

## Chapter 19

# Performance Funding of United States' Public Higher Education: Impact on Graduation and Retention Rates

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### ABSTRACT

*Policy makers around the globe are responsible for decision regarding the funding of higher education and the benchmarks of success. This chapter is geared toward higher education administration and leadership, especially those who shape policy in this arena. This quantitative study examined the effectiveness in the United States of allocating state resources to state public institutions of higher education by investigating the rate of change in the current benchmarks of success, which are graduation and retention rates. The findings revealed that the method of funding was not a statistically significant predictor of either the initial status or the rate of change of graduation rate or retention rate over the eight-year period, although institution type and enrollment were. The study recommends further research of performance funding outcomes, state funding levels, and other environmental factors as a means of helping administrators and policy makers in their quest to facilitate economic progress through an educated citizenry.*

### INTRODUCTION

State public institutions of higher education play a major role in the economic development of regions and states by providing an educated, skilled workforce for the 21<sup>st</sup> century economy. Many fronts challenge these institutions, especially state public higher education funding. Extensive research exists on state public higher education funding with respect to funding policies and funding models utilized by states to allocate financial resources directly to higher education institutions in support of undergraduate studies (e.g., Layzell, 2007). In addition, given the recent trend of the application of efficient and effective business management practices to the operation of governments, substantial evidence in the form of key

DOI: 10.4018/978-1-5225-0672-0.ch019

performance indicators, metrics and accountability measures have been developed to provide objective feedback on the performance of state public higher education (Dougherty, Natow, Bork, Jones, & Vega, 2013; Ewell, 1999; Layzell, 1999; University System of Ohio, 2008).

Since 1979, many states have employed a performance funding methodology as a means to allocate resources for public higher education. While there has been some research of a qualitative and opinion survey nature (Burke & Associates, 2002) about the effectiveness of performance funding in general, no research exists that quantitatively links the implementation of performance funding methodology to results (e.g., improvement in key performance funding indicators). This study remedies this gap by statistically analyzing the performance of states engaged in performance funding versus states that use other funding methodologies to determine whether the change to performance funding has delivered the desired external accountability and institutional improvement in state public higher education. This study investigated the changes in key higher education performance funding indicators at state public institutions of higher education in five states that employ performance funding (Tennessee, Florida, Ohio, Connecticut, and South Carolina) in comparison to five states that do not employ performance funding (Michigan, Georgia, Arizona, Massachusetts, and Maryland).

## **Purpose and Research Question**

The purpose of this study was to examine the effectiveness of allocating state resources to state public institutions of higher education by comparing results from performance funding states to non-performance funding states. The research question explored in this study: To what extent are performance-based funding models correlated to improvements in graduation and retention rates over time as compared to non-performance-based funding models.

## **BACKGROUND**

This section reviews the literature on the five primary public higher education funding models, the issues concerning performance funding of public higher education, and related research.

Weerts and Ronca (2012) note that there is a symbiotic relationship between state governments and public higher education institutions, with the state funding postsecondary education and, in return, institutions creating an educated citizenry and improving state and local economies. Given the high stakes and consequences of failure, it is incumbent on the states to fund public higher education effectively, efficiently, and at the highest level possible, with equity and access for all, in order to reap the economic market returns associated with turning out an educated citizenry and workforce. As Ness, Tandberg and McLendon (2013) point out political power and structure are driving forces in terms of policy formation in higher education. This is a very important point in the United States where tension has always existed between the federal and state governments over education policy (Springer, Houck & Guthrie, 2015). This tension is centered on the values of equity, efficiency, adequacy, and liberty. While current discussions have centered this debate within the pre-K to 12 arena (Guthrie, Springer, Rolle & Houck, 2007), there is a need to extend it into policy in higher education at both the federal and state level.

Managing the state budgetary equation is a monumental task forcing legislators to weigh social responsibility and altruism from the perspective of what is best for the state's constituency. Many times, this involves choosing between funding social welfare programs versus economic growth initiatives,

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