NETWORK NEWS

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SHEEO

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IN THIS ISSUE

FOCUS ON PERFORMANCE MEASURES

Over the past several years, the use of performance measures by state higher education agencies has steadily grown. Between December 1996 and March 1997, SHEEO conducted a survey of state-level higher education coordinating agencies and multi-institution governing boards to find out which states are using performance measures, how they are using them, and if they are making a difference. This issue of *Network News* highlights three SHEEO reports based on the survey data.

STATE SURVEY ON PERFORMANCE MEASURES: 1996-97

This article, based on the 1997 SHEEO Survey on Performance Measures, provides a snapshot of 48 states' experiences to date in implementing those measures. It is excerpted from a paper of the same title by Melodie E. Christal.

The use of performance measures in higher education continues to grow. About three-quarters of the respondents to the 1997 SHEEO survey (37 states) reported that performance measures are used in some way, and 26 of those states have plans to expand or refine their current efforts. This more than doubles the number of states with such measures in place just three years ago. Seven additional states are planning to report or implement performance measures in the near future.

Most states have adopted performance measures for accountability purposes and under that umbrella, the survey documented two increasingly important uses:

- Twenty-three states use performance measures to inform consumers about higher education.

- Twenty-three states use performance measures in some manner to distribute state funds to higher education institutions.

Table 1 presents the most commonly reported performance measures used for accountability purposes as reported in the survey. Graduation rate data is the most frequently reported measure, used by 32 states. Note that four of the top five measures listed–graduation rates, transfer rates, faculty workload or productivity, and external or sponsored research funds–are productivity measures; only one of the top five measures–follow-up satisfaction studies–relates to student outcomes.

Performance measures for consumer information. Most higher education accountability policies do not differentiate between the interests of state government and those of the general public or the consumer. For the 23 states where survey respondents noted that performance measures are used for consumer information, the information reported is typically more useful to public policymakers than to individual consumers in helping them make informed educational choices.

Colorado, one of the few states with specific legislation pertaining to consumer reporting, requires the Colorado Commission on Higher Education to publish "an annual consumer guide to state institutions of higher education for students and their families." To respond to this legislation, the Commission publishes a one-page brochure that contains an institutional profile of each of the 28 colleges and universities in the state.

Table 1
Most Commonly Reported Performance Measures

Performance Measures	Number of States
Graduation rates	32
Transfer rates	25
Faculty workload or productivity	24
Follow-up satisfaction studies	23
External or sponsored research funds	23
Remediation activities/effectiveness	21
Pass rates on licensure exams	21
Degrees awarded	20
Placement data on graduates	19
Admission standards and measures	18
Total student credit hours	18
Number and percentage of accredited programs	13

Table 2
States Directly Linking
Performance Measures to the Budget

State/Sector	Legislative Mandate	Year Implemented	FY97 Dollars Allocated to Performance Funding	Percent of Budget
Tennessee (2- & 4-year)	No	FY81	$25M	4%
Colorado (2- & 4-year)	Yes	FY94	$6M	2%
Missouri (2- & 4-year)	No	FY94 (4-yr) FY95 (2-yr)	$11M	2%
Arkansas (2- & 4-year)*	No	FY95	$9M	2%
Ohio (2-year)	Yes	FY96	$3M	1%
Florida (2-year)	Approp. Bill	FY97	$12M	1%
Kentucky (2- & 4-year)*	Approp. Bill	FY97	$3M	0.5%
South Carolina (2- & 4-year)	Yes	FY98		100% by 2000

* Performance measures abolished during 1997.

Information on costs, admission practices (average test scores, average high school grade point average, admission acceptance rate), demographics of the freshman class, enrollment, and graduation rates is provided. Suggestions on how to choose a college are also included.

Performance measures in the budgetary process. The use of performance measures in the budgetary process continues to grow with 23 states now using these measures in some manner. Eight states reported a direct linkage with funds allocated to institutional performance on goals and measures. Another 15 states reported considering performance measures in allocating resources, but there is no direct linkage between the measures and funding. An additional nine states reported that although they do not currently use performance measures for budgeting, there are plans to do so within the next two years.

Experience with states directly linking performance to the allocation of funds (i.e., having performance-based funding) is limited, as most programs are less than four years old; Tennessee is the exception and has had performance funding since 1981. Typically, about 2-3 percent of the general fund support for higher education is earmarked for performance; South Carolina is an anomaly, where 100 percent of all funding is to be allocated on performance in 36 separate areas by the year 2000. Although 2-3 percent of the general fund is relatively low, in some states it is a large percentage of the budget increase. (See Table 2.)

Since the survey was completed, Arkansas and Kentucky have abolished their performance funding programs with governance and political changes being the primary factors in both states. On the other hand, Washington has enacted performance-based funding for the 1998-2000 biennium with approximately one percent of higher education state funding allocated for performance. Legislation was passed in Florida that combines funding earmarked for workforce development for school districts and community college and distributes these funds based on performance.

Survey respondents were asked if in their opinion, institutional behavior had changed since performance measures have been linked to the budgetary process. Eight respondents indicated behavior had changed, while four indicated it had not. Sixteen respondents reported that it was too early to assess. One state noted that now during budget hearings, college presidents talk about *students and their successes*, and not just about dollars as an end in itself.

Impact of performance reporting. The SHEEO survey asked respondents to assess the impact of performance reporting on bringing about greater effectiveness, productivity, and quality. One-half of the respondents reported that performance measures had made either a "major positive impact" or "some positive impact." Although the jury is still out, ultimately, the test for determining the effectiveness of performance measures will be whether a positive change occurs in teaching and learning.

For more information about the study, contact Melodie Christal at 303-299-3688. For copies of the report, contact the SHEEO office at 303-299-3687.

CUSTOMER-FOCUSED ACCOUNTABILITY

This article, based on material from a new SHEEO report "The Challenge of Consumerism for Higher Education: Creating a Market for Quality" by Sandra S. 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.

It has been five years since the publication of *Reinventing Government* which proclaimed, "…words like *accountability, performance, and results* have begun to ring through the halls of government." One of the book's authors noted recently that during that time state-level debate about reform has "traveled light years ahead." The journey has helped in bringing to nearly every state, as the 1997 SHEEO Survey on Performance Measures documents, a more results-based and customer-focused approach to higher education accountability. But political ideals and legislative intent alone do not explain the role that consumers are increasingly coming to play in the accountability process. For that, one must look to the rising clout and purchasing power of consumers in the higher education marketplace.

One way in which consumers as a whole are adapting to structural changes in the economy is by learning to be "smart shoppers." To get the most value for their money, they are careful to weigh all the costs and benefits before making a decision. The public, empowered by their sense of personal responsibility and oftentimes aided by their access to stores of information made possible with technology, are doing their homework when it comes to making smart personal choices.

In the higher education environment, the numbers of new providers and traditional colleges and universities that develop and deliver content seem to be growing by the day. How can even the most savvy consumers be expected to make sense out of the growing chaos of the educational marketplace? What kinds of basic information do consumers need to distinguish among various providers of educational services? What kinds of specific information do they need in order to make good educational choices? As consumer information needs are evolving in some states, two types of information are being defined:

Consumer protection information. Basic information that tells students, employers, and others who rely on educational services and credentials that providers have complied with and met certain measurable standards of quality (e.g., accreditation status, standards of good practice). This is particularly important as greater numbers of distance learning and other "virtual" institutions and programs enter the market.

Consumer choice information. Reliable and meaningful information for consumers, especially students and their families, about the costs and quality of educational services delivered by various providers; this is needed to make sound educational choices.

One challenge before state policymakers is how best to "regulate" the market. On the one hand, left unchecked, "free" markets tend to create inequitable outcomes; they can yield good results for consumers and/or providers while not necessarily serving the larger public interest. The free market can also lead to fraud and abuse from diploma mill type operations. Alternatively, over-regulation or the use of inappropriate regulatory controls can lead to equally bad results. Reform efforts could go the way of health care. In a Louis Harris and Associates survey published in August 1997, a majority of both consumers and physicians said they believe the trend toward managed health care is harmful. It seems that policymakers replaced a health care system they didn't like with one that the public liked even less.

Clearly, states should have a role in managing higher education, but it is unclear just what that role should be in structuring the market to ensure quality. Recent experiences suggest that states have two basic responsibilities with regard to quality:

- *Quality assurance* has long been a key responsibility of states, often conducted in the context of consumer protection purposes. It traditionally has focused primarily on compliance functions and addresses what citizens are entitled to expect in terms of minimal requirements. But, as the number of post-secondary providers grows and geographical boundaries become less relevant, states will need to devise new approaches to quality assurance to balance consumer protection needs with the need for providers to have considerable flexibility in responding to rapid changes in the marketplace.

- *Quality improvement or enhancement* within the context of higher education's more market-oriented environment is creating new roles for states. In that environment, consumers will drive quality improvements more than state regulatory mechanisms. One key role for states is in the development of consumer information systems. By measuring performance and making that information available, states can create significant leverage for change in a competitive environment.

Some of the other lessons emerging from states' experiences to date in creating a market for quality include the following:

- Overall policy objectives should be made clear.

- Incentives to change behavior should be created.

- Customers should be identified.

- Consumers should be involved at the front end.

- Appropriate measures should be developed.

- Consumers should be helped to raise their expectations for quality.

- Customer satisfaction and feedback should be used for improvement.

- Benchmarking and "best practices" studies should be used.

- Consumers should be given information in a format they can use.

For more information about the report, contact Sandra Ruppert at 303-299-3627. To order the report, "The Challenge of Consumerism for Higher Education: Creating a Market for Quality," contact the SHEEO office at 303-299-3686. Copies are available for $12, prepaid.

PERFORMANCE-BASED FUNDING

This article is excerpted from a new SHEEO 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. It focuses on strategies for using performance measures in higher education and outlines key principles that can guide states' explorations of performance-based funding.

Although most people do not question the overall value of a college education, institutions of higher education in these times must make a compelling case to the public and to political leaders that this value is real and that such institutions deserve 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 until recently had left out the question of "value" in the funding process. In some states, long-standing budgetary systems have been abandoned, being replaced by completely new funding frameworks. In these instances, funding systems have been radically redesigned to include performance-based funding initiatives. Under these systems, performance measures are reported in the budget process and then tied either directly or indirectly to funding decisions.

Performance-based funding represents a paradigm shift. Rather that 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.

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.

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

- Balancing institutional autonomy with state-level review and control.
- Addressing the complexities of measuring quality, particularly in student learning.
- Dealing with conflict when institutions "lower the bar" in setting goals.
- Using only quantitative measures that negate important institutional processes.
- Finding measures that adequately reflect differences in institutional mission.
- Adjusting to annual changes in legislative priorities rather than responding to long-range goals.

States that have implemented performance funding in higher education and in other government-funded sectors are at this point in time "pioneers," each with its own unique and evolving program. Many states vary the way that performance funding is implemented, recognizing the need to attend to individual missions rather than fit all institutions into a "one size fits all" approach. Many successful programs begin as pilot efforts, on small scales that are open to growth and adaptation. 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 panels composed of institutional staff evaluate the performance of each campus. This system allows for an exchange of ideas about what works and what does not, and promotes the replication or adaptation of successful program components on other campuses.
- 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.

As a new model, performance-based funding in higher education is raising questions that will need to be answered over time.

- *What motivates performance?* Who should determine the incentives used in performance-based funding? Should this task fall to faculty members or administrators? Should it apply to whole systems or individual campuses? Examples have been cited that incentives determined at the top do not always work in predicted ways.
- *What happens to non-performing institutions?* If institutions do not measure up, do not meet benchmarks, or do not improve over time, what happens? Will the lack of additional funding further exacerbate already troublesome situations? Does performance-based funding have the potential to widen the gulf between the haves and have nots?
- *Can institutions use performance measure reporting in a productive way?* If the establishment and reporting of performance measures is a strictly top-down or externally driven process, can it affect real change in the classroom? How can institutions and legislators help faculty develop and become aware of the efficacy of measurement tools?
- *Are higher education's performance measures tools that are no more sophisticated than a pencil?* To date, colleges have used only rudimentary measures in their assessment of student learning and institutional effectiveness. Colleges rarely have adequate means to measure the goals of a diverse student population, making the attainment of these goals impossible to measure. Can colleges develop measures that will take into account the complexities of today's student population and the value that the college experience adds to that diverse population?

Is the use of performance measures in the budgetary process simply a new method for justifying additional resources for institutions, or is it a lever for real and positive change? 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. The ultimate test is whether front-line educators will embrace performance funding and use it to make a positive difference in our college classrooms.

For more information about the report, contact Brenda Albright at 615-790-2739. To order the report, "The Transition From Business as Usual to Funding for Results: State Efforts to Integrate Performance Measures in the Higher Education Budgetary Process," contact the SHEEO office at 303-299-3686. Copies are available for $12, prepaid.

POINT OF VIEW

We invite Point of View articles on topics of interest to the postsecondary community. This article, by James R. Mingle, is reprinted from the November/December 1997 issue of AGB Trusteeship. Dr. Mingle is the executive director of the State Higher Education Executive Officers in Denver.

PERFORMANCE FUNDING IS NOT THE CURE-ALL TO ACCOUNTABILITY

Institutions should be more effective and held accountable for their efforts. But formula approaches to measuring performance are flawed.

There is no denying the popularity of performance measures. In state after state, legislators direct all government entities, including public higher education, to state their goals and activities more explicitly and report results as a form of accountability. In legislators' minds, such directives compel the public sector to operate more "like a business."

But measuring performance in the private sector is child's play compared with doing so in higher education. Colleges have no equivalent to the simple "return on investment" commonly used in the private sector.

Despite the popularity of performance measures and performance funding, little rigorous evaluation has been conducted of their impact on institutions, distribution of revenue, and costs of such undertakings. That's the rub. These initiatives require increasingly complex data and implementation methods.

State higher education officials oppose performance measures at some risk. Who can be against accountability? And then it logically follows that these measures should be linked to funding. Score at *X* level on the measure (say, graduation rates), and you receive *Y* level of "extra" funding. But it isn't quite so simple. These four "riders" should accompany all performance-funding bills:

- Sound performance measures are difficult to attribute to a single institution. Consider the goal of identifying employer satisfaction. What do employers want? Some want students with basic skills; others want graduates with "higher order thinking skills." Some want team players with people skills; others want technical competence. And if we find out, how would a state link such findings to graduates, institutions, and programs? We might discover general satisfaction or dissatisfaction, but most performance-funding and accountability schemes require quantification for individual campuses.

- Benchmarks such as high graduation or pass rates reveal little about how such feats are achieved. The answers to "how" questions are far more relevant to implementing effective strategies for change. Ultimately, they are based in qualitative issues: leadership, curriculum, and organizational processes. And where should the benchmark be set—at a point most institutions already have achieved (the institutional preference) or some higher goal?

- Performance measures can distort institutional behavior. Extraordinary emphasis on quantifiable performance contributed to Medicare fraud in HMOs and harassment of taxpayers by IRS employees. Performance measures may lead to similar consequences in higher education. Institutions and employees should be motivated by a commitment to public purpose, not by explicit financial rewards.

- Complex systems tend to collapse under their own weight. This happened in the 1970s to the precursor of performance funding—zero-base budgeting—and may well happen to extreme performance-funding models. In Colorado, an elaborate performance-based certification process for teachers recently was repealed because it took too much staff power and delivered too few benefits. Other systems being devised will require enormous and expensive data-collection efforts and will yield even smaller returns. Over time, these systems seem certain to collapse.

Despite these limitations, thoughtfully devised performance and accountability measures can be useful. At the very least, they have enabled state policymakers to insist that campuses heed the teaching and learning agenda. And the response from higher education has been positive.

But policymakers should be under no illusion that performance funding is a cure-all for creating an accountable higher education system. State and institutional leaders should collaborate on devising a broad, powerful agenda for change that addresses this crucial issue: do all programs and budget priorities meet the needs of the state?

Several issues deserve attention. Among them are the balance between institutional support and need-based financial-aid programs, best practice program reviews, role and mission funding, and reallocation incentives. All potentially lead to more powerful and long-lasting changes than performance funding.

NEW SHEEO WEB SITE

We are pleased to announce SHEEO's new web site! Please visit us at:

http://www.sheeo.org

Information on SHEEO activities and projects is updated regularly; current topics include:

- Technology
- School-college-work transitions
- SHEEO/NCES Communication Network
- Eisenhower Network
- Benchmarking
- State-level performance measures
- Federal issues, including Committee on College Costs

Recent issues of *Network News*, along with two other SHEEO newsletters –*Redesign*, and *Teacher Success*–are included in full. All SHEEO publications and reports are described, along with ordering information.

A complete list of SHEEO agencies is provided with links to state agency web sites. A list of "Higher Education and Related Web Sites" is included with links to major national, regional, and state sites.

We welcome your ideas as we continually seek ways to better serve you. Please contact us through the web site or e-mail your suggestions and comments to sheeo@sheeo.org. We encourage you to add a link to the SHEEO web site from your web sites as well.

NEW SOURCEBOOK ON STATE COORDINATING AND GOVERNING BOARDS

The Education Commission of the States (ECS) recently published the *1997 State Postsecondary Education Structures Sourcebook: State Coordinating and Governing Boards*. This valuable guide provides comprehensive information on state governance structures, and includes an introductory essay by Aims C. McGuinness Jr., National Center for Postsecondary Management Systems, "The Functions and Evolution of State Coordination and Governance in Postsecondary Education." Copies of this report are available for $25 plus postage and handling ($4.25) from the ECS Distribution Center, 303-299-3692.

SELECTED BIBILOGRAPHY ON PERFORMANCE INDICATORS

As a service to our readers, Network News periodically publishes bibliographic references on relevant topics. The following includes recent national reports pertaining to performance indicators and examples of statewide accountability reports.

National Reports

Assessing Performance in an Age of Accountability: Case Studies, edited by Gerald H. Gaither, Jossey-Bass Inc., 1995. This book focuses on the emergence of the "accountability movement" of the 1990s and particularly how accountability was implemented by certain states and university systems.

Charting Higher Education Accountability: A Sourcebook on State-level Performance Indicators, edited by Sandra S. Ruppert, Education Commission of the States, 1994. This report describes and evaluates the current policies and practices of 10 states that have instituted various types of performance indicators.

A Need Answered: An Executive Summary of Recommended Accountability Reporting Formats and *JCAR Technical Conventions Manual*, American Association of State Colleges and Universities/American Association of Community Colleges/National Association of State Universities & Land-Grant Colleges, 1996. These two reports by the Joint Commission for Accountability Reporting offer a series of recommended reporting formats that can provide a consistent, comparable, and national source of information to answer the most common accountability questions.

"Performance Funding Comes of Age in Tennessee," by Trudy Banta, Linda B. Rudolph, Janice Van Dyke, and Homer S. Fisher, *Journal of Higher Education*, Vol. 67, No. 1, 1996. In 1981 Tennessee became the first state to allocate a portion of state funding for higher education on institutional performance. This article traces the history of the program and surveys a variety of participants to determine the impact it has had on state higher education policies and institutional performance.

Performance-funding Indicators: Concerns, Values, and Models for Two- and Four-year Colleges and Universities, by Joseph C. Burke, the Nelson A. Rockefeller Institute of Government, 1997. This article compares the performance indicators adopted or proposed by states for performance funding, offering insights as to policymakers' preferred models of excellence for state colleges and universities.

Refashioning Accountability: Toward a "Coordinated" System of Quality Assurance for Higher Education, by Peter T. Ewell, Jane V. Wellman, and Karen Paulson, Education Commission of the States, 1997. This paper defines the roles various groups and organizations play in monitoring quality and improvements and how these roles can be coordinated to create a more effective, less onerous accountability system.

Strategic Indicators for Higher Education, by Barbara E. Taylor, Joel W. Meyerson, and William F. Massy, Peterson's Guides, Inc., 1993. Based on data from more than 700 institutions, this report analyzes and compares over 70 key indicators that allow institutions to compare their positions in key strategic areas to peers, to past performance, or to previously set goals.

Using Performance Indicators to Guide Strategic Decision Making, edited by Victor M. H. Borden and Trudy W. Banta, Jossey-Bass Inc., 1994. This book examines the international movement toward the development of performance indicator systems, seeking to formulate a proactive, institution-based approach to indicator development.

State Reports

Increasingly, state higher education agencies are producing annual accountability reports which are made available to the public. Listed below are examples of recent state "report cards" and similar documents.

Arizona Board of Regents. *Arizona's Universities: 1997 Report Card*.

California Postsecondary Education Commission. *Performance Indicators of California Higher Education, 1996*.

Indiana Commission for Higher Education. *Campus Profiles of Indiana's Public Postsecondary Institutions*, 1997.

Louisiana Board of Regents. *Accountability in Louisiana's Colleges and Universities*, 1997.

Massachusetts Board of Higher Education. *Mindpower in Massachusetts: The Commonwealth's Natural Resource*, 1997.

New Jersey Commission on Higher Education. *Higher Education Costs and Revenues: The Second Annual System-wide Accountability Report*, 1997.

South Carolina Commission on Higher Education. *Minding our "P's" and "Q's": Indications of Productivity and Quality in South Carolina's Public Colleges and Universities: Reports on Act 255 of 1992 & Summary Report on Institutional Effectiveness*, 1997.

State College and University Systems of West Virginia. *West Virginia Higher Education Report Card, 1996*.

Tennessee Higher Education Commission. *Annual Report: The Status of Higher Education in Tennessee*, 1997.

University of Hawaii. *Performance Indicators Report Fall 1996 Update: University of Hawaii Benchmarks*, 1997.

University of Wisconsin System. *Accountability for Achievement 1996 Report*.

Washington State Higher Education Coordinating Board. *Accountability Report: Performance Measures for the Public Higher Education System*, 1996.

Information on national reports was taken from "Quality and Performance in Postsecondary Education: A Selected Annotated Bibliography," prepared by Amy Cook of the Education Commission of the States, 1997. The complete paper is available from the SHEEO office by calling 303-299-3686.

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