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## Performance Based Funding: Changing the Paradigm for Higher Education

Robin Ellis<sup>1</sup> and Randall Bowden<sup>1\*</sup>

<sup>1</sup>Texas A and M University, 6300 Ocean Dr Corpus Christi, Texas, 78412, USA.

### *Authors' contributions*

*This work was carried out in collaboration between both authors. Authors RE and RB collaborated on all aspects of the manuscript. Author RE developed much of the content under the guidance of author RB. All authors contributed to the revisions. Both authors read and approved the final manuscript.*

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### ABSTRACT

**Aims:** To examine major aspects and driving forces to performance based funding as it changes the paradigm of how colleges and universities receive public funding.

**Study Design:** The manuscript is a position, review paper, therefore it selects a controversial topic and builds a case for a position.

**Place and Duration of Study:** Covers recent literature that relates to performance based funding of colleges and universities while grounded in neoliberal philosophy.

**Methodology:** Structure the paper moves the subject matter through as series of topics, formula funding; student success; student outcomes and state goals; and conclusions.

**Results:** The purpose and landscape of higher education is changing. Performance based funding will dominate the landscape. The neoliberal approach as an economic model of funding will remain for quite some time. Colleges and universities may not benefit from performance based models of funding if they do not have the resources or programs that correspond to state objectives.

**Conclusion:** Increased accountability and decreased funding is the new norm. Policy makers are now linking funding to the types of results that higher education can produce.

*Keywords: Performance based funding; accountability; neoliberal philosophy.*

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\*Corresponding author: Email: [randall.bowden@tamucc.edu](mailto:randall.bowden@tamucc.edu);

## **1. INTRODUCTION**

Historically, higher education was considered essential in serving the public good by contributing to the growth of American society [1]. More recently, public higher education is increasingly required to defend, justify, and validate its performance and value to legislators, taxpayers, and society in general. The past several years have been exceptionally difficult as declines in national standings and states have been realized where appropriations are offset by increased student tuition and fee revenue.

State policy makers are progressively linking funding to accountability and efficiency that directly impact the needs of students, the state, and the economy. Because higher education is an economic driver in a time of financial crises, funding allocations will no longer be based on institutional needs but on how well institutions are meeting state objectives. State governments are calling for policies that assess the cost and the quality of higher education. The trend among policymakers is to move away from the reliance on enrollment-driven funding formulas and toward policies that link appropriations to an institution's ability to document state mandated educational performance standards and results [2].

Tennessee, Ohio, and Louisiana have already started implementing performance based funding models as a significant form of accountability. Additionally, in 2013 the 83<sup>rd</sup> Texas Legislature signed into law the Outcomes-Based Funding Act mandating up to 10% of funding to public universities will be based on a performance model developed by the Texas Higher Education Coordinating Board. This model includes a host of policy aspects, incorporating elements such as performance reporting, performance funding, and state-level master planning.

Traditionally, public education in the United States has been dominated by three major philosophical movements: (a) moral education; (b) constructivism; and currently, neoliberalism. Moral education emerged from the nation's Colonial days of the 1600s and extended until the early 1800s. Religious authority governed education and commerce [1]. They were grounded in Christian values, good character, and civic-minded outcomes [3]. Gradually, constructivism began to emerge in the late 1800s [4]. The nation was rapidly expanding and so was its need for new knowledge, which brought a revolution in political beliefs and college curricula [1]. These were influenced by constructivist philosophical thought surrounding the process of discovery, experience, and collaboration [4]. Eventually in the 1980s, education became a primary vehicle for greater earning power and economic development [5]. Through the years as public support decreased [5], a neoliberal mindset arose with its focus on an economic model of education leading to performance based educational outcomes [6].

Harvey [7] defined the neoliberal phenomenon as a theory of political economic practices. It proposes that human well-being can be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade. Federal reports and legislation formally marked the official rise of the neoliberal impact on education. In 1983 President Reagan's administration called for educational reform in the report, *A Nation at Risk* [8]. The report criticized American education as a failing venture and called for educational leaders to redirect their efforts toward developing a more competitive workforce [8]. *No Child Left Behind* legislation followed in 2001 under the President Bush administration. It laid the foundation for states to develop standardized tests in order to participate in federal funding programs [9]. In 2006 the Spellings Commission, a nineteen member panel of the federal Department of Education,

issued a report that set forth four major principles for postsecondary education: (a) better access to higher education; (b) more affordable approaches to higher education; (c) standardized quality of instruction; and (d) more stringent accountability by postsecondary institutions to students, families, taxpayers, and other stakeholders [10]. Finally, in 2009 the Obama administration developed the Race to the Top grant program to award benefits to states that meet particular performance based standards according to federal educational policies. Performance based standards are met when there is compliance to national common core benchmarks, increased student test score performance, and implementation of data systems for assessment and accountability [6,11]. A performance based standards' approach to education is directly tied to economic benefits within the neoliberal approach [12].

Saunders [13] recognized neoliberalism as two-pronged. As an hegemonic practice, it has dominated the societal milieu since the 1980s. First, it was noted this practice resulted in drastic cuts in state funding to social services and programs, leading to a redefinition of social, cultural, and political institutions with a focus on prioritizing economic outcomes [14-17]. Second, higher education has been on a parallel track. In order to compensate for shortages from state funding sources, revenue generation has become a top priority with a reliance on funding from private sources. This, in turn, created a charge to become economically efficient [17]. Although there is debate about the historical purpose of higher education of whether it promotes economic growth or it serves better civic development, the reality encompasses a component of both. What is new to the table, though, is the broad scope of acceptance by students, faculty, staff, administrators, and policy makers as they have embraced capitalistic goals, priorities, and business models consistent with neoliberalism [13,18,19]. According to Saunders [12] higher education has become a business similar to any other business. It operates accordingly in response to states' reductions in funding social services, cuts in higher education appropriations, privatization and commercialization of higher education functions, with a reliance on private funding, heavy emphasis on faculty to generate revenue, mass hiring of part-time and adjunct faculty to reduce costs, and re-definition of students as customers who purchase products and services [12]. Even states' power bases are channeled toward economic rationales away from broader social, cultural, and political concerns [20]. This affects how they approach education allocations [20].

Fish [21] reported if the percentage of a state's contribution to a college's operating expenses declines and if at the same time the demand for the product of higher education rises and the cost of delivering that product skyrockets, a new performance gap opens up that will have to be filled. Because neoliberalism is an economic based philosophy, it fills the performance gap. Since it is an economic model, it requires metrics, measurement goals, and outcomes to indicate its effectiveness. Performance criteria are accentuated at all levels of college and university operations with an emphasis on measurable outputs, both locally and globally [19].

Performance based funding, as an extension of a neoliberal foundation extends beyond the borders of the United States. The European higher education system has been evolving since the introduction of competitive market forces into higher education. Across Europe and the world, a sweeping change is orchestrated by governments that are pressed by globalization to provide high-ranking, attractive institutions for hubs of competitiveness in knowledge-based economies [22]. What has become evident in Europe is that policies which were first developed as an empirical, short-term response to financial difficulties have now assumed a long-term strategic thrust, bearing down on the relationship between higher

education, the government, and society [23]. The past few decades reveals that European universities are entrenched in competitive markets, dominated by neoliberal economics and commerce [24]. This was decades in the making. According to Maassen and Stenaker [25], it occurred in three phases. The first phase began in the 1960s where growing student enrollments required an increase in public spending on higher education. This raised concerns about the value of education in relation to its costs, as well as the efficiency of its delivery. Beginning in the 1990s it triggered a second phase. Political awareness arose where Ministries introduced steering models for higher education concentrated in output funding models, multi-year agreements, and contracts individualized to institutions. This often led to new types of controlling performance indicators. Finally and recently, the third stage was realized through the Bologna Declaration, particularly the Lisbon Declaration. Though complex, in essence research and development were emphasized for economic growth and competition. The Declaration stressed education as a major factor for the labor market. Moreover, it moved the emphasis away from national diversity toward commonalities in social and economic outputs. The UK can be viewed as a microcosm of the breath of neoliberal influence across Europe where the shift is from professional power to executive power, focusing on performance measures grounded in quantitative targets of measurement [26]. As a result of neoliberal thinking, the introduction of competitive markets into funding models for higher education in Europe has its own implications. In terms of the individual's process of occupational choice, it suggests that students are being asked to consider what they shall study in the light of what they wish to do after they finish their studies, whereas historically the enduring feature of most European school systems was they track and select their students in such a way that occupational choice is largely made in light of previous performance and attainment [23].

Although already more widespread across Europe, the influence of performance based funding in the United States for higher education is gaining momentum as a matter of individual state policy development. This paper examines major aspects and driving forces to performance based funding as it changes the paradigm of how colleges and universities receive public funding. For example, Tennessee, Ohio, and Indiana have adopted similar models and are successfully implementing performance funding mechanisms. Furthermore, the paper will address the new Outcomes-Based Funding Act model, its metrics, and its impact on Texas institutions. Texas is rapidly moving towards this model because of a legislative mandate to implement formula funding, increase student success and produce student outcomes that are directly aligned with the state's education goals and economic needs. Do these new approaches to funding benefit higher education?

## **2. FUNDING FORMULAS**

In essence, all funding formulas are performance based. For many years, institutions have received appropriations from the state for achieving certain objectives. Most often the objective has been providing greater access and growing enrollments [27]. Funding was allocated to universities largely based on the number of students in the classroom on the 12<sup>th</sup> day of class. Enrollment was once the primary factor in formula funding distribution where access was rewarded. However, enrollment driven models have recently undergone a significant upgrade to include major incentives for success measures. State after state has shifted its funding formulas from old methods to a new wave that introduces complex metrics with a focus on student success and institutional improvement [28]. This transformation can be attributed to a shift in ideology as today's fiscal environment has forced states to carefully consider how their limited dollars are spent on higher education. To ensure that tax payer

investments yield the best possible returns, states must incentivize both college access and completion by implementing more sophisticated performance measures [29].

In Louisiana, the most recent funding formula is designed to maximize equitable distribution of funds. In addition, Louisiana's colleges and universities are governed by multiple boards due to lack of confidence from the state in the higher education coordinating board [30]. New revisions in formula funding for Louisiana drive performance improvements by allocating funds based on instruction cost by discipline and by graduation rates in place of enrollment counts only [31]. For example, in 2012 25% of funding in Louisiana was based on performance with an emphasis on graduation rates of undergraduate students, students over 25, minority students, and transfer students [31].

Similarly, in Texas, the new outcomes based funding formula has been restructured to focus less on enrollment and more on results. However, universities in Texas are governed by the Texas Higher Education Coordinating Board (THECB), a single agency of the state that oversees all public institutions of higher education. While funding for enrollment is still primarily a formula metric, performance based funding in Texas is shifting towards a focus on degree completion metrics, such as graduating students with bachelor's degrees, degrees in critical fields, graduating at-risk students, and 6 year predicted graduation rates [28]. The new Outcomes Based Funding Act allocates 10% of base formula funding based on metrics of bachelor's degrees awarded. This is primarily driven by the Closing the Gaps initiative developed in October 2000 by the Texas Higher Education Coordinating Board as part of the Texas Higher Education plan. The plan sets forth four state goals for universities to implement and the state to measure through 2030: (a) add 500,000 students to higher education by 2015; (b) increase the number of participants and graduates by 50% in critical fields, such as education, engineering, computer science, math, physical science, allied health, and nursing; (c) increase nationally recognized programs in each institution, while the state will fund critical programs for business contributions; and (d) increase federal funding for science and engineering research by 50% by 2015.

### **3. STUDENT SUCCESS**

In addition to recent mandates redesigning formula funding, state governments are requiring institutions of higher education to improve student success. According to the THECB [28] the United States continues to fall further behind other countries in awarding degrees and credentials. College completion rates are stagnant or falling today, particularly among young Americans, a trend that threatens to undermine the nation's global competitiveness [32]. The challenge here is for colleges and universities to increase productivity. Increasing college completion is becoming an imperative at all levels of government. According to the Pathways Report [32] the goal at the federal level is to have the world's highest rate of college completion and achieving this goal will require formidable efforts to increase the nation's college degrees. Public colleges and universities are now called upon to address low graduation rates by their state legislatures. Furthermore, a national priority has been established: President Barack Obama, in the American Graduation Initiative, has set the goal that the United States must add five million more graduates to the workforce in this decade to remain competitive in the global marketplace [33]. Therefore, in addition to new formula funding criteria, student success is a critical component of performance based funding.

Ohio began its performance funding in the 1980s, and like many other states, traditional formula funding focused on enrollment. However, in 2010, a new model in Ohio was

implemented. Mandated by the legislature, the new model contained “Success Challenges” set by the state that incentivized universities to increase graduation, student participation, and improved time to degree completion [34]. Formula funding for universities in Ohio will reward campuses heavily for successful course completion and degree completion with a smaller emphasis on contributions by campuses contributions to the state’s strategic plan. A study conducted by the University System of Ohio Board of Regents [35] found that 42% of students who begin college in Ohio graduate, meaning both students and the state have wasted their money.

In Texas, a study conducted by the THECB [26] found that 45% of students in Texas public universities do not graduate within six years. According to this report, students who fail to complete course work cost the state \$124 million each biennium in state appropriations and student grants. The State of Texas does not cast blame to any one entity for students who fail to graduate. The THECB [28] recognized that there lacks a sustained partnership among the P-12 sector, higher education, the state, students, and the community. The state identified five factors that need to be improved: (a) state funding at appropriate levels while monitoring cost efficient measures; (b) public education needs to prepare students to do college level work; (c) students are responsible for their commitment to completion of a college degree in accordance with the aid they receive from the state; (d) various regions within the state must develop a college-going culture; and (e) institutions must ensure that if a student is admitted, he or she will earn a credential [28]. Thus, Texas is looking toward new models of accountability to improve the state’s educational outcomes. Much like Ohio’s “Success Challenges,” the new outcomes based model adopted in Texas provides incentives for formula funding by means of “Progress Indicators.” These indicators focus on rewarding universities who increase the number of degrees awarded annually, increase the number of individual course completions and increase degrees in high demand fields [2].

Performance factors focused on degree completion initiatives are a high priority for outcomes based funding efforts both in Ohio and Texas. College degree completion rates are among the most important indicators of institutional quality as degree attainment is vital to the economic health of the United States [33]. Though legislative mandates and formula metrics differ, Ohio and Texas are working towards the same student success goals that address a greater national need; increase the nation’s global competitiveness and open the door to new academic and career opportunities that will boost the state economy and job growth.

#### **4. STUDENT OUTCOMES ALIGNED WITH STATE GOALS**

Productivity in higher education is front and center on the national stage, now more than ever. The United States began recognizing the impact of degree completion on the economic health of the nation in the early 1990s. More recently, higher education, both in the U.S. and internationally, has been required to explain, defend, and validate its performance and value to a wide variety of constituents including governors, legislators, students, parents, employers, and tax payers [31]. Furthermore, employers across the nation are expressing concerns about whether the U.S. is producing enough college graduates and whether they have the skills, knowledge, and personal responsibility to contribute to a changing workplace and help companies and organizations succeed and grow [32].

States are working to address this issue by aligning fiscal resources with performance based measures for institutions of higher education. State legislators across the nation are called on to assess the performance of higher education which has placed pressure on governing

bodies and regional agencies to develop and sustain performance based accountability mechanisms [34]. The challenge is for colleges and universities to produce better outcomes with fewer resources and the state solution is the implementation of performance based funding. New performance based funding models reflect the needs of the state and its citizens, not merely the needs of the institutions. In this time of financial crisis, there appears to be a much greater recognition of the fact that higher education is a major driver of the economy and that the state and local community need higher education to provide educated citizens with their greater earning power and ability to pay more in taxes, as well as the other benefits of higher education, including the transfer of knowledge [31]. Universities in Tennessee and Texas are only two examples that are now strongly incented to align degree outputs with state economic development and workforce needs and are receiving additional funding for degrees in critical fields such as science, math and engineering [33].

In Tennessee, funding was once linked to retention, enrollment, and research funding. In 2010, formula funding was redesigned to focus on outcomes such as degree completion with additional points awarded for the institutions alignment with state goals [31]. Tennessee's performance based funding model has a strong funding component relating to alliance with state priorities as well as degree completion [34]. The agenda for higher education in Tennessee includes a strong partnership with goals of the state's workforce and economic development priorities. According to Friedel [36], without guidance on the vision of the state and its workforce and economic needs, public higher education cannot truly serve as a tool for the state to advance on its goals. Performance models in Tennessee measure indicators are heavily weighted towards the goals of the institution that support the state's public agenda.

Similar to Tennessee, a major goal in Texas is to maximize higher education in response to the economic development needs of the state. For example, the agenda in the 81<sup>st</sup> legislative session focused primarily on increasing postsecondary student achievement that aligns state resources with state goals in education and economic development [37]. In 2011, Texas began working towards restructuring current funding models to realize maximum efficiency and effectiveness in both graduating the rapidly growing college-age population and helping students earn the educational credentials that the state's economy will need to sustain itself going forward [37]. Like Tennessee, Texas institutions of higher education are strongly incentivized to increase productivity in critical fields that directly support economic needs of the state such as math, science, technology and engineering.

## **5. PERSPECTIVES**

The purpose and landscape of higher education in the United States is rapidly changing. Does this new landscape benefit higher education? Time will tell. Clearly, performance based funding will dominate the academic culture. With an undergirding neoliberal philosophy, it does appear the economic model of accountability will remain for quite some time. However, there could be a major drawback to this approach to state funding of higher education. New reports issued from the federal government showing a decline in the United States degree attainment rates have threatened the nation's overall global competitiveness, exacerbated inequality in income distribution, therefore obligating state objectives to focus on programs that emphasize programs, particularly in Science, Technology, Engineering, and Mathematics (STEM) [36-38]. The federal government emphasized STEM's importance in the Higher Education Opportunity Act of 2008, where qualified individuals receive benefits for participating in STEM fields [39]. The legislation includes the establishment of a national database to track and support student ventures in STEM educational activities [39].

Colleges and universities that do not have the resources to develop programs tied to state objectives may suffer serious disadvantages to performance based funding. In addition to this, states need to be vigilant about how they implement performance based funding. South Carolina attempted to implement a model that was 100% performance based. It did not distinguish between difference institutional missions. Thus, it proved to be costly, unproductive, and controversial. In short, it was a failure [2,40].

## **6. CONCLUSION**

Increased accountability and decreased resources is the new norm. Colleges and universities are required to do more with less. In addition, policy makers across the nation are now linking funding to the types of results that higher education can produce. Therefore, funding models have been redesigned to reflect performance standards set by the needs of the nation and the states. Research shows that the United States is falling behind in awarding degrees and credentials to sustain the economy. Economic growth plays a large part in federal and state calls for accountability and is a strong motivator toward performance based funding. It has gained momentum over the last few years. Studies will need to continue to understand if performance based funding has succeeded in meeting the needs of the states, economy, and students.

## **CONSENT**

Both authors declare that consent was not needed for the manuscript as a review paper.

## **ETHICAL APPROVAL**

Not applicable.

## **COMPETING INTERESTS**

Authors have declared that no competing interests exist.

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