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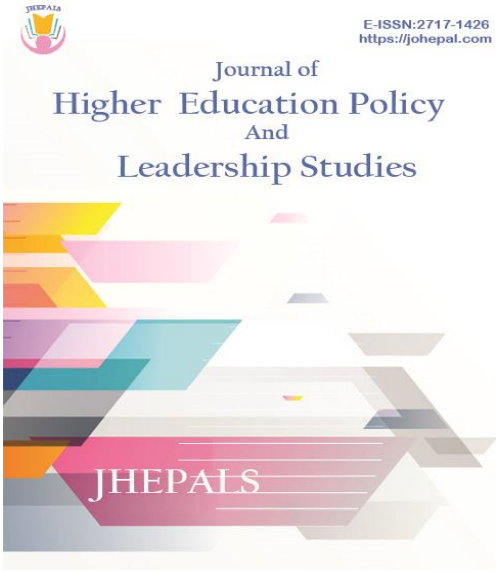

Danielle Hayden *
Email: haydend@purdue.edu
https://orcid.org/0009-0008-6403-3772

Christine Rienstra Kiracofe *
Email: ckiracofe@purdue.edu
https://orcid.org/0000-0002-3811-0227

* *Educational Studies Department, Higher Education Program, Purdue University, USA*

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Danielle Hayden *
Christine Rienstra Kiracofe

Abstract

Performance funding is a common strategy used among state governments to appropriate higher education funding. Performance funding traditionally allocates a portion of state appropriations based on an institution's ability to meet performance metrics. The metrics used to determine funding signal the factors that are important to the state and strongly encourage institutions to align their practices with the state incentivized outcomes. By setting metrics, state governments seek to encourage institutions to change institutional policies to meet the stated metrics to earn funding. Although the intention behind performance funding is centered on student success and improving student outcomes, there can be unintended consequences that can have a negative influence on some student populations. In fact, available research indicates that performance funding metrics are generally ineffective in changing outcomes and have unintentional negative outcomes for historically excluded students. By introducing critical race theory to the performance funding analysis, it provides policy makers and the higher education community a different lens to consider the negative outcomes from a systemic level.

Keywords: Performance Funding; Critical Race Theory; Interest Convergence; Principal-Agent Theory; Historically Excluded Students

*Corresponding author's email: haydend@purdue.edu

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Introduction

Considerable research has highlighted the personal benefit of a college degree to individual students. Research indicates that college graduates make significantly more money over their lifetime compared to non-graduates. Graduates also enjoy the benefits of increased job satisfaction and access to health-related benefits and retirement options (Schudde & Bernell, 2019). However, the benefits of a college degree impact more than just the degree recipient, also resulting in positive social and financial effects on society at large (Toutkoushian & Paulsen, 2016). The positive externalities generated by graduates of higher education institutions, such as better health and lower rates of crime for college educated individuals, are, in part, why federal and state governments provide financial support for higher education. Through financial aid paid directly to students and appropriations provided directly to institutions, the government can impact both the supply of and demand for higher education. With shrinking state budgets and increased attention to the outcomes associated with postsecondary education, many state governments have strategically aligned their financial support with student outcomes through the incorporation of performance funding.

Performance funding traditionally allocates a portion of state appropriations based on an institution's ability to meet performance metrics. The metrics set by the state can include factors such as graduation or retention rates or enrollment of historically excluded populations (Ortagus et al., 2020).[*] The metrics used to determine funding signal the factors that are important to the state and strongly encourage institutions to align their practices with the state incentivized outcomes. Since performance funding metrics outline steps institutions can take to receive state support, it is fair to assume state policymakers use these metrics to shift behavior within public institutions (Toutkoushian & Paulsen, 2016). Over 80% of states currently or have previously used performance funding to allocate state monies, an indication that state governments are actively working to influence institutional behavior (Ortagus et. al., 2020).

Performance funding began in Tennessee in 1979 but did not become widespread for more than a decade; other states did not adopt similar policies until the 1990s (Ortagus et al., 2020). When performance funding was initially implemented within states, it was typically used as a supplement to base state appropriations to encourage better student outcomes (often referred to as Performance Based Funding 1.0, or PBF 1.0). Considered as a bonus, the state appropriations allocated through performance funding metrics typically averaged between 1-5% of appropriations. Beginning in the 2000s, many states incorporated performance funding in new and different ways than had been done during the initial wave in the 1990s (Ortagus et al., 2020). By this time, performance funding was typically no longer considered a supplement to base appropriations but was included in the standard appropriation determination; this practice is often referred to as Performance Based Funding 2.0, or PBF 2.0. Additionally, the percentage of overall funding based on performance outcome metrics increased from 1-5% to over 10% in some states. Ohio, for example, contributes 100% of state higher education appropriations via performance

[*] The phrase historically excluded students is used throughout this paper to refer to racial minorities and low-income students originally excluded from accessing higher education, resulting in their underrepresentation in today's college landscape.

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funding. Performance funding is most commonly tied to graduation rates and percentages, student retention, credit hour completion, and production of graduates in high demand fields. More recently, states have introduced newer equity measures relative to low-income graduates and students of color. With institutions' increased reliance on performance funding, institutional budgets depend on a college or university's ability to successfully enroll and graduate their admitted student population and meet other metrics outlined by state governments.

Although the intention behind performance funding is centered on student success and improving student outcomes, there are unintended consequences that can have a negative influence on some student populations. When analyzing performance funding, the principal-agent theory (PAT) is commonly utilized. PAT is applicable to performance funding because of its focus on the relationship between principal (state government) and agent (policymakers at colleges and universities) and the outcomes associated with performance funding policies. Since the agent is given metrics set by the principal, problems can occur during the process of reaching the metric goals and PAT is uniquely designed to analyze these problems (Ga'ndara & Rutherford, 2018). This paper expands upon the scholarly discussion on this topic by introducing an analysis of performance funding through the lens of critical race theory (CRT). The goal of this paper is to begin a discussion addressing the intended and unintended consequences of performance funding on historically excluded students by examining student outcomes in states that have utilized performance funding.

The following section provides an overview of both PAT and CRT to explain the general reliance on PAT as the predominant theory in this line of inquiry thus far and introduce the concepts of CRT relative to the new discussion. The subsequent section details outcomes from performance funding models in Tennessee and Indiana, which have each utilized performance funding for different lengths of time. A third case study focused on Illinois is also highlighted, providing an example of one state's unique process of implementing performance funding as part of its state budget model over time. The final section of the paper reviews outcomes and the decision-making processes utilized by these three states through the lens of critical race theory.

Overview of Principal-Agent Theory and Critical Race Theory

Principal-Agent Theory

Principal-agent theory has historically been one of the primary theories associated with performance funding. The basis of this theory involves a principal contracting with an agent to produce a good or service that is outlined in a contract (Miller, 2005). With performance funding, the state operates as the principal, and higher education institutions are the agents who align their policies with the outcomes set by the state to ensure they receive the maximum amount of funding (Kelchen, 2018). PAT has six core assumptions: 1) The actions of the agent affect the principal; 2) There is information asymmetry between the agent and principal, where the principal sees the output but does not observe the process utilized to reach the output; 3) The agent will pursue self-interests above the principal's interests; 4) The principal that the agent reports to will have a personal set of preferences; 5) There is a shared understanding of the relationship between principal and agent and outcomes

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resulting from the contract; 6) The principal holds the power of ultimatum through its ability to cancel the contract (Miller, 2005).

Consider the following hypothetical example: a state government (the principal) creates two performance funding metrics that financially reward institutions (agents) that 1.) increase their historically excluded student population by 5%, and/or 2.) graduate 80% of their currently enrolled students. The principal shares the necessary outcomes with the agents, and results are subsequently reported to the state to determine if the targets are met and funding is due. While the principal is aware of the performance goal outcomes, it does not observe the process used by the agent to reach the outcomes. Faced with budgetary constraints and resources, coupled with a limited application pool of historically excluded students, an agent might prioritize the second, graduation metric over increasing the diversity of the incoming class. In the existing pool of freshmen applicants, the agent may see more opportunity to increase the academic profile of the institution and subsequently meet the graduation metric, "earn" the performance funding dollars, and opt not to pursue the second metric at all, avoiding expenses (recruitment, student support, etc.) associated with diversification.

In this scenario, increasing the number of historically excluded applicants in an attempt to meet the metric set by the principal would require the agent to commit significant resources. This exemplifies one of the critiques with performance funding: unintended consequences. Rather than taking on this challenge, which may come at an incredible expense, the hypothetical institution may be incentivized to focus on the most affordable and easiest option, admitting an academically strong incoming class to meet the graduation metric. For selective universities with an abundance of qualified applicants, this method would be a relatively inexpensive way to reach the second metric.

Knowing that the 80% graduation rate metric will be met by increasing admission standards, the institution might very well elect to ignore the second metric to avoid additional costs, and thus not increase their historically excluded students by the defined benchmark of 5%. In fact, the percentage of historically excluded students may actually *decrease* if this approach is employed by the institution. The juxtaposition of these two metrics – which by definition compete for attention and resources – means that the principal might inadvertently disadvantage one approach over another. For agents, the best outcome would be to meet all metrics, but when there are competing goals that are incentivized, some will naturally be disadvantaged.

Increasing racial diversification can be expensive for institutions due to the potential increase in costs for intentional recruitment and additional funding for appropriate support measures on campus. The largest expenses associated with such initiatives are often related to administrative and support positions which come at a significant cost. For example, Grand Valley State University (GVSU) recognized the positive contributions diversity added to its campus and sought to provide further support services to its diverse campus population. The institution created a new division which included a Vice President for Inclusion and Equity, an Assistant Vice President for Affirmative Action, and a Director for Intercultural Training to support its diversity efforts (Arnold & Kowalski-Braun, 2011). According to HigherEdJobs (2022), the average salary for Chief Diversity Officers in higher education who have earned a Research Doctoral degree was $192,585 during 2019-20. As noted by the GVSU example, multiple positions were hired to support the diversity efforts, which means

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that institutions incur significant costs when creating new departments. As of 2019, the Vice President position at GVSU earned an annual salary of $224,008 and an Associate Vice President for Inclusion and Student Support and Associate Vice President for Equity each earned $135,944 (GovSalaries, 2022). These three positions account for nearly $500,000 in salary.

When the principal introduces competing metrics relative to performance funding, including metrics that will not increase an agent's costs, then the costly metric will naturally be disincentivized. If the principal and agent both truly value racial diversity, then a consideration for state governments may be the removal of competing priorities for performance funding appropriations. Competitive metrics, such as graduation and retention rates, are emphasized by ranking systems (such as U.S. News and World Report), which suggests that institutions will continue to prioritize outcomes in these areas. By disincentivizing performance metrics that do not increase diversity and replacing them with metrics designed specifically to positively impact diversity, the state government has the potential to encourage the agent to focus on this one key area.

The hypothetical above demonstrates an important component of PAT, known as shirking (Miller, 2005). Shirking occurs when the actions of the agent do not align with the intentions and preferences of the principal because the agent pursues its own self interests. In the hypothetical above, the principal established separate funding metrics that were important to the state and its goals relative to higher education. By including multiple, potentially conflicting metrics for agents, the principal signaled that these cumulative metrics, not just one metric, should guide the agent's decisions. It could be argued that in the hypothetical the agent actively worked against some of the principal's intentions by ignoring the more difficult metric in pursuit of its own self-interest. As detailed previously, the principal does not oversee the process of achieving the intended outcomes, allowing the agent significant autonomy in its decisions. This example demonstrates the potential for shirking to occur when a principal has multiple priorities that do not target the same population of students. The agent can act in its own interest and pursue the metric most easily accessible (and affordable) instead of committing to multiple goals.

While PAT is an appropriate theory to apply when analyzing performance funding, this paper suggests the incorporation of critical race theory (CRT) into analyses of performance funding models that seek to achieve diversity objectives. Unlike PAT, which focuses on analysis of performance funding at the results stage, critical race theory analyzes it at the core.

Critical Race Theory

Critical race theory originated from the writings of Derrick Bell in the 1970s as an instrument to challenge the racism prevalent in law and greater society (Bell, 1995). CRT expands upon the traditional analysis of anti-racist policies normally associated with civil rights and affirmative action. It is intended to disrupt traditional thought in an effort to change policies at their core to bring inclusivity for all. Some of the concepts within CRT that are used in the disruption of traditional thought include a focus on language and interest convergence (Delgado & Stefanic, 1998). The use of language is analyzed with CRT by considering the impact of language on privileges provided to certain groups while concurrently marginalizing other groups. For example, a state government may include metrics for increasing

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graduation rates of current students, 55% of whom were white nationwide as of 2019, and enrolling an increased number of historically excluded students. The language in the description of each metric matters. The lack of specificity related to increased graduation percentages for current students can cause a conflict between these two goals. If the graduation metric targeted an increase in the graduation rates of historically excluded students while another metric included an increase in historically excluded student enrollment, these goals would benefit the same group of students and remove competition for institutional priority. By examining the core of performance funding policies, CRT provides an opportunity to change the trajectory of systemic inequities that currently exist for historically excluded students within higher education.

Current scholarship on the enrollment of historically excluded students within higher education focuses primarily on *why* students are underrepresented. One perceived cause of the lack of representation for students of color is that students from underrepresented backgrounds lack the necessary skills to be successful in a higher education environment (Bensimon, 2005). This stereotype and oversimplification of the problem excuses the cause of the issue, such as systemic inequities created by government policies, and places blame on the students' lack of merit. Instead of approaching this issue from a deficit perspective relative to the abilities of students of color to explain under-enrollment in higher education, analysis through CRT challenges the level of representation at the systemic level and recognizes that existing policies (such as performance funding metrics) may actively work against equitable opportunities for college access for historically excluded populations.

Another concept that impacts analysis through the use of CRT is interest convergence (Delgado & Stefanic, 1998). Interest convergence is the idea that progress from civil rights initiatives centers around white self-interest instead of a concern for the specific needs of people of color. Bell (1995) exemplified this concept when he hypothesized that the *Brown v. Board of Education* decision was strategically timed to signal to the rest of the world that the United States was committed to racial progress (Delgado & Stefanic, 1998). America's Jim Crow segregation laws had hurt the national reputation of the United States in the first half of the 20th century (Borstelmann, 1999). The Court's decision in *Brown v. Board of Education* was a powerful symbolic tool that could show the rest of the world that social progress was on the horizon in the United States. Bell's hypothesis was supported by the work of Mary Dudziak who uncovered memoranda from the U.S. Department of State asking the government to act on the 'Black cause' (Dudziak, 1988). While the State Department does not have control over the Supreme Court, the Justices do not live and work in a vacuum. This type of political pressure could have encouraged the U.S. Supreme Court to take the case and influenced the ultimate outcome. Interest convergence relates to performance funding policies in higher education because institutions tend to act within their own self-interest, which favors the interests of majority (white) students.

Interest convergence also connects CRT and PAT by describing the same concept in different terms. As previously explained, shirking occurs when an agent acts in its own self-interest. Within performance funding, agents who act in their own self-interest (or the interest of their institutions) are more likely to positively impact white students and negatively or minimally impact students of color (Ward & Ost, 2021), as outlined in the state examples in the following section. CRT would recognize this concept as a form of interest convergence because the majority population benefits from practices that were intended

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to reduce inequities between races. Thus, the benefit of CRT as a framework to analyze performance funding is the theory's focus on the *cause* of the outcomes, not only on the outcomes themselves.

State Examples of Performance Funding

There is a significant body of literature explaining the intended and unintended consequences of performance funding (Ortagus et al., 2020). Even with the overwhelming consensus that performance funding metrics have little to no positive impact on student outcomes targeted by the policies (such as increased graduation rates, enrollment of historically excluded students, etc.), many states continue to rely on this mechanism within their state budget models (Ortagus et. al, 2020). This section highlights the outcomes of two states that have utilized performance funding for a significant period – Tennessee (43 years) and Indiana (18 years). Additionally, Illinois is included in this section as an example of a state that utilized performance funding briefly from 1999-2003 and then reintroduced the appropriations in the 2013 fiscal year (Blankenberger & Phillips, 2016). The reintroduction of performance funding in Illinois focuses on the use of metrics relative to historically excluded students. Even though new states continue to enact performance funding models, research continues to document that the effects from this type of funding model do not explicitly contribute to increases in student outcomes related to degree completion and may expand the inequities between majority and minority students (Ortagus et. al, 2020).

Tennessee

As indicated previously, Tennessee was the first state to implement performance funding in its higher education budget model and is considered a leader in this area (Ortagus et. al, 2020). Tennessee has progressed through a series of initial performance funding models. PBF 1.0 included low funding amounts used as a bonus to state appropriations, while PBF 2.0 increased the level of funding and shifted toward performance funding as the primary determinant of state higher education appropriations (Ortagus et al., 2020). PBF 3.0, which is the current model Tennessee utilizes, represents a continued shift toward significant state funding being tied to performance funding incentives (Kelchen & Stedrak, 2016). Tennessee currently distributes 85% of total state dollars based on this funding model, as compared to the initial 5.45% used at the introduction of performance funding in 1979 (Li & Ortagus, 2019). This increase resulted from the Complete College Tennessee Act passed in 2010, which highlighted a state goal to increase educational attainment among Tennessee residents (Tennessee Higher Education Commission, 2015). The Act also introduced an 80% premium for students aged 25 and older and Pell eligible students who meet retention and completion outcomes. For example, a Pell eligible student who completes a bachelor's degree equates to 1.8 degrees for funding purposes, while a non-Pell student earns 1.0 degree. The use of premiums in performance funding models is intended to provide an additional bonus to institutions that increase outcomes for historically excluded populations, like racial minorities or low-income students (Ga'ndara & Rutherford, 2018). To determine if the increased state allocations tied to PBF 3.0 policies have an impact on student outcomes, Ward and Ost (2019) studied performance funding in both Ohio and Tennessee to provide initial research on outcomes from PBF models 2.0 and 3.0. As the focus

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of the current analysis is specifically on Tennessee due to the longevity of performance funding in the state, this paper focuses only on Tennessee.

The shift toward PBF 3.0 policies can be attributed in part to loyal performance funding policymakers who are determined to create an equitable funding system for higher education institutions with documented positive outcomes (Ward & Ost, 2021). Ward and Ost (2021) sought to determine if the general ineffectiveness of PBF 1.0 and PBF 2.0 was attributable to the limited funding attached to performance metrics, or instead if performance funding is altogether ineffective. Their study focused on the comparison of previous versions of performance funding policies (which attributed significantly lower percentages of overall funding to higher education institutions meeting performance metrics) to the current version of performance funding in Tennessee. The comparison between PBF 2.0 and PBF 3.0 policies can begin to answer this question by considering the stark difference in budget allocations determined by each model. For example, many states that utilize PBF 2.0 policies allocate a smaller portion of their appropriations to performance funding than the 85% allocated in Tennessee. Since many state metrics are similar, Ward and Ost (2019) analyzed whether this shift in scale of the total performance funding dollars can change outcomes. The primary focus of Ward and Ost's study was on potential differences within total degree completion, first-to-second-year retention, six-year graduation rates, and total baccalaureate (BA) completions between PBF 2.0 and PBF 3.0 policies; our analysis specifically highlights the effects on students of color in each of these areas. The authors caution that the results of their study should not be interpreted from the standpoint of performance-based funding's efficacy as a whole, but rather focus on the scale of the performance funding appropriations.

Like previous studies conducted on performance funding outcomes, Ward and Ost's study did not find evidence that increased levels of funding attached to performance metrics affected academic outcomes (total degree completions, first-to-second year retention, six-year graduation rates, or baccalaureate completions). Even with the addition of premiums for low-income and non-traditional students (introduced in 2010), there were continued bleak outcomes relative to students of color, such as a decline in enrollment for Latinx students, no change in Black students' enrollment, and little to no change in the enrollment of non-traditional students. Although the premiums aimed at increased success for retention and completion specifically targeted low-income and students over 24-years-old, these factors serve as a proxy for racial minorities as students of color receive Pell Grant funding at a higher rate compared to their white peers. In 2003-2004, 47.9% of Black students, 37.5% of Latinx students, and 29.8% of students identifying as two or more races received Pell Grants compared to 20.7% of white students (U.S. Department of Education, 2019). In 2015-16 (the most recent year for which data is available) the percentage of students receiving Pell Grants increased across all populations, with 57.7% of Black students, 46.9% of Latinx students, 42.2% of students identifying as two or more races, and 31.5% of white students receiving Pell Grants. Due to the racial demographics of students receiving Pell Grants, it can be assumed, even if it was not explicitly stated by the Tennessee state government, that premiums related to the success of low-income students can also be considered premiums for historically excluded students because of the connection between race and low-income populations. A second study completed in Indiana, a state that is also a veteran of performance funding, found similar outcomes.

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Indiana

Indiana incorporated higher education performance funding in the state for the first time in 2003 and most recently updated metrics in 2019 (Indiana Commission for Higher Education, 2018). Throughout this 16-year period, changes were made to the performance metrics seven separate times. The metrics have evolved from focusing on enrollment outcomes and research support incentives in 2003 to a focus on student persistence, change in number of degrees/certificates, at-risk student completion (defined as an increase in graduation rates for Pell recipients), STEM degree completion, and change in on-time graduation rates in 2019 (Indiana Commission for Higher Education, 2019). The primary focus for Indiana's performance funding initiatives since 2011 has been the increase in total degrees earned. For the 2017-19 biennium, the most recent year for which data is available, the following metrics comprised the percentage of performance funding allocations in Indiana: 40% overall degree completion, 30% on-time graduation rate, 20% at-risk degree completion, 8% high-impact degree completion, 1% remediation success rate, and 1% student persistence incentive (Indiana Commission for Higher Education, 2017). Although Indiana's most recent performance metrics outlined a commitment to student success by aiming to increase averages in each of the previously mentioned metrics over a three-year period, there was variance in the outcomes of student success between different races.

Ortagus et al. conducted research on the impact of performance funding policies in Indiana from 2003 to 2012 to determine if student graduation outcomes improved, if the selectivity of institutions changed, and if there were enrollment changes for minority and low-income students because of the implementation of performance funding (2017). In 2011, the authors noted that the distribution of state funding was weighted based upon the following metrics:

- 50% was based upon change in number of degrees earned
- 20.5% was based upon successfully completed credit hours
- 20.2% was based upon research incentive funding
- 2.6% was based upon dual credit completion
- 4% was based upon low-income degree change
- 2% was based upon on-time degree change
- 0.8% was based upon successfully completing college early

The authors created three reference groups to compare graduation rates, institutional selectivity, and enrollment changes for minority and low-income students in Indiana and surrounding states. The first comparison group included four-year public institutions from Kentucky, Missouri, and Wisconsin because each of these states have similar demographics to Indiana. The second group included 21 private institutions in Indiana. The final comparison group was comprised of 55 institutions from Illinois, Kentucky, Missouri, Minnesota, and Wisconsin, each of which did not utilize performance funding between 2003-2012. The dependent variables for this study were outcomes (total number of graduates at each institution per year), student diversity (change in full-time equivalent minority enrollment and number of students who received federal grants in the incoming class), and student quality (measured by 25th and 75th percentiles of ACT scores and admission rates of each institution). The outcomes were measured prior to the implementation of performance funding and then after implementation to utilize a

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difference-in-differences strategy. The focus of our current analysis centers on the impact of Indiana's performance metrics on historically excluded students. Therefore, the results highlighted in Umbricht et al.'s study will be relative to this population.

Enrollment for historically excluded students was lower at four-year public institutions when compared to the enrollment for similar students at private institutions in Indiana and in surrounding states after the incorporation of performance funding, which resulted in lower racial diversity (Umbricht et al., 2017). This finding was similar to results from a study conducted by Chris Birdsall who described the impact of performance funding in Indiana compared to states which did not use performance funding between 2001 to 2015 (Birdsall, 2018). Birdsall determined that performance funding made Indiana institutions more selective and reduced minority enrollment (defined as Black or Latinx students). Although there were declines observed by Umbricht et al. and Birdsall in the enrollment of racial minorities, one positive outcome observed by Umbricht et al. related to low-income students (defined as students who receive a federal grant). For this population, enrollment increased in Indiana comparative to surrounding states and enrollment at four-year public institutions increased compared to private institutions in-state. Given the fact that students of color are more likely to receive Pell grants than their white counterparts, as outlined above, this finding suggests that the low-income students that were more likely to attend college after implementation of performance funding in the state were largely white since overall enrollment for students of color declined. The author notes that the increase in low-income student enrollment within Indiana could be attributed to the state's Twenty-First Century Scholars program instead of a direct link to performance funding (Umbricht et al., 2017). Indiana's Twenty-First Century Scholars program is state funded support that covers the cost of tuition at public institutions within the state for students whose family meet income criteria during students' 7th or 8th grade years (Learn More Indiana, 2021).

The results of the Umbricht et al. (2017) study suggest that the performance funding policies in Indiana negatively impacted minority students' admission and matriculation to public institutions compared to the private schools in state and the public institutions in surrounding states. While the performance metrics utilized by Indiana did not specify outcomes related to the success for students of color, the standard metrics introduced (such as student persistence, at-risk student completion, and change in on-time graduation) have inequitable impacts on students of color compared to white students. At the time the previously mentioned studies were released, Indiana had utilized performance funding for over ten years, and there were still weaknesses and discriminatory practices identified, such as fewer admitted historically excluded students in Indiana's public higher education institutions and increased selectivity at non-open access institutions (Umbricht et. al, 2017). The increase in selectivity was an unintended consequence of performance funding, which further limited the opportunities for historically excluded students (Ortagus et. al, 2020).

Illinois

Beginning in fiscal year 1999, Illinois implemented performance funding at the community college level (Blankenberger & Phillips, 2016). The model only lasted through fiscal year 2002, however, as funds were requested but not renewed by the legislature for 2003 and 2004. Performance funding was reintroduced into the state budget conversation in 2011 when the current performance funding bill was signed into law, although the funding was

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not set to start until fiscal year 2013 (Illinois General Assembly, 2011). In a case study outlining the process of reincorporating a performance funding model in higher education, Blankenberger and Phillips (2016) discuss the decision-making process utilized in Illinois, which poses interesting considerations when coupled with the lackluster outcomes tied to performance funding found in Tennessee and Indiana. To align with the interest in historically excluded student outcomes, the discussion here centers around the metrics created to support historically excluded students.

The predominant goal within Illinois educational policy from a state perspective is an increase in graduation rates within higher education institutions (Blankenberger & Phillips, 2016). To ensure higher graduation rates, special attention was given to historically excluded students in Illinois, which include students of color, low-income students, and adult learners. Students in these categories who successfully met the state completion measures earned institutions an additional 40% premium within the funding model. At the time Illinois was reviewing the performance funding model, Black students comprised 14.5% of the Illinois state population and Latinx individuals were 15.8% of the population (U.S. Census Bureau, 2013). Of high school aged students, minority students represented a higher percentage of high school enrollment with 21% Black students and 17% Latinx but were disproportionately represented in high school dropout rates. The percentage of historically excluded students who dropped out of school was significantly greater than overall enrollment rates; 45% of dropouts were Black students and 23% were Latinx (Illinois Board of Higher Education, 2011). To further support historically excluded students' progress into higher education, a metric specific to the success of these students was recommended as a core principle of performance funding. The metric included a provision that rewarded institutions that increased success for low-income, first generation, and traditionally underrepresented students (Blankenberger & Phillips, 2016). More specifically, institutions who enrolled low income, adult learners (age 25 and older), Latinx students, and Black, non-Latinx students would receive a 40% premium for each of these populations. The inclusion in Illinois' performance funding model of a financial incentive to encourage institutions to support historically excluded students is similar to the premiums utilized in Tennessee and Indiana. Even though data from both states indicated that the premiums targeting historically excluded students did little to increase their inclusion within higher education or degree outcomes, Illinois incorporated the same policy even though the available research indicated that it did not work.

As of 2021, performance funding in Illinois has affected only 0.5% of the state appropriations (The Civic Federation, 2021). Within Illinois, performance funding was only included in final appropriations for fiscal years 2013 and 2014. Performance funding has been requested in subsequent appropriations but has not been received for higher education. Due to the limited use and funding relative to performance funding, Illinois Governor J.B. Pritzker signed legislation in 2021 that will create a commission targeted at evaluation of higher education funding in the state.

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Discussion of Performance Funding through the CRT Lens

The previous section detailed the general conclusion that performance funding has not benefited historically excluded students within higher education. The commonly used principal-agent theory provides a lens to explain that institutions will act in their own self-interest, but it fails to recognize *why* acting within an institution's self-interest does not support positive outcomes for historically excluded students. Utilization of CRT as a framework when considering performance funding allows researchers to analyze dominant assumptions by changing the emphasis of the discussion (Gillborn, 2006). Instead of focusing on performance funding outcomes at the student level, the CRT lens shifts the focus to the systemic level. Analysis of performance-based funding through the lens of CRT highlights the diminished results for historically excluded students discovered by researchers studying the effects of PBF. The systemic nature of inequities perpetuated by performance funding outcomes are apparent considering that research surrounding the differences between white students and historically excluded students has been documented for over a decade, yet there has not been a change to policy to that has created greater equity. This conclusion suggests that performance funding as it has been carried out thus far makes things worse for historically excluded students compared to their majority peers.

As of April 2021, four out of twenty-six states that currently utilize performance funding have a mandatory metric related to enrollment of historically excluded students, and six states have a mandatory metric for enrollment of low-income students (Elliott et al., 2021). Mandatory metrics are required for institutions who want to receive state allocations through performance funding. While more than half of the states that currently utilize performance funding incorporate success metrics for students of color and low-income students, these success targets apply only to presently enrolled students. From the lens of CRT, this information is indicative of interest convergence, where states recognize it is important to include metrics relative to access and success efforts for historically excluded students but subsequently fail to make the metrics mandatory. By making these metrics optional instead of mandatory, states do not prioritize the outcomes. If it was truly important to states for institutions to meet the outlined metrics relative to the success of historically excluded students, then these metrics should be mandatory if institutions want to receive financial support from the state.

Research suggests that policymakers in several states have attempted to fix the inequity of access for historically excluded students by providing greater incentives, but policymakers have failed to understand the root cause of the inequities within outcomes. The supplements added to performance funding metrics, such as metrics for low-income students or for students of color, which encourage institutions to improve outcomes for historically excluded students implies that the initial policy was presumably created from a colorblind narrative. The original policies can be considered colorblind because they were created under the assumption that all students have the same opportunities to pursue higher education and institutions do not need to be incentivized to increase representation for historically excluded populations. However, this is not the case. As of Fall 2019, public 4-year institutions were comprised of 55% white students, 11% Black, and 20% Latinx (National Center for Education Statistics, 2021). However, the racial demographics of students are inconsistent among institution type; public 2-year institutions are comprised of

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47% white students, 14% Black, and 28% Latinx. These statistics indicate that opportunities among different races are not equal because historically excluded students are over-represented in the community college sector and under-represented at four-year institutions. The discrepancy may suggest that more intentional steps need to be taken by states and specific institutions to create more equitable opportunities. Although metrics within performance funding have this intention, the statistics indicate that more widespread efforts need to be made. Consider specific examples from Tennessee and Indiana. Tennessee incorporated performance funding in higher education in 1979 but did not introduce a minority premium until 1993 (Ga'ndara & Rutherford, 2018). As noted previously, the Ost and Ward study indicates that the current version of Tennessee's premium targeting historically excluded students does not improve outcomes (2021). For almost two decades, the state of Tennessee has had the opportunity to improve their performance funding policy to positively impact historically excluded students but has not increased outcomes based on the most current research.

Approaching this issue through the CRT lens can add interest convergence to the discussion. This tenet of CRT introduces the idea that premiums intended to support historically excluded students may only be implemented so that state policy makers can say that they provide financial incentives to support these populations. If historically excluded students are not benefitting from the policies, as the data suggest, then who does benefit? By implementing policies targeted at historically excluded students, it can be argued that the majority can shift blame for any diminished student outcomes to the students themselves. States and institutions of higher education can hide behind the fact that they have a policy which explicitly states they support the success of historically excluded students. If students are not achieving, then it must be due to the individual student's own lack of merit.

Decision-makers act within their own self-interest, whether it is explicitly implied or not. Recall the reintroduction of performance funding in Illinois where decision makers acted within their own self-interest. The policymakers had the opportunity to review significant research surrounding the intended and unintended consequences of performance funding and use the available data to create a policy that positively impacts historically excluded students. Instead, the state continued the advancement of inequities by following the ineffective policy structure that has been in place for over forty years. The shift of accountability from policy maker to student as a result of performance funding metrics, along with the lack of research relative to policy implementation are examples of the systemic nature of racial inequity within higher education. These concerns can be addressed by reframing the way policymakers approach performance funding using CRT.

Conclusion

The introduction of CRT to the performance funding policy and outcome discussion allows conversation surrounding its effectiveness to shift away from student metrics and toward policymakers. Instead of attention to the relationship between states and institutions, which is the focus of the predominant analysis using PAT, analysis through the lens of CRT highlights the larger systemic issues surrounding policy decisions and their impact on historically excluded students. Using interest convergence and language components of CRT

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challenge the dominant structure of policies and encourage a deeper analysis of the core problem. CRT provides a necessary lens to view performance funding and similar topics critically, which should be a priority for policymakers if the intention behind a policy is to improve student outcomes on defined metrics. As the United States higher education student population continues to become more racially diverse (National Center for Education Statistics, 2020), it is crucial that policies which target student success are evaluated to ensure the student outcomes align with the policy intentions.

A primary intention of this article is to apply CRT within a financial analysis to demonstrate that race can implicitly impact policy decisions and outcomes within all levels of decision-making. The systemic inequities that have negatively impacted students of color within higher education should be acknowledged in an effort to create equitable policies at the state and institutional levels. As higher education is one path towards acquiring social capital and increased financial security for students, decisionmakers at all levels – institutional, state, and federal – should have a commitment to critical analysis and correction of policies to provide equal and equitable access for all students.

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Ms. Danielle Hayden is a current PhD student at Purdue University in the Educational Studies department with a focus on Higher Education Administration. Her research interests include higher education policy impacts on historically excluded students. Additionally, she has worked as a higher education financial aid professional at various institutions in the Midwest for over ten years.

Dr. Christine Rienstra Kiracofe, Ed.D., M.P.A. is a Professor and Director of the PhD. in Educational Studies with an emphasis on Higher Education at Purdue University. Her research focuses on P-22 education law and finance. She has authored more than 100 scholarly publications and is the President-Elect of the National Education Finance Academy.

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