facilitate implementation of the performance-funding orientation by providing a significant boost to higher education funding in the 2015-17 biennial budget. Since enrollments were not growing, this special infusion did serve to refocus attention somewhat, but there is little indication that such funding boosts will continue.

In contrast, Pennsylvania has not provided a significant increase in state support following a large cut after the Great Recession. This situation does not help PASSHE's efforts to increase campus focus on outcomes. Even after the 2010 reforms of the performance funding regime, the percentage of funding tied to performance is far smaller than

in Ohio (although it remains one of the largest nationally). Additionally, the State System sets resident tuition levels for all 14 campuses, so universities cannot make up shortfalls in state funding by increasing tuition on their own.

Efforts to increase the “quality” of enrolled students.

Academic leaders and faculty, but not state-level officials, frequently spoke of “enrollment management” and institutions' efforts to recruit and attract more qualified students in the name of academic quality. Academics are well aware that better-prepared entering students are more likely to persist and graduate, and to produce a higher share of STEM majors.⁷ Moreover, attracting better-prepared students aligns with increasing institutional prestige and, usually, faculty satisfaction, so it is not surprising when institutions pursue that course. However, attracting “better” students in the name of quality and higher degree output can conflict with the explicit access mission of some universities and, in any institution, with equity goals. If attracting better-prepared students results in enrolling fewer students from underrepresented groups, then the appropriate balance of these goals must be carefully considered. For example, recent research by Kelchen and Stedrak (2016) reports evidence suggesting that public universities subject to performance funding may enroll fewer Pell grant recipients (i.e., low-income students who often are higher risks for non-completion) and may make more use of merit-based financial aid than institutions not subject to such regimes.

To counter these institutional tendencies, both Ohio's and Pennsylvania's performance funding systems contain extra incentives for universities to retain and graduate underrepresented and “at-risk” students. There is clear evidence in Ohio, though, that some of the institutions with an explicit access mission are now trying to attract better prepared students, arguing that the institution is not serving “marginal” students' best interests by accepting them in light of evidence of high drop-out rates among previous students with similar entering credentials. The higher admissions standards initiatives were discussed in our participant interviews as well as in news coverage (e.g. Lambert, 2015); their expressed intent is to redirect less-prepared students to community colleges, although completion and transfer rates at these institutions are comparatively low. We also heard about efforts to enroll more qualified students that were not limited to the access

7. This is not dissimilar to the idea of “cream skimming” that is known to occur with performance-oriented regimes in other service fields such as job training, addiction treatment, or health services more generally, not to mention insurance markets (Weimer & Vining, 2011, p. 120-121).

mission institutions. This finding echoes that of Dougherty and colleagues (Dougherty et al., 2014) who earlier studied performance funding implementation in Ohio as well as other states.

To be fair, significant efforts are underway at the campuses visited in both states to work intensively with various categories of underrepresented and at-risk students, and there appear to be plans in place to evaluate and adjust these programs so as to improve them.

Winners and losers. Related to the previous point, we found signs in both states—not limited to the campuses we visited but more systemically—that these performance funding regimes have a tendency to exacerbate gaps between “have” and “have not” institutions. More selective institutions with strong applicant pools also tend to be better resourced. If they need to increase student completions and STEM degrees to sustain state support, they have several options. First, as we found, the “haves” typically have ample and well-qualified staffs and access to a range of resources for assessing how to increase the progression rates of the types of qualified students they already attract. We found an impressive range of plausible efforts in place and planned at such institutions, including investments in nationally recognized expert staff, data systems, and advanced analytics. Second, these institutions have the capacity to attract non-state resources and, at least potentially, the market attractiveness to increase revenues from tuition (although both of our study states have been tightly controlling resident tuition rate increases). Third, their resources, attractiveness, and strong applicant pools make it plausible for them to seek even better students who will complete at still higher rates, and such institutions are naturally inclined to do so.

Less competitive institutions typically have limited applicant pools and far lower resources per student. They are more often located in geographic areas that lack a sizable urban center or proximity to multiple feeder high schools. These institutions cannot charge premium tuition rates and also begin with less-prepared students and, consequently, achieve lower student persistence and completion rates. It is not surprising that, in the face of strong incentives to

improve completion rates, some of these institutions will seek to find ways to attract “better” students even though it may be very difficult to do so. If they resist this temptation or are unsuccessful and have to depend on finding ways to increase completion rates with the types of students they already have, these institutions are likely to find the task very challenging, as they are typically not well-resourced, high-capacity organizations. Strategic support from outside sources, such as the state and better-resourced institutions within the system, seems likely to be necessary. Otherwise, some of the less successful “have not” institutions may spin into a cycle where they are punished for poor performance and, likewise, their capacity to improve is further degraded.⁸ In some cases, there may be no way out of this downward cycle short of external intervention in some form. We heard worries of this type about specific institutions (not those we visited) in both our study states.

Conclusion

This study explored how two leading states—Ohio and Pennsylvania—in the world of higher education performance-based funding are implementing the latest version of this funding approach, commonly known as Performance Funding 2.0. The basic idea is that a substantial part of state funding is tied to outcomes such as student retention and graduation rates. We focused on implementation efforts since too little time has passed to expect discernible change in targeted outcomes.

Some form of performance funding has been in place in Ohio and Pennsylvania for many years, and has survived several of the changes in leadership that have undermined such performance regimes elsewhere. Every indication is that performance funding is well established and broadly supported politically in these states, and thus it is unlikely to be rolled back any time soon. Yet, policymakers in these states have not been averse to “tweaking” their performance funding systems, so there should be continuing opportunities for adjustments based on experience. Adjustments along the lines sketched below might be worthy of consideration.

8. There is some similarity to the nation’s experience with hard-edged accountability regimes in K-12 education here (Darling-Hammond, 2010). Simply demanding that poor performing institutions operating in challenging circumstances with limited resources must figure out how to improve in order to continue earning their basic support is unlikely to work out well, absent external help with capacity building and, often, additional resources. Even with these aids success is hardly guaranteed.

Broadly speaking, it seems a desirable result that the performance funding regimes in Ohio and Pennsylvania have focused attention at all levels of their higher education systems on student progression and completion—dimensions on which U.S. public higher education has long been faulted. This focused attention is the first step toward better results on these and other targeted outcomes, and we found ample evidence of well-conceived activities and investments at both the state and campus levels that could help spur progress.

Two major concerns remain, however. The first is a general caveat that, in part, motivated this study: That is, the lack of rigorous evidence that performance funding *per se* is advancing progress on the desired indicators. This is important to know because performance funding regimes carry risks. They can lead to an excessive focus on what is measured and rewarded by the funding regime relative to other worthy goals that as a result receive less attention. Potential areas of neglect should be systematically tracked.


The second concern is a basic structural problem with performance funding regimes that some units (here, public universities) are almost always better positioned to improve performance than others. In higher education, the most obvious way to improve student retention and graduation rates—and likely increase STEM graduates as well—is to recruit better-prepared students, a strategy that reinforces already powerful norms among academic institutions to strive to improve the quality and reputation of their students and programs. In general, institutions with better-prepared students and greater resources initially are more likely to be successful in meeting the demands of performance funding regimes.

Even where the focus is on doing better with the existing body of students, the more selective, larger and typically better-resourced universities—the “haves”—hold a considerable advantage over those lacking such advantages. The “have not” institutions often lack the capacity to do better with the students they have in order to earn their basic support under the new rules, as well as to successfully recruit better-qualified students. To make performance funding regimes work broadly and equitably over time, states would do well to consider investing both in up-front capacity building on the more challenged campuses so they can perform better, and in utilizing higher education institutions more strategically to increase the pool of incoming students who are prepared to succeed in college. This approach is preferable to encouraging a zero-sum competition among universities for the existing pool of qualified students. In short, the carrots and sticks that are the basic tools of performance funding regimes cannot by themselves successfully produce the complex work that must be accomplished to truly improve system-wide educational performance.

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