

EDUCATION

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EFP Takeaways

Performance-Based Funding in Higher Education

Background

States began introducing performance-based funding (PBF) for higher education institutions in the early 2000s. Initial PBF policies offered relatively low bonuses. Subsequent reforms have tied larger bonus amounts to measures of student progress, such as persistence and degree completion. Most existing evidence on the efficacy of these programs is based on the early, smaller-scale programs with relatively low stakes. A new study by Jason Ward and Ben Ost in vol. 16, issue 1 of *EFP* examines the effect of high-stakes performance-based funding in Ohio and Tennessee, where nearly all university funding is tied to student performance.

The Study

The authors examined multiple measures of undergraduate success including total degree completions, first-to-second-year retention, six-year graduation rates, and total baccalaureate completions. The authors utilized a difference-in-differences identification strategy along with a synthetic control approach, which uses a weighted combination of control units as comparison. Across treatment and control states, the analysis tested for different trends in degree completion, as well as for changes in institutional spending and student enrollments.

For more details:

- View the [full issue](#).
- See the [full article in Education Finance and Policy](#).
- [Sign up here to receive future EFP Takeaways](#).
- Summary of:
Ward, J. & Ost, B. (2020) The Effect of Large-Scale Performance-Based Funding in Higher Education. *Education Finance and Policy*, 16(1).

Findings

The results suggest no effects of performance-based funding on total degree completions, first-to-second year retention, six-year graduation rates, or BA completions. Generally, there was also no evidence of institutional alterations in spending or changes in student enrollment. The proportion of Hispanic students enrolled fell slightly following implementation of large-scale performance-based funding policies.

These results from Ohio and Tennessee suggest that the adoption of increased performance-based funding appears unlikely to have a strong effect on rates of degree completion.

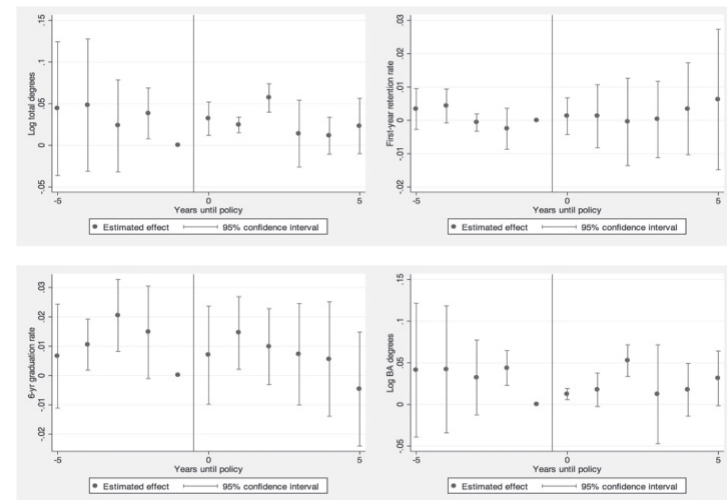


Figure 1. Event Study Analysis of Effects of PBF 3.0 on Academic Outcomes