

Increasing Institutional Capacity to Respond to Performance Funding: What States Can Do

Many states are implementing performance funding systems as a means to improve efficiency and student outcomes at their public higher education institutions. CCRC recently completed research on the implementation and early impacts of performance funding programs in three states: Ohio, Indiana, and Tennessee. These programs integrate performance funding into the regular state base funding allocation and—in the cases of Ohio and Tennessee—tie a very large proportion of state operating funding to performance metrics.

The study's findings are based on interviews with 39 state leaders and 222 administrators and faculty at 18 community colleges and universities in the three states. Over the course of these interviews, many administrators and faculty reported that their institutions lack the institutional capacity to identify and analyze barriers to student success and to develop and implement meaningful solutions. A good number of institutions do not have the information technology (IT) necessary to collect data on student performance, or the institutional research capacity to analyze those data and determine how to improve student outcomes.

Partially as a result of these deficits in institutional capacity, administrators and faculty frequently expressed concerns about the actual or potential unintended impacts of performance funding programs at their institutions—such as declines in academic standards and the restriction of admissions. This brief reviews what states can do to support institutions of higher education so they can effectively respond to the new demands placed on them by performance funding policies.

Improve Institutions' IT Capacity

- **States should provide funding for institutions to bolster their IT resources**, along with advice on what type of IT infrastructure is needed to collect and analyze student performance data. If need be, this could be done within the state budget for capital funding.
- **States should also build up their own IT infrastructure for data gathering**, which can serve as a resource for institutions with low IT capacity.
- **Ohio is a leading example of a state that has built data-gathering infrastructure** to benefit colleges and universities. Its Higher Education Information System collects college enrollment, financial, and program data and allows colleges to conduct analyses of their own. The state's Workforce Data Quality Initiative links K-16 data with employment and other data, allowing for analysis of student unit-record data from birth through post-college employment.

Improve Institutional Research Capacity

- **Institutions need robust institutional research capacity** to respond to performance funding. States should provide colleges and universities with funding to hire additional researchers with the skills to conduct the types of analyses necessary to drive institutional improvement. This funding could also be directed toward collaboratives—such as the Research and Planning Group for California Community Colleges—that help colleges with limited research capacity.

- **States may also find it useful to build their own institutional research capacity** so that they can conduct timely analyses at the request of institutions.
- **Provide training for institutional researchers** at state-sponsored institutes. States can help institutional researchers respond to performance funding by training them in data collection and analysis and teaching them how to tell a story with data.
- **Provide training for other college staff and faculty.** Staff and faculty throughout the institution must also have the ability to use data to inform their practices and processes. States should provide training in data-driven improvement and organizational change to faculty and staff, which will have the additional benefit of broadening awareness of performance funding.

Help Institutions Consider Avenues for Change

- **States should sponsor discussions of organizational changes** in response to performance funding. College leaders would benefit from hearing about the experiences of other institutions that are further along in responding to performance funding, and from learning about the research findings on organizational change in higher education.
- **Create communities of practice involving similar institutions.** These communities can support institutions in collaborating to improve student outcomes rather than competing with each other.

Increase Funding for New Programs

- **Performance funding policies should include up-front funding for investments in new policies and programs** that will be evaluated on their cost-effectiveness. States should understand that implementing changes to improve student outcomes costs money, as does evaluating their effectiveness.

Include Time for Institutions and States to Adjust to New Expectations

- **Institutions need time to plan and adjust to new funding formulas.** Performance funding should be phased in gradually, or policies should incorporate a “learning year” before performance-based funding allocations go into effect.

Conclusion

Performance funding policies have sparked institutional efforts to improve student outcomes in Ohio, Tennessee, and Indiana. However, colleges and universities report that complying with performance funding mandates costs significantly more than policymakers anticipate, and that they often lack the institutional capacity to respond to performance funding as effectively as they would like.

While performance funding policies hold the promise of incentivizing colleges and universities to significantly improve student outcomes, additional investments should be made up front to facilitate this goal. By supporting institutional capacity for change in the ways described in this brief, states may improve the likelihood that their performance funding policies will substantially increase student success and reduce the occurrence of unintended outcomes.

Resources

- Pheatt, L., Lahr, H., Dougherty, K., Jones, S., Natow, R., & Reddy, V. (2014). *Obstacles to the effective implementation of performance funding: A multi-state cross-case analysis*. New York, NY: CCRC.
- Jenkins, D. (2011). *Redesigning community colleges for completion: Lessons from research on high-performance organizations*. New York, NY: CCRC

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