(Under)Performance Funding:

Evaluating Performance Funding’s Successes and Failures

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Since its first introduction in Tennessee in 1979 (Basken, 2019; Dougherty et al, 2014; Mizrahi, 2020; Rosinger et al., 2021;), support for performance-based funding (PBF) in the United States has increased throughout the years. Performance-based funding is the state policy of allocating funds to institutions based on each institution's performance according to student outcomes. Though numbers vary from a wide range of sources, general consensus estimates that around three quarters of the nation currently utilizes or plans to utilize PBF (Dougherty et al., 2014; Gándara & Daenekindt, 2022; Gándara & Rutherford, 2018; Li, 2018; Li, Gándara & Assalone, 2018; Ortagus et al., 2020). Implementation of PBF varies widely from state to state, as not all higher education funds are directly tied to performance. Arkansas and Ohio provide starkly contrasted examples, where Arkansas ties around 3% of funds to performance outcomes and Ohio ties 100% of funds to performance outcomes (Whitford, 2020).

The introduction of PBF and its ebb and flow of prevalence marks a distinct departure from previous methods of state funding. Previous policies tied funding to metrics like student enrollment or semester credit hours, and were distributed on an incremental basis (Gándara & Rutherford, 2018; Li, 2018) in combination with a number of prior appropriations. The methods were not tied to student outcomes and therefore presented no direct incentive for institutions to improve (Ortagus et al., 2020). This continued divergence from traditional methods has already affected education at every level, and the move to the PBF model is expected to continue (Ward & Ost, 2021).

This ebb and flow of PBF can be broken into two distinct waves. After Tennessee's initial launch of PBF, the first wave ended due to the economic recession in the 2000s (Dougherty et al., 2014). Higher education funding, no matter the state policy, reflects the overall status of the economy. Two notable periods of recession come to mind: a shallow recession in 2001 and the Great Recession from 2007 to 2009. State funding follows this pattern similarly. Before 2001, state funding totaled nearly $99 billion dollars before a small decline to $91 billion in 2005. There was a small rebound to $101 billion in 2004 before a sharp plummet to $84 billion in 2013. By 2018, funding once again reached $99 billion, but adjusted for inflation that effectively amounts to around the same level of funding as the early 2000s (Kelchen et al, 2020). In 2007, the second wave of PBF swept the nation, where a majority of these programs simply re-adopted the first wave policies that used PBF as a bonus to already designated state funds; however, there were a small few (about two-fifths of the new programs) where PBF was not simply a bonus but rather the entirety of funds available to institutions (Dougherty et al., 2014).

Multiple studies of PBF have found that despite its intentions, where outcome based funding would incentivise institutions to strengthen their graduates and improve rankings and ratings, there is little to no lasting improvement to student outcomes or degree completion rates (Basken, 2019; Fain 2018; Rosinger et al., 2021). Despite this evidence that suggests PBF is ineffective, continued interest in PBF and outcomes-based education is directly related to the political party control and structured governance of higher education. Additionally, factors of socioeconomic characteristics, organized advocacy, and the influence of nearby policy makers in other states can alter the adoption of PBF state by state (Gándara & Daenekindt, 2022). Further study also shows that while PBF might have overall null effects on student outcomes (Li, 2021), major (un)intended consequences of PBF have significant negative impacts to specific populations.

PBF incentivises institutions to change their enrollment behaviors to achieve outcomes outlined by performance metrics, rather than making any lasting institutional alterations and improvements. This means that institutions can change enrollment demographics to include students who are most likely to complete their degrees in order to boost their performance in these metrics, and studies show that more selective institutions receive more public funding than their less selective counterparts (Ortagus et al, 2020; Whitford, 2020); since selective institutions have larger populations of higher income students, PBF assists in the stratification of success for low-income students by altering enrollment practices that work against them (Bastedo & Jacquette, 2011; Rosinger et al., 2021).

This same stratification can be said about minority serving institutions (MSIs). Data shows that PBF policies often and implicitly disadvantages MSIs that serve greater portions of students of color (Li, 2018; Zerquera & Ziskin, 2020). Rigidity of policies and metrics impedes the potential success of an institution that has a different demographic than its counterparts. Some institutions also get around the PBF metrics by suggesting that students, particularly those of color, should consider community college first and the transfer to a four-year institution, as fall first-time students are typically used in measurements for PBF or additional accreditation structures. Additionally, funding is continuously diverted toward flagship institutions, which disadvantages other state funded institutions that serve marginalized communities, further disadvantaging the communities themselves (Zerquera & Ziskin, 2020).

In response to concerns like these, some states have included provisions that include incentives for institutions to support disadvantaged populations (Whitford, 2020). For each Pell Grant eligible student that graduates from a state funded institution in Tennessee, the state provides an additional 40% of funding per student. Ohio is another state that offers a similar incentive, but also includes students of color in addition to low-income Pell Grant eligible students (Li, 2018). Incentives like these are great foundations, but have questionable utilizations. There is the possibility that institutions could choose to develop mentorship programs, or utilize these funds to create scholarships for disadvantaged students; however, institutions have nearly complete discretion as to how those additional funds are utilized. Though they may receive funds because of the students they enroll, they in turn are not required to use those funds to support those students (Li, Gándara, & Assalone, 2018).

There are also concerns for community colleges to consider in this conversation. While not all PBF policies use them, some restrict access to funds based on degree completion regardless of how much time it takes. This could inadvertently give more state funding to two-year institutions like community colleges than to other institutions (Whitford, 2020). While this could potentially benefit community colleges, there is also the potential that other facets of PBF policies do more harm to community colleges than good. Since PBF models rely on competition between institutions for funds and utilizes a ranking system, community colleges are set up for failure. Community colleges were initially designed to serve geographic communities rather than students from across the state or country. To compare community colleges to each other is perhaps a larger reflection of the existing disparities by geography, rather than by any amount of measurable success by PBF metrics (Reed, 2018).

Two states have picked up the discussion of performance-based funding for their community colleges in the past several years. Massachusetts dropped PBF policies for community colleges several years ago after holding them for a very short period (only three years) but in 2018 the topic was brought back to the attention of state lawmakers (Reed, 2018). In the same year, California added PBF to their plan for community colleges with the hopes of improving completion rates for disadvantaged students (Fain, 2018). The continued dueling perspectives of the benefits and detriments of PBF is persistent throughout its fifty year history. Despite the waves of interest in performance based funding, two-thirds of states that have at one time or another adopted PBF policy discontinued the policy at one time or another (Dougherty et al., 2014).

The United States is not alone in the study of the effects of performance based funding. Higher education systems around the world have greatly increased in size while simultaneously having their budgets significantly reduced; as a result, governments around the globe have searched for ways to hold institutions accountable to their commitments in order to more properly safeguard public funds. Initially, countries moved to using the New Public Management (NPM) model, which can best be described as recentering the focus of government as a business with the citizens they were serving as their primary customers. This term was first coined by the governments of Australia, New Zealand, and the United Kingdom in the 1980s, and was initially used in operation for educational, health care, and government services (Mizrahi, 2020).

This shifted in the 90s, however, as government oversight was pulled back and institutions were given more autonomy on how they achieved their required outcomes (Mizrahi, 2020). As PBF gained traction in the US, it expanded globally. Now, PBF is a major and prevalent part of the higher education policy landscape internationally; furthermore, many of the same criticisms discussed in the United States are also echoed on the global stage: PBF continues to stratify disparities and inequities by shifting to a meritocracy rather than assessing the real financial needs of constituents (Zerquera & Ziskin, 2020).

These trends in PBF and data collected across multiple years indicate a few throughlines that are worth continued focus and further research: (1) PBF is an active part of the higher education financial landscape, as it has been for decades and will continue to be so, (2) PBF as a model is not inherently flawed, but does require stronger oversight, (3) PBF's continued existence requires changes to be made, particularly with equity in mind, and (4) should our current model of PBF be rendered obsolete, the continued interest in PBF itself indicates that public interest in educational finance policy matters is still a national and global priority.

Despite its shortcomings, the continued interest in PBF at a national level is part of a much larger financial conversation. If current individual state PBF guidelines are serving the public as is and are maintained, then the only way to improve and increase higher educational funds lies with the federal budget - and that is a much longer and more complicated discussion; however, should the current federal funds be determined to be enough but not utilized to its full potential, then the change needs to happen at the state level. Looking at the research available to the public, it is clear that there is more research that critiques performance-based funding than there is supporting evidence. Matt Reed effectively describes why that might be: "We don't need performance-based funding; we need funding in order to perform" (2018).

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