Chapter 63
The Impact of Performance-Based Funding on Historically Black Colleges and Universities: A Comparative State Analysis

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ABSTRACT
More than half of the states in the U.S. fund public colleges and universities, based in part on those institutions meeting performance metrics. Given increasing political and public interest in accountability for public resources, it is likely more states will adopt incentive-based finance policies for postsecondary education. This chapter explores how performance-based funding has affected HBCUs in six states. It situates this analysis in the political context that foments and sustains interest in this finance mechanism. Through descriptive statistical analysis of HBCU achievement on key performance funding measures and interview responses with HBCU and higher education representatives, this chapter offers a more nuanced and comprehensive analysis of the outcomes of performance funding as it is applied to HBCUs.

INTRODUCTION
Historically Black Colleges and Universities (HBCUs) arose in the mid-19th century to educate African American students barred from the majority colleges and universities of the time (Thelin, 2004; Gasman & Conrad, 2013). Though the federal government outlawed de facto segregation in the mid-20th century, HBCUs continue to fulfill the function of educating and graduating students of all genders, races, ethnicities, and socioeconomic backgrounds. HBCUs offer the necessary capacity for increasing the number of baccalaureate degree holders critical to the knowledge-based workforce of the present and future state and national economies. The ability of HBCUs to meet this mission is threatened by federal and state funding disparities that have beleaguered these institutions since their inception. Public HBCUs rely on state allocations for a significant percentage of their revenue (Sav, 2006; Brady, Eatman, 2020). DOI: 10.4018/978-1-7998-0420-8.ch063
Performance-based funding is a finance policy wherein the state body responsible for allocating state money to public colleges and universities ties a percentage of that funding to the institution meeting specific performance targets. States have experimented with some form of performance-based funding since Tennessee adopted this funding mechanism in 1979. Though more than half of the states that experimented with performance-based funding did not continue this policy for long, interest in it has been growing over the past decade. Presently 30 states have initiated some form of performance funding. Four states are transitioning towards its implementation, while others are in discussions to initiate it (National Conference of State Legislatures [NCSL], 2015). Many higher education researchers have explored the motives for and impact of performance-based funding. Yet few have assessed how this funding mechanism has affected historically black colleges and universities (HBCUs).

This study seeks to examine the impact of performance funding on public HBCUs in six states. The primary questions this study seeks to answer are: how have public HBCUs responded to performance-based funding? Has this funding policy caused them to change institutional behavior? Did it lead to changes in public HBCU output metrics? Were policymakers attentive to unique mission of HBCUs when crafting this method for allocating state funds? How do HBCUs perceive the creation and implementation of performance funding? This chapter also explores the political motivations behind the implementation of performance-based funding. This study begins with an overview of performance-based funding in the U.S. and extant research on its development and impact. This is followed by a brief discussion of historical state funding of HBCUs. The chapter then introduces the theoretical framework that will help to contextualize the results of the study. From there, the chapter explains the results derived from qualitative methods. It concludes with a discussion of the deeper meanings of the study findings, pathways for future research, and recommendations to both HBCUs and state governing bodies responsible for the development of higher education finance policies.

Performance-Based Funding in the Context of U.S. Higher Education

Advocates of performance-based funding believe that higher education institutions are not receptive to consumer demand for inexpensive education delivered efficiently and that provides a direct line to gainful employment (Burke & Minassians, 2001; Burke, 2005). They argue for more persuasive incentives to convince public colleges and universities to respond to the needs of students, families, communities, and the state. According to this view, lawmakers must make an offer that higher education institutions cannot refuse. This offer consists of mandatory and optional performance measures, two of the most common of which are the number of graduating students and the percentage successfully procuring employment following graduation (Dougherty & Reddy, 2013). More recently, outcome metrics have expanded to include retention, course completion, the number of STEM graduates, access for specific racial and ethnic groups, and faculty productivity.

In one of the few studies exploring performance-based funding and minority-serving institutions (MSIs) such as HBCUs, T. Jones (2014) employs three categories to describe the desired performance funding metrics. Input metrics refer to those measures whereby an institution is incentivized to include students and faculty members of a specific race or ethnicity. Progress metrics include intermediary measures such as course completion and retention. Output metrics signify the common measures discussed in performance funding literature, such as graduation rates and workforce placement.