



Guidelines for Outcomes-based Funding at Four-year Universities

by Trevor McGuire
Policy Analyst

Key Points

- Outcomes-based funding works best with one or a few precise metric(s) designed to accurately indicate tangible progress toward (or completion of) one or a few specific goal(s).
- Besides precise metrics and specific goals, outcomes-based funding depends on comprehensive, transparent data collection. Measurement issues often arise during an outcomes-based funding system's first years.

Executive Summary

Texas has joined a growing number of states participating in the rebirth of performance-based funding (PBF) in higher education, now referred to as “outcomes-based funding” (OBF) to differentiate it from earlier attempts at performance funding from around the turn of the century. Outcomes-based funding resembles PBF in that it distributes funding according to very specific metrics outlined in the funding formula itself. The first states to implement OBF were primarily those which had earlier tried their hand at PBF, and this shows in and among the list of common metrics and practices of today’s outcomes-based models, many of which seem to have been explicitly designed in response to a particular failure of PBF.

Texas should avail itself of the abundant academic literature exploring the failures of the first PBF programs, as well as analysis of OBF as it is already implemented in other states at the four-year level. Crucially, the literature suggests that, while any OBF model will require ongoing adjustment and experimentation as the state finds the right balance for the program, maintaining the existing enrollment-based funding (EBF) model until an acceptable OBF model is developed would be preferable to the premature implementation of OBF for its own sake.

History

The end of World War II marked a watershed moment in the history of higher education in the United States. Millions of returning soldiers enrolling in our nation’s colleges and universities after the war prompted extensive investment in American higher

education in the form of program and campus expansion. This influx resulted in a historically unprecedented level of access to higher education in the United States, a trend which coincided with (and in no small way contributed to) the growing reliance of the U.S. industrial, administrative, and military establishments on university research and university graduates.

This massive growth in university enrollment made it necessary for Texas to take a new look at the existing higher education funding model. Until this point, public colleges and universities had received their state funding on a case-by-case basis. A fundamental component of the postwar reorganization of U.S. higher education was the establishment of standardized funding formulas. The enrollment-based funding model implemented during the 1940s was the first to use a state-wide formula to distribute higher education funding. In the 1970s, states such as Tennessee (later Indiana, Ohio, Pennsylvania, and South Carolina) began to supplement their enrollment-based funding with additional funding based on each school’s performance, measured by metrics specified by an additional funding formula.

In “Performance-based Funding: A Re-Emerging Strategy in Public Higher Education Financing,” Harnisch cites a number of disadvantages of PBF that led to its abandonment (2011). A limited portrait of university performance, PBF systems hold universities accountable for a series of measurements of student and institutional success. It offers few “shades of gray” in a multifaceted, complex environment. Rewarding a few campus outcomes is a

difficult exercise that can lead to contentious discussions both within and among state universities. In what is termed “mission distortion,” PBF may lead some institutional leaders to abandon, distort, or manipulate the university’s core mission and responsibilities in order to inflate performance metrics. Some systems encourage administrators to change inputs instead of outcomes. This could include limiting access to students from disadvantaged backgrounds. Some changes may even go unnoticed, such as reducing outreach efforts to low-income students. In terms of quality, the PBF approach may not capture gains in student learning or skills acquired. And because it may stress efficiency over quality, some believe academic quality might suffer. If the incentives are substantial, it is possible that some may act to reduce program rigor to achieve better outcomes. Institutions could also attempt to alter academic programs to improve performance scores (such as completion rates), while ultimately diluting the value of the student’s degree. Furthermore, PBF may not be popular among some groups in academia, including faculty members. Some may object to market principles being integrated into academic operations, believing that evaluating performance based on a few metrics is antithetical to academic freedom and campus autonomy. Finally, some believe PBF hurts institutions that need the most help, especially those serving disadvantaged populations. In some cases, the lack of resources, not university efforts, may be the driver behind poor performance. Some PBF approaches could also lead to large swings in funding and institutional instability.

Program Design for OBF

The literature on OBF consistently returns to a number of essential design concepts that successful OBF programs have in common. These recommendations do not merely suggest ways for improving the performance of an OBF program; rather, the literature suggests that these essential concepts often serve as the difference between success and failure for a given program. As such, Texas should strongly consider these concepts when designing its own OBF program.

Keep it simple

This ranges from using a minimal number of performance indicators to the development of the actual resource allocation mechanism. Unnecessary complexity only serves to hinder implementation and communication to key individuals involved in the process. A common pitfall that many policymakers fall prey to is the desire to use several performance

indicators, thinking that this somehow provides a more complete picture of institutional performance. The result of having too many indicators is twofold. First, the more indicators an institution is measured on, the less important any one of those indicators becomes and vice versa. Second, as indicators and goals are added, the institution runs the risk of conflicting goals and results. For example, if policymakers decide that institutions should show a high level of access and admission for freshmen *and* high graduation rates, they are likely to find that one is not necessarily compatible with the other.

Leave room for error and experimentation

Given that the development of performance indicators is likely to result in unforeseen difficulties, the process of developing an outcomes-based funding program should also leave room for error and experimentation at the beginning. OBF requires that campuses have time to change to achieve better outcomes, as it will take time to understand the measurements and make changes to campus programs, systems, and processes. One way to achieve this is to have a “learning year” when performance is tracked but no performance funds are exchanged. Making sure that everyone involved understands the goals and objectives of the development process and that each step is clearly described will greatly facilitate the implementation of OBF.

Anticipate data limitations

A significant practical issue that has an impact on the development and implementation of performance indicators is the availability of data. The ability to work with existing data collection systems reduces the start-up time and cost to implement a performance indicator system. It also improves the comfort level of those involved and thus the credibility of the process. On the other hand, keeping only to those indicators for which data are currently available may not result in the most useful or appropriate set of performance indicators. The significant number of states that are engaging in new data collection suggests a recognition of this limitation.

Learn from others’ experiences, but develop your own program

The process of learning from others’ experiences, good and bad, with the development and implementation of outcomes-based funding is an extremely useful process in the development of one’s own program. However, each state should also ensure that their program reflects its own particular needs and concerns.

Conclusion

The advantages of OBF suggest that it should replace EBF in the long run. However, Texas should avoid the pitfalls of PBF when designing the new funding model, focusing on distilling the intended goals of the model into a few key metrics (no more than three) that can be relied on in spite of data limitations. Ultimately, the shift away from EBF will result in a higher education funding model that stops incentivizing mere enrollment at the expense of more appropriate goals, such as timely

graduation and success after graduation. However, while some uncertainty and experimentation at the beginning is to be expected, attempts to do too much through OBF could backfire, with costs in uncertainty and the introduction of political concerns into what is now a typically apolitical area (that is, EBF). OBF metrics should be easy to understand, easy to track, and directly relate to the state's intended goals for its higher education system. ★

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About the Author



Trevor McGuire is a policy analyst in the Center for Higher Education at the Texas Public Policy Foundation. Already familiar with the Foundation's work from his time as policy intern for the Center for Higher Education, Trevor joined the Foundation as a policy analyst in March 2015. His research spans the subjects of college affordability, administrative transparency, the future of higher education, and bureaucratic overreach.

Trevor holds a B.A. in politics from Princeton University, in the field of political theory. His senior thesis, *Public Sector Privilege*, critiques the theory behind the state's claim to act in the name of its citizens. At Princeton, Trevor was a member of the Debate Panel, Social Chair of the Texans Club, and part of the conservative Cliosophic Party as a member of the American Whig-Cliosophic Society.

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