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Lindsay K. Wayt

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Lindsay K. Wayt

*University of Nebraska-Lincoln*

Barbara Y. LaCost

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# Transitioning to Performance-Based State Funding: Concerns, Commitment, and Cautious Optimism

Lindsay K. Wayt and Barbara Y. LaCost

*Lindsay K. Wayt is a recent graduate of the Educational Leadership and Higher Education doctoral program at the University of Nebraska-Lincoln. She has worked in secondary education, student affairs in higher education, and higher education policy.*

*Barbara Y. LaCost, a National Education Finance Academy Fellow, is Associate Professor of Educational Administration at the University of Nebraska-Lincoln. Her teaching and research focus on P-20 education finance issues.*

“It [performance-based funding] kind of causes innovative thought. I think that’s important. So, in a way, it’s good. I think people see it as bad sometimes because it’s change. And it’s pushing the envelope of accountability.”

Comment of a study participant

## Introduction

The introduction of performance-based state funding of higher education can be traced to the the late 1970s (Bogue and Hall 2003; Dougherty and Natow 2015; Dougherty, Natow, Hare, and Vega 2010; Dougherty and Reddy 2013; Long 2010; McKeown-Moak 2013). Early forms, referred to as Performance Funding 1.0, provided higher education institutions with bonuses, in addition to regular state funding, when they met certain state-defined outcomes.<sup>1</sup> More recent forms, referred to as Performance Funding 2.0, have eliminated bonuses, and regular state funding has been replaced, in part or completely, with funding tied to achievement of state-defined performance goals, which often include student outcomes, like graduation and retention rates.<sup>2</sup>

Since the use of performance-funding, beginning in Tennessee in 1979, 38 states have used some type of performance-funding policy (Dougherty and Natow 2015). Of those, 23 states have used or are using a type of Performance Funding 2.0 (Dougherty and Natow 2015). The rationale for the shift from bonus-based programs to policies that require explicit outcomes in exchange for state funding may lie with state policymaker beliefs that the latter are more effective in improving student success rates. At the same time, some recent studies have questioned whether outcomes-based state funding delivers significant increases in results (Bogue and Johnson 2010; Rutherford and Rabovsky 2014; Sanford and Hunter 2011; Shin 2010).<sup>3,4</sup>

Clearly, additional research is needed on how higher education institutions implement state performance policies that incorporate student outcomes accountability. Previous historical, survey, and qualitative literature on performance-based funding has focused on processes and relationships

associated with policymakers, coordinating boards, institutional leadership, and senior administration (Banta, Rudolph, Van Dyke, and Fisher 1996; Bogue and Johnson 2010; Dougherty et al. 2010), with one notable exception by Dougherty and Natow (2015). Although performance funding policy development and initial implementation are likely best understood by considering the perspectives of individuals at the state and system levels, as well as those in institutional senior university leadership positions, these perspectives alone may not provide a complete view of the relationship between performance-based funding policies and student success outcomes.

Kadlec and Shelton (2015) posited the importance of stakeholder engagement throughout the development and implementation of outcomes-based funding and further asserted the importance of the engagement of institutional stakeholders from various levels, including midlevel leadership, faculty, and student-facing staff to ensure effective policy implementation. To add to that research literature, the study described in this article explored the perceptions of midlevel administrators, faculty, and student-facing staff in a sample of small to midsized four-year regional higher education institutions with a teaching focus as they transitioned to state performance-based funding.

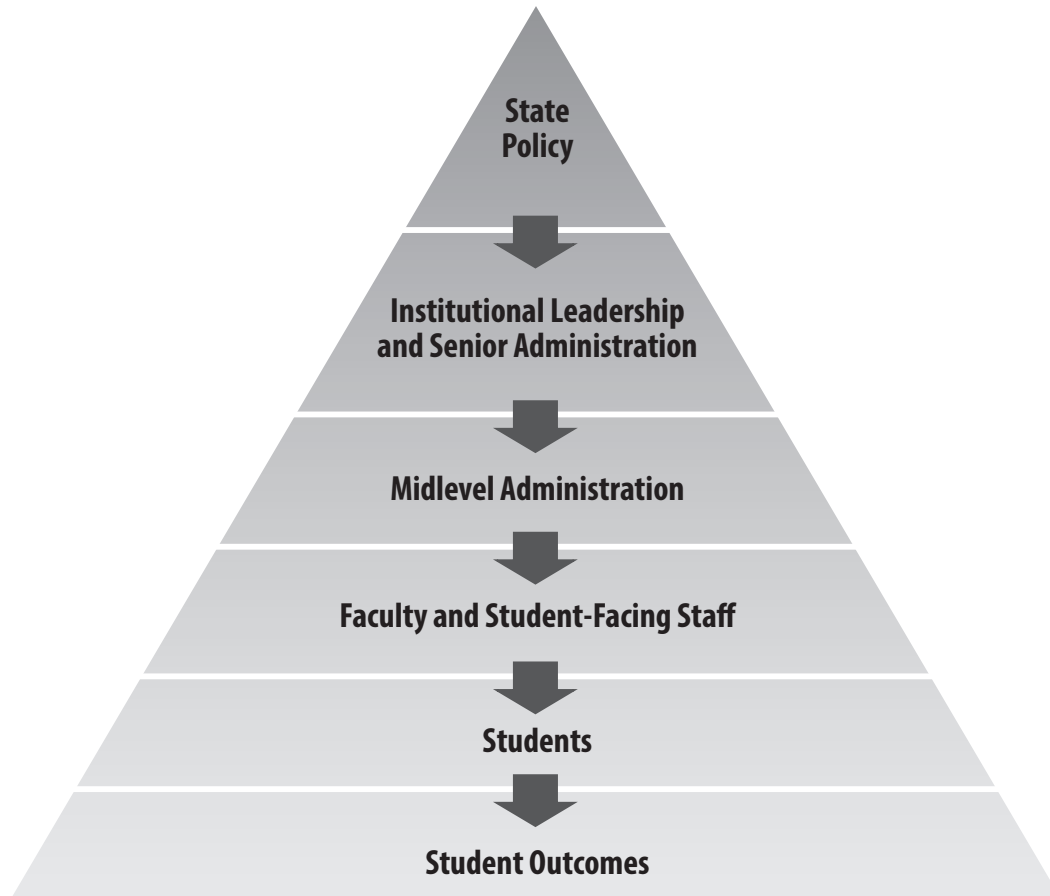
### Research Methodology

To begin, the authors developed a visual model of inquiry to guide the study, one that drew upon Kezar's (2012, 2014) framework on organizational change, which allows for the consideration of various organization members throughout the change/transition process. Our model depicts the hierarchical relationship between state performance-based funding policy; decisions by institutional leadership and senior administration, midlevel administration, and faculty and student-facing staff; and the impact on student outcomes. (See Figure.)

A qualitative, multiple case study approach was used. To be considered for the study, four-year public higher education institutions with a teaching focus, hereafter referred to as universities, had to be located in states that used Performance Funding 1.0 or 2.0, as defined earlier, with at least 20% of state higher education funding tied to performance at the time of the study in 2015, or within the one to three years thereafter.

Five universities were selected: two from Maine, one from Mississippi, and two from Virginia. The states of Maine and Mississippi used Performance Funding 2.0 while Virginia was using Performance Funding 1.0. Student enrollments at the five universities ranged from 2,500 to 10,000 students, with a median enrollment of 5,000 students. Included in the

Figure | **Proposed Model of Inquiry**



sample were one historically black university, one historically women's university, and two universities with a history of serving underrepresented student populations. The fifth university had a recent history of serving a large population of adult learners.

Interviews and focus groups represented the primary data sources for the study. A total of 26 participants were selected. Participants represented midlevel administration, faculty, and student-facing staff across the five universities. For the purposes of the study, an example of a midlevel administrator would be a student success coordinator. For student-facing staff, examples included academic affairs staff who worked in the office of a student success coordinator and played key roles in student success efforts. Interview and focus group questions were designed to focus on the university's transition to performance funding through the lens of organizational change as experienced by participants. (See Appendix.) Upon completion of interviews and focus groups, transcript data were organized and coded. Transcripts were read multiple times in search of emerging themes. In addition, all transcripts were uploaded to MaxQDA, a software program, for further analysis.

## Findings

Findings echoed the complexity found in the opening quotation. All in all, participants expressed a cautious optimism and a renewed commitment to student success, but these were tempered by concerns, sometimes bordering upon ambivalence, about the fiscal implications of state-based performance funding in general and specifically with regard to their particular institutions.

### *Fiscal and Budgetary Concerns*

At the time of this study, some of the universities were facing not only the transition to performance-based state funding, but also state budget cuts. One participant remarked:

We're feeling budget cuts from the state in regards to higher education... It's hard to put energy and money into student initiatives to get the higher attention at the state level when we're not getting state funding.

Another referenced the current reality of institutional budget shortfalls:

It would be very hard for me to provide any specific examples of how [efforts for student success as a result of the new state funding policy] are being implemented because of the issues around the budget shortfall and this institution. The change in senior leadership added significant levels [of uncertainty] and, frankly, I think the level of organizational distraction around the budget deficit has essentially taken everything off the table.

And, a third stated bluntly:

I think the state... doesn't fund equitably. They do not understand the different mission of a school such as our institution compared to other larger, well-endowed institutions.

Others worried that performance-based state funding was a zero sum proposition, as follows:

If everyone else does it [improve student outcomes] even better than we do...then individual improvement doesn't necessarily guarantee anything in outcomes based funding.

On the other hand, at least one participant noted a positive fiscal result for faculty:

There's also a lot more – it seems to me anyway – a lot more investment in providing resources for faculty in terms of professional development, workshops and so forth.

In addition, some participants took a more nuanced, long-term view couched in a cost/benefit perspective. For example, one stated:

Some of the retention initiatives that we've been talking about are not – do not – come without cost, but you have to talk about it...as an investment that'll pay dividends, you know somewhere down the line.

### *Fears of Disparate Institutional Impact*

The universities in this study represent a particular type of higher education institution. As small to midsize regional teaching-focused institutions, their enrollments generally reflected a disproportionate percentage of first generation students, nontraditional students, and students from moderate to low income families in comparison to their states' public research universities.

Participants in the study expressed a number of concerns related to state performance-based funding. For example, there was concern that state policies might be one-size-fits-all, failing to consider their particular institutional context and students. One participant captured these concerns, as follows:

I think that our governing body [the state] has to understand the missions of institutions. We are one of the regionals [with] a very specific mission... I mean, quite frankly, some of our students would never succeed at some of the tier one institutions because they would not get the personal help they get here.

Another participant reinforced the needs of their students, stating:

We have an overwhelming majority of our students that are first-generation college students [with no] support structure to [advise] them.

A third participant honed in on the issue of student outcomes to be measured in relationship to state performance funding:

You know, the state sort of defines success differently than how we may.

A more specific comment pointed out the following:

When they [state policymakers] base funding on graduation rates or retention rates, initially one would think that that's a really fair way to do it, but [we are] disadvantaged... Our retention rates can't be

the same as some of the [other institutions]...because [some other institutions] have so many students applying that they're turning students away.

Expanding upon this perspective, another stated:

These performance funding measures that look at four- to six-year graduation rates just don't properly account for an institution where a student might take seven years or eight years [to complete].

The concerns expressed above led one participant to lament:

We get compared electronically to every other school in the system, and we don't fare well in some of those things.

At the same time, participants were proud of their institutional mission and defended it. As one participant remarked:

We fill sort of a unique role in the [region], in my opinion. And there's been a push in the past to get higher academic standards for the new students, but I love that we're a place for that student who maybe didn't do as great because they will learn their potential here. It's a great place.

#### *What Transition Means and Looks Like to Participants*

The extent of participant concerns expressed in the previous two subsections might lead one to the conclusion that there would be considerable resistance to the transition to performance-based state funding, but the results of the study did not indicate this. Instead, participants reasserted their commitment to student success, embraced an emerging data culture to enable them to better meet state standards, and overall expressed a cautious optimism.

A Continuing Commitment to Student Success. Participants in the study were proud of their respective institution's history of commitment to students' academic success, as typified by this participant's comment:

Our intention again, in the 35 or so years that I've been here, is we want to help; we want to facilitate success.

Reinforcing this longstanding commitment, another stated:

I would like to believe that we're doing what we're doing, not because somebody is going cut our funding if we don't, but because it's the right thing to do.

Moreover, participants viewed the transition to performance-based funding as an opportunity to recommit themselves to student success as an inclusive endeavor, as follows:

There seems to be a better understanding from campus now that it's not just the faculty, it's not just the [name of student success office], it's all of us. We all have to work together to make these students successful.

Summing it up, another participant observed:

This renewed interest [in student success] has helped sort of refocus and restaff internally.

An emerging data culture. Participants appreciated the central importance of collecting, analyzing, and using data to enable them to not only meet state performance standards but also to become more effective in supporting their students and improving educational outcomes.

Referring to this emerging culture positively, one participant noted:

I think it [the transition to performance funding] has also caused us all to be more data-driven and to ask questions – and to look at something and wonder, *why*. So, we've been making more informed decisions.

Another excitedly remarked that with the use of student data an outside consultant had recently helped them assemble, "We pretty much know exactly what places students at risk."

Participants also described the experience of using data as a proactive process, as follows:

Once you get your data, I know that we have to continuously use our data to make informed decisions. And we have to continuously put strategy towards it. And we have to continuously have inclusive processes to understand all those barriers to why students don't persist.

When prompted to provide predictions about which programs or strategies that they had mentioned may prove more successful, participants at multiple institutions expressed confidence in the emerging data culture, stating that "only the data would tell."

A final example provides further context for participants' renewed commitment to student success and cautious optimism about the use of data:

I do a lot of data reporting for anyone who needs it, and I've noticed not only more requests on how students do in certain classes or midterm grades or final grades, but even individual instructors are like actually closely looking at their own courses and weighing in different factors about their students who are taking it and how they're doing.

#### **Conclusions and Implications**

Approximately three-fourths of states now use some form of performance-based funding for higher education. A number of these states tie funding directly to student outcomes like retention and graduation. While previous research has focused on policymakers, coordinating boards, institutional leadership, and senior administration, this study explored the perceptions of midlevel administrators, faculty, and student-facing staff in a sample of small to midsized four-year regional higher education institutions with a teaching focus as they transitioned to state performance-based funding.

The authors developed a visual model of inquiry to guide the study, one based upon organizational change, inclusive of the roles various organizational members play throughout the change/transition process. In the findings, participants expressed a cautious optimism and a renewed commitment to student success, tempered by real concerns, about the



fiscal implications of state-based performance funding in general and specifically with regard to their particular institutions.

Although it is not possible to draw broad conclusions from a single study drawn from a small sample of a particular type of higher education institution, the findings here call attention to the need for further study of the perceptions of midlevel administrators, faculty, and student-facing staff as they implement performance-based state funding, particularly at times when these institutions face across-the-board state budget cuts. It is also imperative to diversify studies to include all types of higher education institutions reflective of their differing missions so as to have a complete picture of the impact of these state policies.



## Endnotes

<sup>1</sup> McKeown-Moak (2013, 4) refers to Performance Funding 1.0 as the “old wave” of performance-based state funding.

<sup>2</sup> McKeown-Moak (2013, 4) explained that Performance Funding 2.0 constituted a “new wave” of performance-based state funding with a shift to a stronger focus on “increased accountability and increased efficiency of operations.” According to D’Amico et al. (2013, 232-233), Performance Funding 2.0 is “output-based funding, which includes performance in funding formulas, and performance contracts, which represent agreements to provide a certain number of funding should an institution meet expected outcomes.” Funding is given for certain levels of performance but could also be reduced if other expectations are not met.

<sup>3</sup> Rutherford and Rabovsky (2014) compared Performance Funding 1.0 to Performance Funding 2.0 policies. They found some positive effects on student outcomes under Performance Funding 2.0 policies.

<sup>4</sup> There are several potential reasons why recent studies have not demonstrated a definitive link between performance-funding policies and increased student outcomes. For example, over time, performance-funding policies change, for example, with changes in state political leadership. When performance-funding policies are used for short periods of time, results may not be seen (Dougherty and Natow 2015).

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## Appendix

### Focus Group Questions

#### **Topic 1: Student Success Goals**

1. What do you see as the main purpose/mission for your institution? How does this relate to the state performance funding policies?

#### **Topic 2: Communication**

2. How has information regarding performance funding metrics and/or student success efforts been communicated on your campus?
3. What efforts have institutional leaders made to have a campus-wide focus on performance metrics and/or student success?

#### **Topic 3: Commitment and/or Buy-in**

4. Who is involved in campus efforts related to the performance metrics and/or student success? Have any changes been made in duty functions for administrators, faculty, or staff?
5. Do you think all campus faculty and staff are committed to institutional performance and student success? Explain.

#### **Topic 4: Changes/Policy Effects**

6. How long do you think your state will have performance funding? What success initiatives will last whether or not the policy remains?
7. What initiatives are not likely to work and/or are likely to not still be around within a few years?

### Interview Questions

1. Describe what you see as the purposes, goals, and/or mission of your institution.
2. Have state performance funding policies influenced these (Q1 purposes, goals, and/or mission)? If so, to what extent?
3. Since the introduction of state accountability measures through performance funding have been initiated, what changes have you seen on your campus? Who has initiated these changes? Who is involved in the planning? How are the changes made?
4. How would you categorize the initiatives/changes/student success measures on your campus? For example, are the changes directives from administration? Are the changes coming from student affairs professionals? Campus faculty? Multiple initiatives? Which initiatives and individuals involved are likely to have the most impact? Explain.
5. Tell me about student success on your campus. Who is involved? What programs, policies, and/or procedures exist that influence student success initiatives?
6. How are student success initiatives developed? Who is involved in the planning? How are initiatives communicated throughout the campus? How is buy-in and/or compliance with initiatives achieved?
7. What do you think will be the long-term effects of performance funding on your institution? Who is affected the most in regards to job function? Which new functions will still be visible in 5 years? 10 years? Why will these be the longest lasting? Who will ensure they last?
8. What else would you like to tell me about performance funding and/or student success efforts on your campus?