DOCUMENT RESUME

ED 418 652 HE 031 181

AUTHOR	Albright, Brenda Norman
TITLE	The Transition from Business as Usual to Funding for Results: State Efforts To Integrate Performance Measures in the Higher Education Budgetary Process.
INSTITUTION	State Higher Education Executive Officers Association.
PUB DATE	1998-04-00
NOTE	26p.
AVAILABLE FROM	State Higher Education Executive Officers, 707 Seventeenth St., Suite 2700, Denver, CO 80202-3427; fax 303-296-8332 ($12).
PUB TYPE	Reports - Research (143)
EDRS PRICE	EDRS Price MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS	*Budgeting; College Outcomes Assessment; Data Collection; *Educational Finance; *Finance Reform; *Government School Relationship; *Higher Education; National Surveys; Policy Formation; Resource Allocation; *State Aid; Strategic Planning
IDENTIFIERS	*Performance Indicators

ABSTRACT

This report describes a 1997 survey which examined performance funding in higher education and offers guidelines for states' and institutions' explorations of performance-based funding. Among highlights of the survey are: 32 states are planning or using performance measures in the state budget process; legislatively mandated initiatives are growing in number and scope; and most states report that it is too early to assess the impact of performance measures on institutional behavior. Advantages and areas of concern are also noted. Seven common processes in performance funding systems are identified: (1) determining the vision and overall purpose; (2) selecting goals and determining their relative weight; (3) adopting performance measures for institutional achievement of adopted goals; (4) collecting information about each measure; (5) allocating resources; (6) evaluating and adjusting the processes and goals; and (7) communicating performance results to various audiences. The report closes with 12 recommended principles in decisions about performance-based funding. These principles include: connecting performance funding with strategic planning, promoting collaboration, using existing data whenever possible, and using measures that reflect quality and customer focus rather than numeric counts. (An appendix compares the states on use of performance measures in the budgetary process.) (DB)

THE TRANSITION FROM BUSINESS AS USUAL TO FUNDING FOR RESULTS: STATE EFFORTS TO INTEGRATE PERFORMANCE MEASURES IN THE HIGHER EDUCATION BUDGETARY PROCESS

SHEEO

THE TRANSITION FROM BUSINESS AS USUAL TO FUNDING FOR RESULTS: STATE EFFORTS TO INTEGRATE PERFORMANCE MEASURES IN THE HIGHER EDUCATION BUDGETARY PROCESS

Brenda Norman Albright

April 1998

SHEEO **State Higher Education Executive Officers**

The State Higher Education Executive Officers is a nonprofit, nationwide association of the chief executive officers serving statewide coordinating boards and governing boards of postsecondary education. Its objectives include developing the interest of the states in supporting quality higher education; promoting the importance of state planning and coordination as the most effective means of gaining public confidence in higher education; and encouraging cooperative relationships with the federal government, colleges and universities and other institutional state-based associations. Forty-nine states and Puerto Rico are members.

Copies of this report are available from the SHEEO Office for $12.00 prepaid. Send request to State Higher Education Executive Officers, 707 Seventeenth Street, Suite 2700, Denver, Colorado 80202-3427; fax 303-296-8332.

Table of Contents

Foreword

State-level accountability and the use of performance measures have been touchstones of the 1990s. In state after state, legislators have directed all government entities, including public higher education, to state their goals and activities more explicitly and report results as a form of accountability. Many state higher education agencies have adopted performance measures to respond to these accountability demands.

To determine the states' experiences to date with using performance measures, SHEEO conducted a survey from December 1996 through March 1997 of state-level higher education coordinating and governing boards. The survey focused on the use of performance measures for accountability and in performance funding.

This report, *The Transition from Business as Usual to Funding for Results: State Efforts to Integrate Performance Measures in the Higher Education Budgetary Process* by Brenda Norman Albright, Franklin Education Group, focuses on strategies for using performance measures in the budgeting process and outlines key principles that can guide states' explorations of performance-based funding.

Two companion reports have also been written. *State Survey on Performance Measures: 1996-97* by Melodie E. Christal reviews the survey findings. *The Challenge of Consumerism for Higher Education: Creating a Market for Quality* by Sandra R. Ruppert, Educational Systems Research, explores the emergence of a customer focus in new state-level accountability policies and relates them to a broader statewide reform agenda.

We want to thank the many members of the SHEEO agencies who took the time to complete our survey. Without their efforts, these reports would not have been possible.

We hope you will find the information in this report useful. We welcome your comments.

James R. Mingle
Executive Director
State Higher Education Executive Officers

The Transition from Business as Usual to Funding for Results: State Efforts to Integrate Performance Measures in the Higher Education Budgetary Process

Overview

In these times, institutions of higher education must make a compelling case to the public and to political leaders that the overall value of a college education is real, and that higher education institutions deserve increased financial support. Officials from system, coordinating, and governing boards have discovered that they must work with legislators and governors to find innovative ways to change the budgetary status quo, which had until recently left out the question of "value" in the funding process. Traditionally, higher education has been paid for whatever it does through a fee-for-service approach. The established financing systems focus on incremental funding increases or enrollment-driven formulas using input factors such as average costs or student/faculty ratios. In allocating money to public higher education institutions, most funding systems do not consider state educational goals, nor do they provide incentives for improvements in institutional or program effectiveness, educational quality, or student learning outcomes. In other words, traditional funding systems do not link funding to clearly specified results. Success or failure is not part of the funding equation. However, many state leaders now view such traditional budgeting models as obsolete, insulated from state and institutional strategic planning, unresponsive to state and national priorities, and inappropriately separated from the question of value.

In some states, long-standing budgetary systems have been abandoned, being replaced by completely new funding frameworks. In many of these instances, funding systems have been redesigned to include performance-based funding initiatives. Under this system, performance measures are reported in the budget process and are then tied either directly or indirectly to funding decisions.

In the current management lexicon, performance-based funding represents a paradigm shift. Rather than the state meeting the institution's needs, the college or university meets the state's needs. Performance-based funding changes the funding equation by altering educators' expectations that programs or institutions are *entitled* to a certain level of resources; instead, it creates rewards for achievement and successful changes in institutional performance. These emerging result-centered strategies, with their strong emphasis on student learning needs, customer service, quality, and productivity, differ in process, focus, and structure from traditional funding approaches.

This report begins with the findings of a January 1997 survey on performance-based funding in higher education, undertaken by the State Higher Education Executive Officers (SHEEO). Next, questions about and responses to the new systems are examined, and strategies for using performance measures in higher education are explained. Finally, the report outlines the key principles that can guide states' and institutions' explorations of performance-based funding.

Summary of 1997 SHEEO Survey on Performance Measures

Observations

In 1997, the State Higher Education Executive Officers (SHEEO) surveyed states to learn more about the use of performance measures; one section of the survey focused on the use of performance measures for budgetary purposes. More specifically, SHEEO investigated the genesis of new programs, the varied ways that states use performance measures in the budgetary process, the purposes of the funding changes, and the efficacy of these programs in meeting state objectives. The survey also addressed the benefits and areas of concern for states considering or using performance measures. Highlights of the survey results are outlined below.

- ***More than half of the states (32) are planning or using performance measures in their state budget process.*** Fifteen states report, review, and analyze performance measures in the budgetary process, eight states allocate some state funds based on performance measures, and nine states are planning to use performance measures in the budgetary process within the next two years. Refer to the Appendix for information by state.
- ***Legislatively mandated initiatives, frequently applied to all state agencies, are growing in number and in scope.*** Examples include the following government actions:

  Arizona: Since 1994, as a part of the state operating budget request, all state agencies must submit performance indicators which are published in the Governor's budget. Each university has unique measures related to its programs. Up to 50 programs undergo an annual Program

Authorization Review in which performance measures are used to determine continued authorization of programs.

Delaware: The 1996 Delaware Governmental Accountability Act states that "the General Assembly believes that the development of performance measures and standards for governmental programs will result in a more efficient and effective allocation and utilization of state resources."

Georgia: Legislation in 1993 mandated Results-based Budgeting for all state government sectors, including higher education. Performance measures will be used systematically to assess progress toward stated goals and objectives. The first phase (FY1998) requires identification of program purpose and goals.

Maine: Legislation in 1996 established a Commission on Performance Budgeting in State Government, including higher education, and outlined a schedule for the full implementation of performance budgeting, including the development of single and joint agency strategic plans. Performance budgeting will allocate resources based on the achievement of measurable objectives identified in the strategic plans.

Mississippi: The Mississippi Performance Budget and Strategic Planning Act of 1994 created an accountability process for public universities including the reporting of performance measures. The legislation allows performance measures to be directly linked to the allocation of funds, but that aspect has not yet been phased into the process.

- ***Performance measures in state budgetary processes serve a panoply of purposes.*** Performance funding is used to: eliminate programs; reduce the size of programs; focus on outcomes rather than inputs; clarify state priorities; emphasize important state educational goals; provide better accountability information; assess the effective utilization of resources; link budgeting with planning and programming; promote improvement; reinforce existing quality; promote assessment; and encourage institutional change. Several states explain the purpose of their shift to performance-based funding in higher education.

Ohio: Board of Regents Chancellor Elaine H. Hairston states that performance funding is "intended to reward campuses for providing needed services and for the quality of those services . . . Every campus gains a better sense of its existing strengths and areas for improvement . . . The public gains greater accountability in the use of state revenues."

Tennessee: Performance funding is "designed to stimulate instructional improvement and student learning and recognize institutional mission. It is an incentive for meritorious institutional performance and provides the citizens of Tennessee, the executive branch of state government, the legislature, education officials, and faculty with a means of assessing progress. By encouraging instructional excellence, performance funding contributes to continuing public support of higher education and complements planning, program improvement, and student learning."

South Carolina: The sponsor of 1996 South Carolina performance funding legislation asserts "To make higher education more accountable, we must first define what we expect from the system." The new financing plan will "bring us a system of excellence rather than a system that supports mediocrity."

- ***For most states, performance measures are indirectly linked to the budget; however, for eight states, there is a direct linkage between funding levels and institutional performance.*** Each state's performance funding system is unique, but all focus on using the budget as an incentive for institutions to achieve better student performance and attain state goals. Under direct linkage systems, funds are tied to distinct performance measures through formulas developed by individual states. Using indirect linkages, performance measures are reported in budget requests and are taken into account when funding decisions are made; however, a strict formula is not used. Table 1 provides an analysis for states with performance-based funding.
- ***Most states opined that two to five percent of appropriations allocated to performance-based funding could effect meaningful change without risking major budget instability.*** Although this percentage is relatively low, in some states it is a large percentage of the last year's budget *increase*. For instance, in its first year of implementation, Florida's performance funding program for community colleges represented less than one percent of its core operating budget but 25 percent of newly allocated money. The proposed South Carolina and Florida workforce programs, which tie 100 percent of available funds to performance, are exceptions.

Table 1
States with Performance-based Funding

State/Sector	Legislative Mandate	Year Implemented	FY97 Dollars Allocated to Performance Funding	Percent of Budget
Tennessee (2- & 4-year)	No	FY81	$25 M	4%
Colorado (2- & 4-year)	Yes	FY94	$6 M	2%
Missouri (2- & 4-year)	No	FY94 (4-yr) FY95 (2-yr)	$11 M	2%
Arkansas (2- & 4-year)*	No	FY95	$9 M	2%
Ohio (2-year)	Yes	FY96	$3 M	1%
Florida (2-year)	Approp. Bill	FY97	$12 M	1%
Kentucky (2- & 4-year)*	Approp. Bill	FY97	$3 M	.5%
South Carolina (2- & 4-year)	Yes	FY98	N/A	100% by 2000

* Performance measures abolished during 1997.
Note: Connecticut also funds its Board of Governors' Minority Advancement Program by directly linking performance measures to the budget allocation process.

- ***Some believe that using new money as an incentive is less effective than reallocating the base.*** Although most educators and legislators are in favor of linking a limited amount of funds to performance measures, others feel that to effect real change, the budget *base* must be reallocated. In this view, only significant change in the base funding structures can lead to meaningful change in teaching and learning.
- ***Some institutions view performance measures as a method of getting money, not as a lever for change.*** Many institutions and individuals believe that the use of performance measures and performance-based funding is just a passing fancy. Those that support the use of performance measures and performance-based funding, however, desire systemic change.
- ***Most states believe that it is too early to assess the impact of performance measures on institutional behavior. However, eight states reported that performance measures had changed institutional behavior while four reported that it had not.*** With the exception of Tennessee, states have a limited track record, as no program is more than four years old. Still, it is not surprising that states where funding was *directly* tied to performance measures tended to report changes in institutional behavior.
- ***Most states report that faculty are not actively engaged in the performance-based funding process.*** Faculty members are rarely involved in institutions' or states' funding processes, and structures for this type of involvement are not in place. Most faculty members are not

accustomed to thinking in terms of funding structures, nor are they aware of the performance-based funding movement unless it has directly affected their programs or courses. However, to have the most significant impact, the planning and implementation of performance-based funding measures must be more connected to the teaching and learning that takes place in the classroom.

While there is no single best model, certain features seem to be working well in some states:

- Missouri's Funding for Results Program is a two-tiered system, with both state and campus level components. At the campus level, individual institutions are eligible for additional rewards if they design and implement mission-based performance funding programs designed to improve teaching and learning. The system has generated considerable innovation and has enjoyed widespread support from campuses.
- Ohio's Performance Service Expectations uses a unique review process in which peer review panels composed of institutional staff evaluate the performance of each campus. This system allows for an exchange of ideas and promotes the replication or adaptation of successful program components on other campuses. College departments learn from their peers what works and what doesn't, allowing schools to move forward without having to reinvent the wheel at each turn.
- Tennessee's "improvement" features are a noteworthy part of that state's funding plan. Success is defined not only as the attainment of standard benchmarks; schools can also demonstrate achievement by improving performance in weaker areas

Recent Developments

Since the SHEEO survey was completed, Arkansas and Kentucky have abandoned their performance funding programs; governance and political changes were factors affecting the change in both states. On the other hand, the state of Washington has enacted performance-based funding legislation for the 1998-99 biennium, with approximately one percent of higher education funds directly linked to performance measures. Florida has passed legislation that significantly changes the funding process for workforce development beginning in 1998-99. This legislation calls for combining all available school district and community college funds for workforce development (about $730 million) and distributing these funds based on performance.

Also, South Carolina is continuing its efforts to allocate 100 percent of funds to higher education through performance-based funding by 1999 and New Jersey, New York, and South Dakota are considering proposals to link a portion of state funds to performance.

Advantages

States that have implemented performance-based funding have identified the following advantages:

- builds support from political leadership for higher education
- serves as an incentive to improve performance
- provides an alternative to enrollment-based subsidy approaches
- responds to calls for accountability
- connects planning goals with the budget
- serves as an image and credibility builder to reinforce confidence in higher education
- results in better communication with political leaders
- is more effective than considering only inflation and enrollment growth in funding decisions.

Areas of Concern

Almost all states agree that the practical problems of designing a system of performance measures are tremendous.

- Performance measures must be acceptable to politicians and educators alike, balancing institutional autonomy with state-level review and control.
- The complexities of measuring quality, particularly in student learning, are enormous, and many campuses and faculty fear that state mandated efforts will undermine their responsibility for quality assessment.
- Institutions may tend to "lower the bar" in setting goals to ensure that they achieve them. This tendency creates friction and conflict with SHEEO agencies.
- Standardizing state goals for diverse institutions does not work; balancing systemwide goals with unique or customized institutional goals and measures is more effective, though certainly more complex and cumbersome.
- Using only quantitative measures negates important institutional processes; balancing process goals with quantitative goals and measures is becoming a more acceptable approach.

- Investment of time and resources to develop performance measures and assessment instruments can be significant, and development of a sound front-end process is essential. Some states have chosen to use standardized tests to measure student achievement in spite of serious drawbacks. Officials cannot force students to take them, and some students may not take the tests seriously because they do not count toward grade-point averages. The cost of obtaining accurate data should not outweigh the value of the data or add new burdens to institutions.
- Current measures tend to be too simple, inadequately reflecting differences in institutional mission. Some systems have indicated that it is difficult to adopt performance measures that fully reflect institutional effectiveness. Many institutions would rather select a limited number of measures analyzed according to trend lines, rather than attempt a more comprehensive approach. Similarly, systems have accepted that the selection of performance measures is a complex art and not an exact science.
- Performance-based funding can create a highly competitive environment among institutions, with each more interested in its own net gains or losses than in effectively "sharing the pie."
- States where performance measures are legislated find that legislative decisions and priorities can change from year to year. Rather than responding to and attaining long-range goals, institutions of higher education are forced to aim for elusive, moving goals and targets.

The crux of the debate about performance-based funding is exemplified in a recent North Carolina report. Supporters argue that performance-based funding restores "balance to a system that rewards number of enrollees over the quality of educational services." On the other hand, "naysayers argue that incentive funding is more likely to distort than refine educational priorities because it is based on mechanical formulas, imperfect performance indicators and the overly coercive power of the purse." Others argue that performance funding does not recognize crucial distinctions between the business sector, which can be assessed by examining the bottom line, and public colleges, which can not. Others believe that institutions that do not meet performance goals probably have been operating with inadequate funds all along. In other words, states should put the money where the needs are rather than where the results are.

Implementing a Performance Funding Initiative

Since the issues raised in the implementation of performance funding measures are paramount, states should carefully consider the process they use to arrive at a funding plan. The language and focus of each state's plan is and should be unique, as the role of budget players, the design and structure of funding, and the goals and incentives for colleges and universities differ as much as more traditional formula and incremental budgeting systems. Each is imperfect, with no "best" model applicable to all states at all times. Still, the planning and implementation of all performance funding systems should encompass seven common processes, though the duration of each will vary considerably. Some steps can take a brief few weeks (Florida's two-year colleges and Colorado), while others may take years (Tennessee's five-year pilot effort). The common processes involved in performance funding systems are:

- determining the vision and overall purpose
- selecting goals and determining their relative weight
- adopting performance measures for institutional achievement of adopted goals
- collecting information about each measure
- allocating resources
- evaluating and adjusting the processes and goals
- communicating performance results to various audiences.

Determining the Vision and Overall Purpose

This first step in any exploration of performance-based funding is often not given enough time or focus. States and institutions must ask why they are considering performance-based funding and must then develop a conceptual framework that begins with the answers to this question. The principles that will guide the new funding system must be clearly articulated and should address such issues as:

- base or margin funding
- pilot nature of initial funding years
- contributions of and differences between various campuses
- kinds of instructional activities and/or other service areas.

This initial exploration might also involve a review of other states' needs, systems, and strategies. Each state can then see its own goals and purposes within a larger framework and can examine both the strengths and weaknesses of other systems. Moving on from this overall view, each state can then develop a framework that considers the unique characteristics of the state and its institutions.

Selecting Goals and Determining their Relative Weight

Who selects the goals and determines their importance or weight? Two patterns emerge: in some states, specific goals are selected by the higher education community with strong leadership from the state coordinating boards (Tennessee, Missouri, Ohio, and Arkansas); in others, goals are specified in legislation (Colorado and Florida). For all states, gubernatorial support is a pivotal factor in tying funds to goals.

What is the best way to select goals and indicators? Most are chosen from existing performance indicator systems or from established strategic plans. The following list summarizes the categories or foci of goals that states have identified thus far:

- retention or graduation rates (Florida, Arkansas, Missouri, and Tennessee)
- program delivery such as improving access, range, efficiency, expediency, or transferability (Ohio, Florida, Missouri, Tennessee, and Colorado)
- assessment processes and results (Arkansas, Missouri, Tennessee, and Colorado)
- workforce development (Ohio, Colorado, Missouri, Tennessee, and Florida)
- student characteristics and student diversity or faculty/staff diversity (Florida, Missouri, Arkansas, and Tennessee)
- alumni, enrolled students, or employer survey results (Tennessee, Colorado and Arkansas)
- mission-specific objectives (Tennessee and Missouri)
- administrative efficiencies (Arkansas and Colorado)
- accreditation (Tennessee)
- linkages with K-12 (Ohio)
- affordable tuition and fees (Ohio)
- institutional program review and improvement (Tennessee).

The most commonly addressed goals are retention, articulation, graduation, workforce preparation, program delivery, and student or faculty characteristics. It is important to note that while all these goals may be addressed through performance-based funding, states also provide funding for these goals with non-performance-based mechanisms. For example, Colorado uses a competitive grant approach to fund linkages with P-12.

The number of goals or categories actually selected by the six states mentioned above is limited, ranging from three to 11. Most states find that a relatively small number (usually about 10) is most effective in the design of performance funding systems. Some states have developed narrowly focused plans; for instance, Florida's community colleges approach focuses on number of graduates and their characteristics. Others states have developed systems that focus on a wide range of goals. Colorado focuses on productivity, undergraduate education, and workforce development.

Of course, not all goals are given the same priority. Each system places very different levels of importance or relative weight on its various goals. Ohio places a high priority on affordable tuition, Florida on number of graduates and characteristics of graduates, while Tennessee and Colorado tend to distribute funds more equally among the various categories.

Questions about Goals. Even with a careful consideration of the focus and weight of goals, central questions remain. Are goals and measures the "right" ones, focusing on what is important to individual institutions and states? If so, are the goals and measurement benchmarks high enough to be meaningful and low enough to be attainable? Will stated goals accomplish the desired results?

"Standardized" state goals and measures have been widely criticized as inadequate in recognizing institutional mission. In Florida, for example, some community colleges expressed concern that the use of graduation numbers and rates does not adequately reflect institutional mission in providing skills training. In North Carolina, the subcommittee working on performance funding was convinced that a "one size fits all" approach would not work for reasons of institutional equity and efficiency. "Institutions differ in their ability to show improvement on any given performance indicator... differences may also reflect past efforts to show improvement that have already been successful, or may reflect factors that are mission-related or outside the control of the institutions."

Some states use different goals or measures for the two- and four-year sectors, recognizing mission differentiation (Tennessee and Missouri). In some states, goals and/or indicators are optional or customized for various institutions. For example, Tennessee has improvement goals that relate to institutional mission and are unique to each campus. Missouri also allows for campus-level performance funding unique to each institution. During the past year, Kentucky proposed a system that would permit institutions to select specific goals, indicators, and weights. A total of 91 indicators were proposed, leading the coordinating board to express concerns about the approach. Kentucky revised this approach to a core of mandatory standardized indicators plus optional discretionary indicators.

Another way to incorporate mission differences is to recognize performance in achieving not only absolute goals, but also improvements. The Tennessee, Ohio, and Arkansas systems focus on improvements or minimum standards, thus creating a level playing field for each institution to better its performance and succeed at meeting its goals. The system promotes fairness and equity within the accountability/improvement framework. When quality is measured by improvements as well as by absolute norms, with incentives that focus on improving, all campuses improve.

Adopting Performance Measures for Institutional Achievement

The performance funding debate centers not on conceptual theory, but on measurement. One question that must be addressed is who develops the measurement guidelines. Most measurement systems are developed by higher education; however, in Florida and Colorado, the indicators are specified in legislative language. The array of diverse output, outcome, and process measures includes number of associate degrees granted (Florida), number of degrees granted to African-American students (Missouri), number of students placed in jobs within the state (Colorado), achievement of graduates or current students on external tests (Tennessee), and "whether the institution implements systems that provide students with potential employment opportunities and forecasts for the job market that are specific to degree program" (Colorado).

Questions about Measures. Many critics feel that qualitative measures are not precise enough to be used for funding purposes. "Measurements are imprecise and may take several years to establish and validate" (Tennessee). A 1995 National Center for Education Statistics (NCES) survey found that almost one-third of the states felt that there is a lack of appropriate, reliable instruments that are "authentic."

Others question whether states are using the "right" measures or appropriately weighted measures. In Tennessee, institutions felt that performance funding placed too much emphasis on accreditation, and decided that some potentially accreditable programs should not be newly accredited. As Tennessee's system has evolved, the weight for accreditation has been reduced.

Testing has come under widespread criticism in a number of states including Tennessee and North Carolina. Critics note that testing does not comprehensively measure achievement or the "value added" to students through the educational process at a particular institution, and that graduate and professional schools are left out of the performance funding process altogether. In addition, some states and institutions have placed what many see as an inappropriately strong emphasis on standardized test scores, without paying much attention to what the tests measure and how they can improve teaching and learning. As many in the higher education assessment field are fond of pointing out, "You don't fatten a pig by weighing it."

Collecting Information

Since performance funding systems frequently build upon existing accountability reporting information, most systems rely primarily on that information, thus enhancing reliability and comparability. When information does not exist, incentives are provided to implement such systems. In Kentucky, it was agreed that individual measures in each identified category must be based, when possible, upon verifiable baseline data provided in reports undertaken through higher education accountability legislation and other statewide plans. Some states also rely on information collected in response to accreditation agencies.

Questions about Collecting Information. Designing new information systems to support performance funding can be costly, particularly when student assessment is a measure. In a 1995 NCES survey about one-fourth of the states noted the high cost of developing assessment instruments. Institutional resistance to more data collection is yet another obstacle among faculty, especially at research universities, where academic freedom and respect for institutional prerogative are tightly held values. Timing is also a factor in establishing baselines, collecting information, and measuring improvement. Usually there is a two to three year timing lag between performance and funding.

Allocating Resources

Performance funding systems are analogous to formula systems in assigning points or numeric values to various measures. In Florida, points are assigned to each associate degree or certificate granted, and an institution's allocation is based on percentage share. Providing an amount per graduate parallels the current formula approach that allocates resources for students on a student credit hour or student basis. All state models take into account institutional size, as do formula approaches.

Although performance funding is a "requesting" device like other budgetary systems, performance funds add to baseline resources and are viewed as incentives to good practice and positive results. As noted earlier, performance funds represent a relatively small percentage of the overall budget, but a relatively large part of funding increases. Because these funds are not earmarked (Missouri's campus-based funding for results component is an exception), institutions have the flexibility to allocate these resources based on institutional priorities and needs. This design contrasts with competitive grant programs where funds are tagged for specified purposes.

Theoretically, an individual institution's performance is not affected by the performance of other institutions; the competition is strictly internal, unlike competitive grant approaches. Nonetheless, to the extent that the budget pie is "fixed," there is competition for resources, as all of the funding programs have at least a minor redistributive effect. However, the general pattern of redistribution is among institutions within a sector (e.g., two-year) rather than among sectors.

Another aspect of fund allocation is the scaling of points awarded for measures. While some measures have a single fixed measurement criterion, many use sliding scales to recognize a wider range of performance levels; Ohio uses a scale of "exceeds expectation," "meets expectation," and "does not meet expectation" with each category carrying a different weight.

Questions about Allocating Resources. At what level should performance funding be implemented – for incentive funding or for full support of basic operations? What is the appropriate balance between performance funding and other programs? Some argue that unless adequate funding is provided for the entire system, performance funding is counterproductive because basic funding needs and equity issues must come first. Others suggest that performance should be a small portion of funding, at least at this time. As a campus president in Kentucky observed: "Since performance funding is still clearly in the experimental stages, it should be established outside the formula and funded at a modest level...resources remain too limited to risk mistakes in allocation." Although Tennessee's system is beyond experimental, performance funding remains a modest part of the budget.

Evaluating and Adjusting Processes and Goals

Initial implementation years in each system have been characterized by a trial and error period with changing goals and measures. Even Tennessee's multi-year pilot period included adjustments during the first two years of implementation while Colorado has made adjustments in each year of implementation. Systems that focus on assessment typically have an intermediate goal of establishing an assessment program that begins with the initiation of the assessment process and proceeds to obtaining and analyzing data. After the trial and error period, if goals are deemed worthy and workable and if standards are high, one would expect goals to remain in place for a reasonable period of time to demonstrate results and improvement. Tennessee has found that a five-year evaluation cycle is an effective and reasonable approach to lend stability to the system. However, one frustration for campuses is frequently changing performance goals or funding systems driven by changing legislative mandates and/or changing public priorities.

Questions about Evaluation. How can the changing needs and priorities of legislatures and colleges be accommodated in the performance-based funding process? Are the sometimes divergent needs of the players in the process – faculty, administrators, legislators, and governors – similar enough to support a program that will ultimately lead to improvement on college campuses? Essentially, this is a question of balance. Can the need for stability and the need for open responses to change meet at a point that serves both states and higher education institutions?

Communicating Performance Results to Various Audiences

There is much concern on college campuses about the difficulty of communicating performance-based funding information in a fair and accurate manner. Campuses are afraid of being compared unfavorably to other institutions that may have different missions, histories, and student populations. There is also concern that state governments and the public will misinterpret results or measures by seeing them as extending beyond the limited scope they were intended for and thus use what were meant as discrete measures in rating a school's overall performance. Nonetheless, institutions that fare well in performance-based funding systems frequently issue press releases applauding their achievements in "capturing the top score" and use their performance in marketing to prospective students.

Questions about Communication. How can states and institutions communicate results honestly while maintaining the intended purpose of the measures themselves? How can the role of campus and community demographics be communicated in the public presentation of discreet performance measures? These are questions that have no easy answers and that have only just begun to be addressed by schools and by states.

Key Principles to Follow

As more and more states, systems, and institutions investigate the use of performance-based funding in higher education, they will be well-served by taking into account the lessons learned from those pioneering this effort. Several principles can guide states, colleges, and universities in these explorations.

- ***Embrace a clear vision and common goals***. What is the primary purpose and vision for higher education in the state? Is it improving undergraduate education, developing a more capable work force, creating high-quality research programs, or combining these and other goals? Are the benchmarks that measure the goals high enough to be meaningful and realistic enough to be attainable? Although states have many goals for higher education, all goals are not equal, so assigning them different levels of importance or weight is essential.
- ***Achieve real reform through an improvement approach***. In designing performance funding systems, state leaders can encourage individual institutions to improve by asking them to meet state needs within their own unique area of expertise. This approach promotes fairness and equity in the competition for funds. Several states have found that all campuses improved when quality was measured by improvements as well as by absolute norms and when incentives focused on better performance. State boards must recognize that institutions cannot always improve in areas where they already have achieved success.
- ***Connect performance funding with strategic planning***. Management guru Peter Drucker has said, "long-term planning does not deal with future decisions but with the future of present decisions." Each year, higher education leaders spend considerable effort and energy justifying new programs, often ignoring the long-term cumulative effects of such programs on costs and productivity. A good performance funding system redirects this annual process by focusing on longer-term results envisioned in strategic plans.

- ***Tailor the program to meet each state's culture and each institution's educational needs.*** Each funding plan must fit that state's educational priorities, needs, and organizational and political structures. An important factor, for example, is whether a state coordinating board has strong budgetary authority or whether individual institutions have high degrees of autonomy. Standardizing state goals for diverse institutions does not work; balancing systemwide goals with unique or customized goals and measures is a more effective strategy. Recognizing *improvements* in performance will further emphasize mission differences.
- ***Promote collaboration.*** Traditional systemwide budgeting can create artificial boundaries that frequently result in duplication of effort. At its best, performance funding can spur new and cooperative funding partnerships that allow institutions to improve student learning rather than compete for limited resources. For example, some institutional boundaries can be erased if a portion of each institution's state funding is contingent on success in reaching certain agreed-upon and common goals, such as improving transfer rates among colleges and universities.
- ***Promote open communications and an inclusive process.*** If funding processes are to change, communication must improve among funding agencies, the institutions themselves, and the public. Making the public aware of new assessment and accountability measures builds credibility and support. At the same time, the communication of performance is difficult because people tend to view any figure or score as a comparative index of quality. State boards must guard against making this mistake and seek to understand the differences among institutions. Detailed "storytelling" has the potential to make hard data more real and more useful to schools, legislative bodies, and the public, as it translates numbers into real student lives. In addition, open sharing of information about education activities and successes among institutions provides opportunities for institutions to learn from one another.
- ***Expect trial-and-error periods and mistakes.*** As a new budget strategy, performance funding will need to go through a trial-and-error period with fluid goals and measures. After a reasonable period (e.g., five years), if goals are deemed worthy and workable and if standards are high, institutions are more likely to create meaningful change. Given the relative newness of this approach, it makes sense to limit performance funding to a relatively small percentage of overall state appropriations for higher education.

- ***Begin with a pilot effort, and develop the implementation plan before final decisionmaking and marketing.*** By designing the first years as pilot efforts, states recognize the need for flexibility in program development. This flexibility allows the program to change and improve and increases the likelihood that the program will be effective. This initial phase allows states and colleges to build on strengths and to convert non-believers.
- ***Limit the size of the budget allocated to performance.*** Starting small, with funds at the margin, is a wise, measured strategy. As well as building familiarity with the performance funding concept, most states find that a relatively small amount of money has a very large effect on institutional performance, lessens funding fluctuations from year to year, and maintains stability in funding over time.
- ***Use measures that reflect quality and customer focus rather than numeric counts.*** Numbers alone can be misleading, especially when they do not take student goals into account. For instance, if a majority of community college students' primary goal is to further specific job skills through one or two courses, measures like graduation rates will not accurately represent the attainment of real goals. Measuring student satisfaction may be more valid than measuring actual student behavior.
- ***Use existing data whenever possible.*** It is counterproductive to insist on new and complex data collection methods that require time and money to implement. Current state and federal requirements for the gathering and analysis of information can be put to good use in performance-based funding.
- ***To the extent possible, focus on measures within the control of the institution.*** Colleges can only control certain factors that foster the success of students and programs. For instance, while a community college can have an impact on students' ability to transfer to four-year institutions, the colleges can not control how many of those students then complete baccalaureate degrees. Colleges should not be judged according to what students do after they leave the campus or what happened to them before they came. For instance, colleges with open admissions policies or mandates, that can not control the preparedness of new students, should not be judged according to the entry level skills of their students.

Conclusion

The critical question is whether performance funding will benefit the students who attend public institutions of higher education. Most state policymakers and political leaders perceive performance funding programs to be effective. Some institutional officials believe the strategy has built positive support for increased funding while others see only modest effects on teaching and learning and little systemic change. To the extent that performance funding encourages campuses to undertake student assessment initiatives or provides information which might improve instruction, such systems must be judged effective. The ultimate test is whether front-line educators will embrace performance funding and use it to make a positive difference in our college classrooms.

Appendix
Use of Performance Measures in the Budgetary Process

	Direct Link To Budget	Considered, But No Direct Linkage	Not Used, But Plans to Use	Not Used, No Plans to Use
Alabama				✓
Arizona		✓		
Arkansas	✓			
California				✓
Colorado	✓			
Connecticut		✓		
Delaware		✓		
Florida	✓			
Georgia				✓
Hawaii		✓		
Idaho		✓		
Illinois		✓		
Indiana			✓	
Iowa		✓		
Kansas		✓		
Kentucky	✓			
Louisiana			✓	
Maine			✓	
Maryland			✓	
Michigan				✓
Minnesota			✓	
Mississippi		✓		
Missouri	✓			
Montana		✓		
Nebraska				✓
Nevada				✓
New Hampshire				✓
New Jersey				✓
New Mexico				✓
New York				✓
North Carolina		✓		
North Dakota				✓
Ohio	✓			
Oklahoma				✓
Oregon		✓		
Pennsylvania				✓
Rhode Island		✓		
South Carolina	✓			
South Dakota			✓	
Tennessee	✓			
Texas		✓		
Utah			✓	
Vermont				✓
Virginia			✓	
Washington		✓		
West Virginia				✓
Wisconsin				✓
Wyoming			✓	

NOTICE

REPRODUCTION BASIS

- [x] This document is covered by a signed "Reproduction Release (Blanket)" form (on file within the ERIC system), encompassing all or classes of documents from its source organization and, therefore, does not require a "Specific Document" Release form.

- [ ] This document is Federally-funded, or carries its own permission to reproduce, or is otherwise in the public domain and, therefore, may be reproduced by ERIC without a signed Reproduction Release form (either "Specific Document" or "Blanket").