Accountability for Productivity

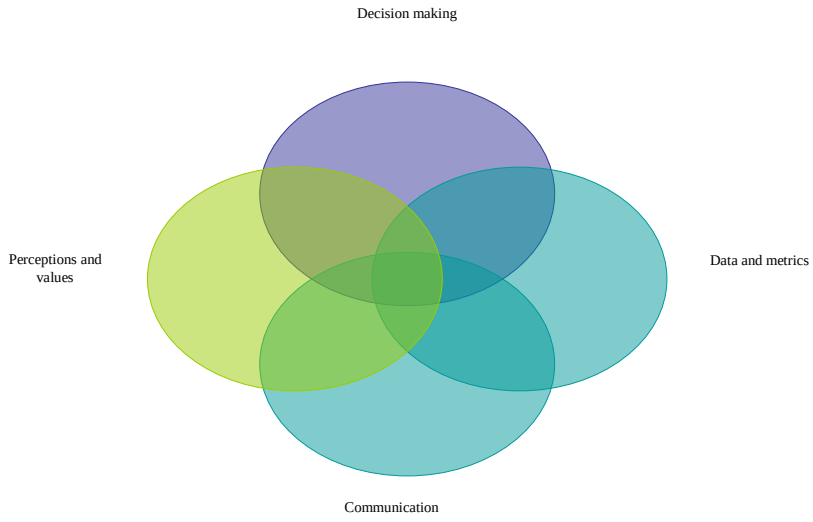
Prepared by Jane Wellman, Delta Cost Project

Lumina Foundation Convening on Productivity

Indianapolis, Indiana

November 15-16, 2010

Productivity gains in higher education won't be made just by improving cost effectiveness or even performance. They need to be documented, communicated, and integrated into a strategic agenda to increase attainment. This requires special attention to *accountability* for productivity, meaning public presentation and communication of evidence about productivity that relates it to the public agenda for higher education. If past is prologue, this is easier said than done. But offering data that are disconnected from public goals is data reporting, not cost or productivity reporting, and not accountability. More important, even if performance is improved, without accountability the work will be invisible. It won't be strategic or help to build capacity in the kind of higher education leadership so essential to stability and to performance.



Changing bad habits

Higher education and state government share culpability for fiscal habits that focus on revenues and budget balancing rather than on spending and outcomes. Changing this equation to value improvements in productivity will force changes in deeply embedded habits both within the institutions and in public

Glossary

Accountability: The public presentation and communication of evidence in relation to goals that reflect a public agenda. Unlike some types of accountability systems, which are aimed primarily at informing consumer (student) behavior, the main audiences for measures of productivity are public policy and institutional decision makers.

Productivity: Reduction in the costs of outcomes with no change in inputs. In higher education, this translates to reductions in the cost to produce a degree without reducing learning outcomes or increasing admissions selectivity. Productivity improvements occur when unit costs are reduced; the proportion of students completing degrees increases, or the production function itself (e.g., credits required to the degree) is reduced.

Costs: Institutional spending, and not student tuition and fees, or student living expenses, typically measured in costs per student.

Cost reductions: Permanent structural reductions in costs, as contrasted to one-time budget cuts. For instance, reducing spending on utilities by conserving on energy is a cost reduction. Increasing the age when employees qualify for full retirement benefits is a cost reduction.

Cost shifting. A shift in revenue sources, rather than a reduction in spending. Increasing tuitions to offset revenues losses from state budget cuts is a cost shift; prices go up, but costs are the same.

policy. It will require a strategic approach to tackling the issues that need to be connected to create sustaining change: decision making; stakeholder perceptions and values; data; and communication. History shows us that efforts to address productivity that lodge on just one or even two of these are likely to be scatter-shot and short-lived.

Decision making

Productivity goals and performance need to be a regular part of fiscal decision making, incorporated into funding models and allocation formulas. That means that spending information, cost management targets and reinvestment priorities have to be visibly related to spending decisions. Currently most fund allocations are driven by base budget figures, occasionally adjusted for enrollments and sometimes for change in costs by program or discipline area. This is true both within institutions and within state budgets. If there are cost figures, they are of elements within the spending menu, such as average faculty salaries or student tuitions. This is beginning to change, with a new emphasis in several states and systems on efficiency and effectiveness. But most institutions and states remain captive to the annual budget balancing act, beginning with the calculation of the “base” budget, with increases for inflation and for enrollment.

Multiple stakeholder perceptions – reflecting different values and priorities

The "great recession" has brought a new level of awareness to the college cost problem, and to the need to do something to manage the "new normal." Despite that, different stakeholders perceive the "cost" and productivity problem very differently. This makes it difficult to craft a strategic plan to address costs and increase productivity, because of fundamental disagreement about the wisdom of any such effort.

- Public policy makers – governors, legislators, and budget analysts – believe that institutions can increase performance by reducing spending and focusing resources on core purposes. They value efficiency and effectiveness, and believe that higher education has been unwilling to address the need for better stewardship of resources as other state agencies have been forced to do. Their goal for increasing productivity is to control the rate of increases in tuition, without hurting access.
- The public believes that higher education is necessary to get ahead in the world, and want it for their children and for themselves if they need it. They think that a college education is becoming less accessible because of rising tuition and greater admissions competition, because institutions put a higher value on maintaining the status quo than on helping students get to and through college. They want to see tuition controlled, and want to see more opportunities for college enrollment and completion.
- College presidents are caught between faculty members and different publics, and feel great pressure to accommodate demand despite diminished state and local appropriations. They think funding for higher education is being crowded out because of spending on health care and prisons, spending they don't see paying off in investment value to the future of the country or the state. They want to change the public agenda for higher education, to refocus on the public payoff from investments in college, and to return to increases in state funding.
- Faculty members – like many legislators – think that administrative spending is out of control, but unlike legislators, think that costs cannot be cut without sacrificing quality. Many among them believe that local administrators could do more to find money to avoid budget cuts, by tapping reserves or using non-state revenues. If reductions in the academic program are

needed, their preference is to get rid of spending on remedial education, which they consider an inappropriate function for higher education. Many are also critical of the leadership of their boards and presidents, who they see as politically ineffective and unwilling to speak up to demand more revenues.

Like the proverbial blind men and the elephant, none of these stakeholders has it entirely "wrong." Each of these perceptions contains an element of truth. While some of the views can be debunked with more cost transparency (remedial education is a profit center in many institutions, and most budget reserves really can't be spent), better communication won't address basic disagreements about institutional priorities. The level of contentiousness over institutional direction is harming morale and siphoning energy needed for the hard work of increasing student success. Presidents and governing boards can't steer the institutions with this much tension between their primary benefactors and their professors. To navigate the changes ahead, they need better transparency about costs and subsidies, to show where the money comes from and where it goes, and a multi-year strategic spending plan that incorporates regular attention to making new investments through cost reduction. And they need to build accountability systems that address the multiple goals for productivity: spending reductions, reduced pressure on tuition, more access, reinvestment in core areas, and greater fiscal transparency to build credibility.

The "Fractured" dialogue about higher education costs

Stakeholder group	Definition of the problem	Preferred solution
College presidents	Caught in an "iron triangle" of access, costs, and quality. See it as impossible to reduce costs without sacrificing quality or reducing access.	Reinvest in higher education!
Members of the public	Caught between the growing importance of higher education and decreasing access and affordability. Believe institutions value their own "bottom lines" over public priorities.	Protect access! Keep tuitions from going up!
State financial officials (and legislators)	Need more college graduates. Institutions have enough money to do the job; they just don't spend it well.	Increase productivity! Increase retention and degree production!
Faculty members	Big problem isn't academic or program costs; it's the deteriorating quality of students, and runaway spending on administration and frills. Costs can't be cut without sacrificing quality.	Raise standards, improve K-12 education, and stop talking about productivity!

Source: Based on Public Agenda focus groups, and presentations on the "fractured" language of costs.

Data – and metrics

To increase productivity, decision makers need to have measures of costs, and be able to relate those to outcomes. And there's the rub. Higher education has never fully addressed how to measure costs, let alone how to ascribe spending to outcomes, necessary to measure productivity. No one really has wanted to control costs, due to deep-seated beliefs that spending increases are necessary for quality. Also, however, data and methodological problems have prevented metrics from being developed and regularized to make cost reporting a routine part of public information. Several efforts to promote

common methodologies have come a cropper because of a belief that the data sources are not granular enough, as well as Talmudic debates over how to assign costs to joint products and between undergraduate and graduate education. Some issues, such as teasing out the difference between graduate and undergraduate costs, can be resolved empirically, but they require institutions to be able to track both student unit and course file data. Currently, only four states – Florida, Illinois, New York (SUNY only), and Ohio – maintain such data capacity.[1]

The primary source of public data about spending is the federal Integrated Postsecondary Education Data System (IPEDS) surveys, which have collected information on expenditures in standard reporting categories for over 30 years. These reporting categories have been reasonably stable, although changes in accounting standards between public and private institutions have made comparisons over time problematic. The larger problem has been that the categories are lumpy aggregates that combine spending on different types of functions that make analysis of resource use difficult. For instance, the "student services" category includes spending on administrative support functions (such as admissions and registrars' offices, and student aid administration), direct service to students (counseling, academic advising, career counseling), and "student life" activities (such as recreation centers). Because of this, no one can really tell whether the often repeated accusation about profligate spending on climbing walls is true or not.

The Delta Cost Project spending data have been designed to tackle one facet of this, through regular production of basic spending data, organized to allow comparisons between institutions, and stable over time. The metrics show broad patterns in spending to allow gross comparisons of trends in average costs over time, and to show the portion of costs subsidized by the state versus those paid from student tuitions. They also show aggregate spending for education and related expenses as distinct from all

[1] The State Higher Education Officers recently conducted a four-state study showing patterns in spending by discipline and level of instruction using data from these states.

institutional spending – an important difference, since much of the revenue going to institutions is not available for education and related purposes. The project then uses these measures to show patterns in average spending per degree or certificate produced – a gross measure of spending and at least one type of educational outcome.

The Delta metrics – although based on methodologies in place for more than 20 years – are new to most people in higher education, and haven't been fully accepted by the academy or the policy community. To date, their primary use has been to stimulate more attention to spending data and trends, a good and necessary step toward greater usage. Critiques of the data – the exclusion of capital costs, and the lumpy IPEDS data categories – are again surfacing. But lumpy as these data are, they're good enough to inform policy making. The data will never be as good as we'd like them to be, but to focus excessively on imperfections in data is to argue for inaction at a time when action is critical.

Communication

Effective accountability for productivity begins with data and metrics, but cannot end there. Data must be put into context to be meaningful, and framed to be relevant to the different audiences that will be reviewing it. Spending data need to be framed in relation to long-term goals including performance improvements. Context can also come from showing patterns over time, and by comparing spending across multiple institutions. Institutions also need to translate funding into language that makes sense to all stakeholders – especially legislators and faculty members – by showing trade-offs and by the consequences of different funding decisions. College presidents typically present their total budget to the state legislature and do not focus on core resources that can be used at the discretion of the institution. Small wonder that public policy makers and faculty members think that the institutions have a lot more budgetary flexibility than they really do have. Additionally, spending metrics need to be presented showing trade-offs between different spending areas, in percentage terms that make clear

how the different categories interact. For instance, the NCHEMS models show that on average, in public research universities, each 5 percent increase in employee benefits requires about 4% increases in net student tuition revenue – almost a one-to-one tradeoff.

Goals for improved accountability for productivity

Improvements in accountability for productivity need to be developed using metrics and language that help tell a story about the goals for productivity, which are to:

- Increase educational attainment: Our country needs to increase postsecondary attainment through increases in certificate and degree production of around 4 percent per year. New resources will not provide enough money to pay for that; a strategic financial plan for attainment has to include both performance improvements and cost reductions.
- Improve credibility for sustained investments. We will not meet attainment goals exclusively through cost management and productivity; additional public investments are needed and are deserved. But competition for resources is intense, and higher education will not get new funds unless policy makers know what they will be getting for their investments. Accountability for performance has to include fiscal transparency and more public data about where the money comes from, where it goes, and what it buys.
- Reduce pressure on tuitions. Something has to be done to take pressure off of tuition increases that are putting college out of reach for too many students, driving up student debts, and imperiling higher education's credibility in the eye of the public. Institutions have to be able to show that they are making serious and sustained efforts to moderate tuition increases by managing costs. Long term funding plans need to incorporate tuition stabilization, funded in part through improvements in productivity and reductions in cost.
- Focus spending in academic areas. Data on spending reductions should focus as a first priority on evidence of cost management in general operations and administration, and reinvestment of funds in areas that support access and build academic capacity.
- Invest in student success. Too many students come to college ill prepared for success, and attrition rates are unacceptably high. More needs to be done to put funding behind the priority of student success, by channeling resources to lower division instruction and student services.

These areas have not been spending priorities in many four-year and research institutions in the past and funding them will require reallocation of resources from other areas.

Elements of public accountability for productivity

Accountability models for productivity should be focused on a few metrics that address productivity goals. They do not need to be comprehensive fiscal or performance systems, showing how every department or school is working. And, most important, they don't have to be perfect to be right.

- Ground in attainment goals. Each state and system should have a basic fiscal plan for increasing educational attainment, including funding from additional state appropriations, moderate and predictable increases in tuition, productivity improvements, and cost reductions.
- Improve transparency for spending. Data on spending patterns need to be regularly available, and made part of the decision criteria for measuring productivity and increasing state funding. This can be accomplished with aggregate data on spending patterns by core area, including the proportion of spending going to pay for education and related costs, and the share of those resources going to instruction and student services.
- Improve distinctions between prices and costs. Data systems should include clear metrics showing revenue trends, and the split between costs to students and state subsidies to show the student share of costs. This metric will allow states and institutions to document whether tuitions are going up because of cost shifting or spending increases.
- Show reinvestments. Productivity goals should include priorities for reinvestments of resources into areas that are public priorities for higher education. It is not necessary to build these metrics using auditable data that show how, for instance, funding reductions in one area are literally reinvested into another one.
- Tier data to audiences. The primary audiences for productivity accountability data are the public and policy makers; these data are not primarily meant to influence consumer behavior. The metrics should be tiered, to aggregate data differently for state decision making, versus decisions at a system level (for public multi-campus systems), versus the institutional level.