CCRC COMMUNITY COLLEGE RESEARCH CENTER

TEACHERS COLLEGE, COLUMBIA UNIVERSITY

The Political Origins of Performance Funding 2.0 in Indiana, Ohio, and Tennessee: Theoretical Perspectives and Comparisons With Performance Funding 1.0

Kevin J. Dougherty
Rebecca S. Natow
Sosanya M. Jones
Hana Lahr
Lara Pheatt
Vikash Reddy

February 2014

CCRC Working Paper No. 68

Address correspondence to:

Kevin J. Dougherty
Associate Professor, Departments of Education Policy and Social Analysis and
Organization and Leadership and
Senior Research Associate, Community College Research Center
Teachers College, Columbia University
525 West 120th Street, Box 11
New York, NY 10027
212-678-8107
Email: Dougherty@tc.edu

We thank Lumina Foundation for its funding of this research. It is not responsible for any of the views expressed in this paper. We also thank John Cheslock, Russ Deaton, Nate Johnson, Michael McLendon, Richard Petrick, Martha Snyder, and Jeff Stanley for their comments and help with data. However, we wish to underscore that all remaining errors are our own. We also want to thank Betsy Yoon for her able editing of our report.

Abstract

Although performance funding for higher education has existed for many years, the details of particular performance funding programs have changed—sometimes dramatically—over time. A new form of performance funding often called *performance funding 2.0* (PF 2.0) represents a major shift in performance funding and in higher education funding more generally. Unlike earlier forms of performance funding that took the form of a bonus on top of the base state funding for higher education, PF 2.0 is embedded into the base funding itself. PF 2.0 programs are seen as promising means to significantly improve institutional performance due to the fact that they typically tie a larger portion of state funding to performance indicators than do PF 1.0 programs. Additionally, PF 2.0 programs aim to be more stable than PF 1.0 programs, as PF 2.0 performance indicators are written into the regular state funding formula itself and are not separate programs that can be easily dropped.

Despite the importance of this new development, little is known about the forces that are giving rise to PF 2.0 programs. This paper examines the political forces supporting the enactment of PF 2.0 in three leading states (Indiana, Ohio, and Tennessee) and compares these forces with those involved in the enactment of PF 1.0 performance funding programs. To understand this political process, we apply three theoretical perspectives within policy theory: the Advocacy Coalition Framework, Policy Entrepreneurship theory, and policy diffusion theory. These three perspectives powerfully illuminate different facets of the origins of PF 2.0 policies when treated as complementary rather than as mutually exclusive explanations.

Table of Contents

1. Introduction

Although performance funding for higher education has existed for many years, the particular details of such programs have changed—sometimes dramatically—over time. In the first wave of performance funding adoptions that took place between 1979 and 2000, most of the programs took the form of *performance funding 1.0* (PF 1.0), in which performance funding was established as bonus money over and above regular state funding for higher education (Burke, 2002; Dougherty, Natow, Bork, Jones, & Vega, 2013; Dougherty & Reddy, 2013; McLendon, Hearn, & Deaton, 2006).

In the second wave of performance funding adoptions that began in 2007, most of the new performance funding programs have taken the form of what has been called *performance funding 2.0* (PF 2.0). Under PF 2.0, performance funding is no longer a bonus to the base state funding for higher education but is rather embedded in the base itself (Dougherty & Reddy, 2013; Jacobs, 2012).

While PF 1.0 programs have usually tied between 1 percent and 5 percent of state appropriations to outcomes metrics, with the median falling close to 1 percent, PF 2.0 programs typically tie a larger proportion—sometimes much larger—of state appropriations to student outcomes.[1] In Tennessee, about 85–90 percent of state appropriations for public higher education operations are outcomes-based, with the remainder based on expenses such as utilities and major equipment (HCM Strategists, 2013; Tennessee Higher Education Commission, personal communication, July 18, 2013). In Ohio, under the new state budget passed in 2013, course and degree completions drive 80 percent of state general funding to universities' main campuses in fiscal year (FY) 2014, with enrollments playing no direct role (the remainder is allocated to doctoral/medical funding). Meanwhile, for community colleges, course completions and numbers of students reaching various success points (such as developmental education completion) drive 50 percent of state general funding in FY 2014, and enrollments account for the remaining 50 percent (dropping from 78 percent the previous

[1] Indiana tied 5 percent of the state appropriation to performance indicators in the 2011–2013 biennium and 6 percent in FY 2014. It proposes to tie 7 percent in FY 2015 (Stokes, 2011a). Pennsylvania has set its performance funding proportion to 8 percent of the state appropriation (Cavanaugh & Garland, 2012, p. 36).

year) (Ohio Association of Community Colleges, 2014; Ohio Higher Education Funding Commission, 2012; Authors' interview OH PF2 #17).

PF 2.0 programs are seen as promising means to significantly improve institutional performance due to the fact that they typically tie a larger portion of state funding to performance indicators than do PF 1.0 programs (Jones, 2012; Longanecker, 2012a, b). Additionally, PF 2.0 programs promise to be more stable than PF 1.0 programs. Because PF 1.0 programs typically operate as a bonus over and above regular state funding, these programs are more liable to suspension or even discontinuation in times when state governments are reining in their higher education expenditures. In such times, colleges typically push to eliminate or suspend performance funding in order to preserve their regular state funding (Dougherty, Natow, & Vega, 2012). In contrast, PF 2.0 performance funding indicators are embedded into the base state funding and are not part of a separate program that can be easily dropped.

Despite the importance of this new development, we know very little about the forces that are giving rise to the wave of PF 2.0 programs. Who have been the major proponents of PF 2.0 and are they the same as those who supported PF 1.0 in the first wave of adoptions? Because they intensify performance pressures, do PF 2.0 programs generate greater opposition than did PF 1.0 programs? Where did states get the idea for PF 2.0? And what events and circumstances provided the political openings to pursue such a major transformation in performance funding? Answers to these questions will help us understand not only the possible future of PF 2.0 but also the politics of higher education finance and policy.

2. Objectives and Theoretical Perspectives

The objective of this paper is to examine the political forces supporting the enactment of PF 2.0 in three leading states (Indiana, Ohio, and Tennessee) during the second wave of performance funding adoptions (2007 to the present) and to compare these forces to those involved in the enactment of PF 1.0 performance funding programs adopted in the first wave of performance funding adoptions between 1979 and 2000. To understand this political process, we apply three theoretical perspectives within policy theory: the Advocacy Coalition Framework (Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007), Policy Entrepreneurship theory (Mintrom and Norman, 2009; Kingdon, 1995; Zahariadis, 2007), and policy diffusion theory (Berry & Berry, 2007; McLendon, Heller, & Young, 2005). These three perspectives powerfully illuminate different facets of the origins of PF 2.0 policies when treated as complementary rather than as mutually exclusive explanations.[2]

2.1 The Advocacy Coalition Framework

The Advocacy Coalition Framework (ACF) (Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007) conceptualizes policy change as occurring within a "policy subsystem" consisting of actors (individuals, interest groups, and government agencies) that interact regularly to formulate and implement policies within a particular policy domain. These actors regard this domain as a major area of interest, have specialized subunits for dealing with it, and interact over a long period of time (at least a decade) (Sabatier, 1993; Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007). Within a policy subsystem, the actors are divided up into various advocacy coalitions that champion different policy problems and solutions to them. The coalitions may include elected officials, government agency personnel, interest group members, and researchers (Sabatier, 1993; Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007).

According to the ACF, advocacy coalitions coalesce primarily around the shared beliefs, rather than the shared interests, of their members.[3] These shared beliefs are layered. "Deep core" beliefs concern fundamental social values, the nature of society and humanity, what the appropriate role of government is, and the importance of different social groups. Stemming from deep core beliefs, and particularly important to coalition formation, are "policy core beliefs." These reflect the application of deep core beliefs to specific policy areas. Policy core beliefs typically involve views about a problem's import, its causes, and the most effective potential solutions. Finally, within coalitions, members may differ on certain "secondary aspects" of their beliefs that often concern

[2] See Dougherty et al. (2013), Dougherty, Nienhusser, and Vega (2010), Mintrom and Vergari (1996), and Meijerink (2005) for other examples of analyses that combine at least two of these theories.
[3] Shared interests are often seen as hard to ascertain and as providing a less stable basis for long-term coalition formation (Sabatier & Jenkins-Smith, 1999).

preferences for the specific forms that policies should take, such as spending levels (Sabatier, 1993; Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007).

The ACF contends that policy change occurs through various means. One mechanism is policy learning, in which advocacy coalition members gain knowledge about policies and their contexts, causing the coalition members to modify some of their beliefs, typically secondary ones (Jenkins-Smith & Sabatier, 1993; Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007). But another mechanism of policy change is through "shocks" to the policy subsystem—such as economic downturns, big shifts in public sentiment, changes in which party controls government, and major policy events taking place in other subsystems—that cause the dominant coalition in a policy subsystem to change its beliefs or to lose power to other coalitions (Sabatier, 1993; Sabatier & Jenkins-Smith, 1999; Sabatier & Weible, 2007).

The ACF provides a powerful lens through which to view the politics of performance funding. However, this framework does not provide much analysis of how and why advocacy coalitions appear and formulate their policy stances. It also lacks sufficient detail on how the shocks described above produce changes in policy. Finally, the ACF's concept of policy learning focuses too much on processes that are internal to a policy subsystem and pays insufficient attention to external sources of ideas. However, these shortcomings can be overcome by complementing the ACF with the Policy Entrepreneurship and policy diffusion perspectives.

2.2 The Policy Entrepreneurship Perspective

Policy Entrepreneurship theory stresses the role of policy entrepreneurs, whose initiative is key to publicizing public issues, promoting particular policy solutions, and mobilizing the advocates for those solutions (Mintrom & Norman, 2009; Mintrom & Vergari, 1996; see also Kingdon, 1995; Roberts & King, 1996).[4] As such, Policy

[4] We put Kingdon under the policy entrepreneurship banner for reasons of conceptual economy and theoretical lineage. As stated by Mintrom and Norman (2009), this perspective owes a great deal to Kingdon's (1995) "multiple streams" theory in his conception of the key role of the policy entrepreneur and the role of policy windows in providing occasions for action. However, we do not want to deny the differences between Mintrom and Kingdon. Mintrom does not follow Kingdon in stressing the independence of the three streams of problems (recognition of problems as public issues), policies (generation of solutions that are politically acceptable), and politics (political opportunities for action). Mintrom analyzes how policy entrepreneurs often sit astride these streams, simultaneously promoting

Entrepreneurship theory thus helps to illuminate political dynamics that the ACF tends to overlook.

The Policy Entrepreneurship theory clarifies the process through which advocacy coalitions are organized. This perspective draws attention to the role of policy entrepreneurs in pulling together political supporters by trying to identify points of ideological commonality (Mintrom & Norman, 2009; see also Mintrom & Vergari, 1996). Policy entrepreneurs also are key to the process by which political coalitions decide on what policy proposals to push them onto the decision agenda of government. Through persistent and energetic advocacy, policy entrepreneurs "soften up" opposition and have access to the ears of policymakers (Mintrom & Norman, 2009; Mintrom & Vergari, 1996; see also Kingdon, 1995).

The Policy Entrepreneurship theory also sheds light on how policy change is spurred by the ACF's external shocks. For Policy Entrepreneurship theory, policy entrepreneurs are a crucial link in actualizing the "windows of opportunity" provided by political events. By noticing and providing persuasive interpretations of the meaning of political events, policy entrepreneurs can use them as openings to call attention to particular problems and policy solutions (Kingdon, 1995; Mintrom & Norman, 2009; Mintrom & Vergari, 1996).

But where do these policy ideas come from? Policy learning internal to a policy subsystem is not enough; outside influences also play an important role. Policy Entrepreneurship theory points to the role of policy networks spanning political jurisdictions (Mintrom & Norman, 2009). This point is developed further by policy diffusion theory.

2.3 The Policy Diffusion Perspective

Policy diffusion theory suggests that policy learning often occurs across state borders, with state policymakers frequently designing policies based on what they have seen in other states. States turn to other states' policy innovations in order to learn about what works, compete for economic advantage, or adhere to national or regional standards

---

particular problems, offering certain solutions to them, and watching for and even creating political openings to set the agenda for governmental action on those problems and solutions (compare Mintrom & Vergari, 1996 with Kingdon, 1995, and Zahariadis, 2007). We find Mintrom to be more persuasive on this point.

of the hallmarks of progressive state government (Berry & Berry, 2007; McLendon et al., 2005; Walker, 1969).[5]

The policy diffusion perspective has long focused on a state's neighbors as the main sources of policy ideas (Berry & Berry, 2007; McLendon et al., 2005; McLendon et al., 2006). However, a growing body of research indicates that neighboring states often do not have much influence on a given state's policy innovations (McLendon et al., 2005; Sponsler, 2010). In recent years, scholars have studied non-proximal policy diffusion, with particular attention paid to the role of interstate organizations and government agencies (such as the National Governors Association and the National Conference of State Legislatures) in spreading policy concepts across states that may be far away from each other (Balla, 2001; Berry & Berry, 2007; McLendon et al., 2005, 2006; see also Walker, 1969).[6]

Used in tandem, these three perspectives shed light on different aspects of the policymaking process. The ACF helps us understand how coalitions supporting and opposing policies form around shared beliefs and how policy change may occur through policy learning within, and external shocks to, policy subsystems. The Policy Entrepreneurship theory complements the ACF by illuminating how advocacy coalitions are organized, stressing the role of policy entrepreneurs who mobilize political supporters by finding points of agreement among them, formulating policy solutions, and taking advantage of policy windows. Policy diffusion theory sheds light on the sources of policy ideas, pointing to how other states serve as examples and how policy organizations and networks that cross state lines spread ideas.

[5] These mechanisms resemble DiMaggio and Powell's processes of mimetic, coercive, and normative isomorphism in organizational change ((1983[1991]).

[6] The influence of these organizations fits well with DiMaggio and Powell's (1983[1991])concept of normative isomorphism, which focuses on the role of professional organizations in developing and transmitting codes of desirable organizational behavior.

3. Research Methods and Data Sources

In this study we analyze the experiences of three different states: Indiana, Ohio, and Tennessee. Currently, 15 states have established PF 2.0 programs.[7] Indiana, Ohio, and Tennessee recommend themselves for study by the fact that they have had PF 2.0 longer than most of the other states, allowing more time for political forces to reveal themselves. Moreover, all three states established PF 1.0 programs, which allows us to compare the origins of PF 1.0 and 2.0 in the same state. Finally, Indiana, Ohio, and Tennessee differ substantially in their performance funding histories and political and socioeconomic structures, indicating that there are a variety of paths to the adoption of PF 2.0 (see Table 1).

In terms of policy history, Tennessee was the first state to establish PF 1.0 (in 1979), with Ohio acting in the 1990s (1995) and Indiana still later (2007). While these three states all adopted PF 2.0 in the last few years, their programs differ substantially. Ohio and Tennessee connect a much larger proportion of their state funding for higher education to performance indicators than does Indiana: 80–90 percent of their university funding versus 6 percent in Indiana. The states also differ in how they govern their public higher education systems. Indiana and Tennessee have more centralized public systems than does Ohio, with Indiana placing all its community colleges under one governing board whereas the Ohio community colleges all have separate governing boards (McGuinness, 2003).

[7] These states include Arizona (2012), Arkansas (2011), Indiana (2009), Louisiana (2010), Massachusetts (2013), Minnesota (2013), Mississippi (2013), Nevada (2013 to begin in FY 2015), New Mexico (2012), North Dakota (2013), Ohio (2009), Pennsylvania (2002), South Dakota (1997), Tennessee (2010), and Texas (2013) (Dougherty & Reddy, 2013; Friedel, Thornton, D'Amico, & Katsinas, 2013; Gorbunov, 2013; Jones, 2013; National Conference of State Legislatures, 2013).

Table 1
The States Studied: Programmatic, Political, and Socioeconomic Characteristics

Characteristic	Indiana	Ohio	Tennessee
1. Year PF established			
* PF 1.0 program	2007	1995	1979
* PF 2.0 program	2009	2009	2010
2. Public higher education sectors covered by PF 2.0 program	2 and 4 years	2 and 4 years	2 and 4 years
3. PF 2.0 (outcome indicators) share of state public higher education funding	6% of state higher education funding in FY 2013–2014.	80% of university funding and 50% of community college funding in FY 2013–2014	About 85–90% of state appropriations for higher education, with the rest being accounted for by utilities, major equipment, etc.
4. State higher education governance structure at the time of enactment of PF 2.0			
* State coordinating board for all public higher education in the state	X	X	X
* Public universities: Governing boards for *each* public university or university system in state	X	X	X (U of Tennessee 5 campuses)
* Public 2-year colleges: Governing board for *all* public 2-year colleges	X		X (all public 2-year colleges & non-UT universities)
* Public 2-year colleges: Governing board for *each* public 2-year college		X	
5. Political culture: Percentage identifying as conservatives (1996–2003)	37.9%	34.4%	39.3%
6. Gubernatorial powers (2002)	3.1	3.9	3.9
7. Legislative professionalism (2000)	39th	7th	32nd
8. Party competition index (1999–2003)	0.986	0.789	0.924
9. Population (2000)	6,081,000	11,353,000	5,689,000
10. Personal income per capita (2000)	$27,134	$28,208	$26,099
11. Persons 25 years and over with bachelor's degree or more (2000)	17.1%	24.6%	22.0%

Note.
1. Dougherty and Reddy (2013).
2. Dougherty and Reddy (2013).
3. Authors' interviews.
4. McGuinness (2003) and authors' interviews.
5. Erikson, Wright, and McIver (2005). Data are derived from CBS/*New York Times* polls for 1996–2003. The mean was 34.0 percent. Figures are percentage of adults identifying as conservatives.
6. Beyle (2004). He applies a five-point scale to six items: number of separately elected executive branch officials; tenure potential of governor; governor's appointment powers; governor's budget power; governor's veto power; gubernatorial party control of legislature. Average across all six items for 50 states is 3.5.
7. Hamm and Moncrief (2004). They use Squire's index based on state legislative salary, number of permanent staff, and length of legislative session.
8. Bibby and Holbrook (2004). They report the Ranney interparty competition index: 0.5 to 1.0 scale, with higher number meaning higher competition. Average for 50 states is 0.871.
9. U.S. Bureau of the Census (2005).
10. U.S. Bureau of the Census (2005). Figures are in current dollars. U.S. average is $29,847.
11. U.S. Bureau of the Census (2005). Average for the United States is 25.6 percent.

The states also vary significantly in terms of political culture and structures (Berry & Berry, 2007; Gray, Hanson, & Kousser, 2012). Tennessee and Indiana are above average in the conservatism of their electorates, while Ohio is quite near the national average (Erikson et al., 2005). Ohio and Tennessee are above the median in terms of the institutional powers of the governor, whereas Indiana is below the median (Beyle, 2004). On legislative professionalism, Ohio's legislature is much higher than Tennessee and Indiana (Hamm & Moncrief, 2004). The states also differ in degree of party competition, with Indiana and Tennessee being much more competitive than Ohio (Bibby & Holbrook, 2004).[8]

Finally, the states differ considerably in their social characteristics: population, income, and education. Ohio's population is substantially larger, wealthier, and better educated than those of Indiana and Tennessee. See Table 1 for these comparisons.

With data triangulation in mind, we have conducted numerous interviews in each state with a wide variety of actors and have thoroughly examined the available documentary data. Among our documentary sources are public agency reports, newspaper articles, and academic research studies (books, journal articles, and doctoral dissertations). Table 2 presents the number and types of people whom we interviewed.

Table 2: Categories of Interviewees

	IN	OH	TN
State higher education officials	3	5	9
Higher education institution senior administrators	3	6	5
Legislators and staff	4	2	5
Governors and advisors	1	2	3
Business leaders	1	1	1
Other (consultants, researchers, other)	1	1	1
Total	**13**	**17**	**24**

We interviewed state and local higher education officials because they were very likely to be aware of performance funding, either as initiators or as implementers. The

[8] However, we should note that McLendon et al. (2006) found that these factors do not help predict interstate differences in a state's adoption of performance funding.

state higher education officials interviewed were top administrators of state governing or coordinating boards for higher education. The local higher education administrators were usually presidents of public universities and community colleges.

We included state governors, legislators, and their advisors because of their centrality in state government. Even if a state higher education board was the main proponent of PF 2.0, gubernatorial and legislative assent would still be required in order to have state appropriations be allocated to institutions on the basis of performance indicators.

We interviewed business leaders because of business' longstanding championing of the use of business methods in operating government and because of business leaders' increasing demand during the last three decades for greater performance accountability in government (Business Roundtable, 1999; Fosler, 1990; Waddock, 1994). These positions would make business leaders likely supporters of state performance funding. Our business interviews were with the president or top lobbyist for a major state business association.

The interviews were semi-structured. While we used a standard protocol, we adapted it to each interviewee and to the material that emerged during an interview. All interviewees were promised confidentiality and we have masked their identities.

The interviews were transcribed,[9] entered into the Atlas.ti qualitative data analysis software system, and coded. We also entered into Atlas.ti and coded documentary materials if they were in a format that allowed it. Our coding scheme began with an initial list of "start" codes drawn from our conceptual framework, but we added and altered codes as necessary as we proceeded with data collection and analysis. To analyze the data, we ran queries in Atlas based on our key coding categories. Using this output, we created analytic tables comparing perceptions of the same actor, motive, event, or context by different interviewees or data sources. In the event of any major divergences between different accounts, we conducted additional interviews to resolve those discrepancies.

---

[9] There were a few interviews that were not transcribed either because the interviewee asked to not be recorded or our tape recorder failed. In these cases, we relied on handwritten notes.

4. Patterns of Support and Opposition for PF 2.0

In this section we analyze the advocacy coalitions that supported and opposed the establishment of PF 2.0 in our three states. The coalition members encompass people and groups, both within and outside government, who are united by common beliefs and who, at least to a minimal degree, act in concert (Sabatier & Weible, 2007).

4.1 Supporters

The main supporters of the adoption of PF 2.0 in a given state were the governor, the state higher education coordinating board, and—less actively—legislative leaders and business leaders (Authors' interviews IN PF2 #1, 3, 5, 7, 9; OH PF1 #1; OH PF2 #1, 2, 8, 9, 10; TN PF1 #8b, 8c, 19, 20, 21, 23, 24, 25; TN PF2 #1, 5, 6, 8).[10] A typical description of this advocacy coalition came from a legislative staffer in Tennessee:

> The real drive toward outcome basis of allocating resources was internally generated and it came from the governor personally. … It came from the legislative members of this working group [set up by the governor] in a significant way. ... This productivity agenda, this completion agenda, this outcome-driven allocation of resources was something that we on the governor's staff and the legislative members of this ad hoc working group strongly embraced. And the folks in the working group who were more of higher education and from higher education also believed that it was the right thing to do. (Authors' interview TN PF1 #21)

This list of groups was echoed by a state higher education official in Indiana:

> The Commission [for Higher Education] has a very good working relationship with the governor, the General Assembly. We're very fortunate that as we work with the leaders in those areas … the budget leaders, the policy leaders in education, the governor's office … that they have been very supportive of where the commission has landed in terms of the goals of performance funding. (Authors' interview IN PF2 #3)

[10] As we note below in Ohio, the public colleges—particularly the universities—were important supporters of PF 2.0, though for somewhat different reasons than the state officials (Authors' interviews OH PF1 #2, 3, 9).

Business leaders also supported the development of PF 2.0, particularly in Indiana (Authors' interviews IN PF2 #1, 10; OH PF1 #11; OH PF2 #1, 9, 10, 13, 14, 15; TN PF1 #7, 8c, 19, 25, 26; SPEC Associates, 2012a, pp. 5–7; SPEC Associates, 2012b, pp. 1, 14; Wall, 2010). In Tennessee, a state higher education official described the Tennessee Business Roundtable as "part of the chorus" supporting the governor and the Higher Education Coordinating Board as they conceptualized and mobilized support for the new outcomes-based funding program:

> The Tennessee Business Roundtable is a pretty good partner with us. In fact, there's a couple of initiatives that are going on in Tennessee that are sort of kind of related to all this that we've been working on with them for a couple years now. So we had some relationships with them early on that helped. They were sort of part of the chorus who was supporting this. The Business Roundtable helped a lot; in fact, we're really close with the executive director of that organization. They helped a lot, and I think that was a big factor as well. (Authors' interview TN PF1 #8c)

The Tennessee Business Roundtable had been particularly vocal on the subject on Tennessee's low rate of high school and college graduation. The Roundtable had been particularly upset by a 2007 report by the U.S. Chamber of Commerce that gave Tennessee an "F" on "postsecondary and workforce readiness" (SPEC Associates, 2012b, pp. 14–15, 28–29; U.S. Chamber of Commerce, 2007). However, while Tennessee business leaders were supportive of performance funding, they were not leaders in the effort (Authors' interview TN PF1 #7).

Business's stance toward performance funding was much the same in Ohio as in Tennessee: supportive but not active. A state higher education official described the role of the Ohio Business Roundtable:

> They endorsed the notion of performance funding. I don't recall anything more specific. We did bring … different business representatives to the consultation [on the new funding formula] [but] ... the representatives of the business associations had neither the time nor the experience to dive into our formulas and our consultations tended to be relatively technical. So we kind of relied on their general support for the strategic plan and the general support for performance funding. (Authors' interview OH PF2 #1)

Animating business interest in performance funding was a concern about insufficient numbers of graduates and about a perceived inefficiency in higher education. A business executive active with the Ohio Business Roundtable noted:

> You can't get businesses to come here because they say you don't have the workers for us in the way we need. ... We have an unemployment ratio of something like 8 percent in Ohio, and supposedly have somewhere around 80,000 jobs that are unfulfilled because employers say, "I can't find people qualified teaching this work." ... There was a real lack of awareness in both the business community and the general public as to what was really going on related to retention and graduation rates. ... In some of these community colleges and four-year institutions [they] are graduating in a 30 percent range. (Authors' interview OH PF2 #15)

In Indiana, however, business support for PF 2.0 was strong and very active (Authors' interviews IN PF2 #1, 10; Indiana Chamber of Commerce, 2009; Indiana Commission for Higher Education, 2009; SPEC Associates, 2012a, p. 5; Wall, 2010). The State Chamber of Commerce stated that performance funding was one of its legislative priorities for 2009:

> The Indiana Chamber supports a shift in Indiana's higher education funding formula from an enrollment based system to a performance-based system. The components of such a system could include such performance measures as: credit-hour completion, degree and certificate completion, on-time and total graduation rates, and credit transfers from community college to four-year institutions. (Quoted in Indiana Commission for Higher Education, 2009, p. 3)

A state business leader stated:

> When you get into an era of an historic economic recession and funding either freezes or cuts, it causes you, through necessity if nothing else, to look at things differently and really sharpen your pencils and focus in on the question of how best to allocate very scarce resources. And that sort of economic crisis, I think, helped lead us into and garner more focus on and support for saying, you know, at least a portion of this money ought to be allocated on the basis of

> how these institutions perform on desired metrics. (Authors' interview IN PF2 #10)

Leaders of the state Chamber of Commerce met with state public officials to support performance funding and testified publicly in favor of it, and the Chamber sent its members messages and articles supportive of performance funding. Moreover, the Chamber and the Indiana Commission for Higher Education were co-recipients of a grant from Lumina Foundation in 2009 to widen support for the performance funding program established in 2009 (Indiana Chamber of Commerce, 2009; Indiana Commission for Higher Education, 2009; SPEC Associates, 2012a, pp. 5–6; also see Patrick, 2013; Schulman, 2007).

The impact of business advocacy in Indiana and Tennessee was amplified by the fact that key state officials had roots in business. Tennessee Governor Phil Bredesen (2003–2011) and Indiana Governor Mitch Daniels (2005–2013) came from business (Authors' interviews IN PF2 # 10; TN PF1 #23; SPEC Associates, 2012a, p. 6). When asked what explained Gov. Bredesen's strongly positive response to the idea of PF 2.0, a state higher education official responded:

> Well it kind of fit with his nature. He's a businessman first and foremost, self-made millionaire in the healthcare industry and an interesting guy to be a governor. Really not political and did a lot of things with bipartisan support all eight years of his term so he was more thinking as a business person. ... The thing that he really was liked was how you could change some institutional behavior. ... It just bothered him from the get go about program duplication and redundancy, particularly at the graduate school level. So I think he saw this as a way to take the incentives away to do that and maybe we'll be a more efficient, effective system of higher education. (Authors' interviews TN PF1 #23)

In the case of Indiana, a state business leader observed:

> Governor Daniels came from a business background. He was very adept at plucking some very talented people, some of which were making a lot more money in the private sector, to come work in his administration for four years or in some cases even the full eight years that he's been governor. And he's also tapped several CEOs,

> business CEOs, to serve on the Commission for Higher Education. And so they've brought some of that experience of how the businesses have set up performance-based incentives within their own companies and how they've dealt with the economic downturn and in some cases loss of sales revenue, and how they've restructured their companies so that they can still be profitable, and some of that thought and that expertise to higher education policy here in our state. (Author's interview IN PF2 #10; see also SPEC Associates, 2012a, p. 6)

The role of the public colleges and universities. Higher education institutions played a role in the development of PF 2.0, particularly in Ohio and Tennessee. However, only in the case of the Ohio public universities could we count them as supporters of PF 2.0, though as members of a different coalition than that of the other actors mentioned above.

In both Ohio and Tennessee, the public colleges and universities were extensively consulted in the development of the new program (Authors' interviews OH PF2 #1, 3; TN PF1 #8c). For example, in Tennessee, the higher education institutions were consulted on how the various performance indicators should be weighted (Authors' interviews TN PF1 #8c). A state higher education official stated:

> On the committee we convened to go through all this, we were intentional about including institutional presidents, provosts, CFOs, we had a faculty representative, and we got as wide of a cast of characters as we could, and each had a process where they would go back to the campus presidents and say, "What's your feedback? What do you think about what we're doing? Give us your ideas on this issue." And I think we had as open and transparent process as we had, and because of that, much like our traditional components funding program, the schools felt a lot of ownership, and they bought into it a lot. There's still some residual opposition, some of which has been politicized lately, which is uncomfortable and unfortunate, but for the most part, I think, people acknowledged that this is a good thing to do. (Authors' interviews TN PF1 #8c)

Despite this process, we have no evidence that the public institutions were active supporters of performance funding in Tennessee. Moreover, as the statement above notes, there was "residual opposition" by some institutions to performance funding.

However, the situation was rather different in Ohio. The public higher education institutions were perhaps more deeply involved in the development of the PF 2.0 program, having been asked to suggest the indicators. The public universities (particularly Ohio State University) were largely supportive of performance funding (Authors' interviews OH PF1 #3, 9; OH PF2 #13).[11] A university leader stated:

> What I like about our system around a higher education perspective is we've kind of got a culture here that the political leaders say "Here's what we perceive to be a problem, can you guys make a recommendation? We don't want to do something to you, but we do want to be perceived as moving in this direction." So that's what happened in this case, you know. It was all internal-driven. This wasn't a result of a legislator saying ... it was a general sense that what we wanted to do is go over there and say "Hey, here are our major funding line items and it is as we have heard from many of you, it is more outcome-based than it used to be." … [It was] not particularly controversial internally. I mean, yeah, we had some folks that were upset about it and didn't support it, but they were clearly in the minority and they all ended up supporting it at the end.
>
> [Q: Was this initiative coming more from the institutions or more from the Board of Regents or was it 50/50?]
>
> No, it came from us. (Authors' interview OH PF1 #3)

There is reason to believe that the universities—particularly the more selective ones—were happy to support the new formula because its main metrics (course completions and degree completions) would not hurt them financially.

As we will see below, the reason the Ohio public universities supported performance funding was rather different from those of the other supporters of performance funding. Hence, we would not put the public universities in the same advocacy coalition as the other supporters. We should also note that the Ohio community

[11] There is some question as to who in Ohio first proposed embedding performance indicators into the funding formula. Several say the idea came from the Board of Regents, particularly under Chancellor of Higher Education Eric Fingerhut (Fingerhut, 2012; Authors' interview OH PF2-CC3 #3). But others say the idea came first from the public universities (Authors' interview OH PF1 #3, 9). In any case, it is clear that both supported the new PF 2.0 program.

colleges were considerably less supportive of performance funding, particularly of the latest iteration enacted in 2013.

4.2 The Beliefs Uniting the Supporters of PF 2.0

The main supporters of PF 2.0 in our three states—centered on an advocacy coalition involving governors, state coordinating board officials, state legislative leaders, and business—were united by three key beliefs. One is that their states needed to substantially increase their numbers of graduates, particularly baccalaureate graduates, in order to meet the needs of the modern economy (Authors' interviews IN PF2 # 1, 3, 7, 10; OH PF2 # 1, 2, 8, 9; and TN PF1 # 15, 19, 21, 25; PF2 #4, 6; SPEC Associates, 2012b, pp. 28–30). An Ohio state higher education leader argued:

> Ohio is an undereducated state. It's been an undereducated state as long as I've been here. ... In the 1970s, Ohio was dead last in terms of public support per FTE [full-time enrollment] for higher education. And the economy was doing very well because you can get a job in a steel mill or an automobile plant or making glass in Toledo or tires in Akron or digging coal in southeastern Ohio, and make a very, very good living. We've been trying to climb out of that hole, that investment hole, and that cultural hole for a very, very long time. ... We decided for the overarching goal of the strategic plan in 2008 was that we needed to get more Ohioans into school, more Ohioans out of school, retain them in Ohio, and attract more non-Ohioans into Ohio to compete in the knowledge economy. (Authors' interview OH PF2 #1)

A similar belief was at work in Tennessee (Authors' interview TN PF1 #15, 19; TN PF2 #1b; SPEC Associates, 2012b, pp. 28–30; Tennessee Higher Education Commission, 2008). A well-placed outside observer of Tennessee's state policymaking noted that:

> I think in the South, especially, you get this sense that they feel they are behind the rest of the country. ... And this sense that in order for them, their people to have a good life, good jobs … it's about educational opportunity. … I think that that's really the underlying motivation that the governor had is part of it was jobs, but part of it was the sense that Tennessee wants to be part of the rest of the

> world and why not give our citizens the opportunity to participate? (Authors' interview TN PF1 #19)

The second belief uniting the state officials advocating PF 2.0 in Indiana and Ohio was that—due to the constraints on state expenditures in a time of recession—higher education must become much more efficient (Authors' interviews IN PF2 # 1, 2, 3, 4, 10, 12; OH PF2 #2, 6, 8, 9, 13; see also Fingerhut, 2012; Wall, 2010). For example, a state legislative official in Ohio argued:

> I think a lot of policymakers began to ask fairly rudimentary questions about "Why are we as a state and why are the taxpayers paying for not just duplication of effort, but why are we paying for x-number of kids to go their first quarter or first semester and drop out?" You know, we continue to make our FTE payment for that as if the student had stayed enrolled, and why are we paying for people who get well into a degree and can't finish? ... It was "Let's take a look at what we're plugging into this and make the thing function properly." (Authors' interview OH PF2 #8)

An Indiana state higher education official stated even more pointedly this belief in the importance of greater efficiency:

> We're now looking at—regardless of how many students you bring in—are you really getting those students to graduate on time? Are you improving the overall degree production? Are you getting students through the college system in a timely manner? Are you focused on core areas like remediation? And are you doing that in an effective way with the state's dollars? (Authors' interview IN PF2 #3)

The third belief uniting the advocates of PF 2.0 was that a program that embedded performance indicators in the basic state funding formula for higher education and tied a greater proportion of the state appropriation to their sway would more effectively realize the two preceding goals than would a PF 1.0 program (Authors' interview IN PF2 #2, 3, 4, 5, 7, 10, 11, 12; OH PF2 #1, 2, 9; TN PF2 #1a; Ohio Board of Regents, 2008a). A state higher education official in Indiana argued:

> Money is a big driver in higher education, and so when you put money out there as an incentive for institutions to do better, that's a main driver. … This is meant to really drive the state's goals of what the institutions should be doing: more degrees, more on-time degrees, getting students to persist through the system at a faster rate. … If we start chewing more and more dollars out of their base budget to fund performance funding incentives then that policy statement there alone has really resulted in some institutions saying, "We really need to re-shift our focus." (Authors' interview IN PF2 #3)

This was echoed by the strategic plan of the Ohio Board of Regents when it called for performance funding:

> The state's basic funding formula, the State Share of Instruction, is currently designed to reward enrollment growth and penalize enrollment decline. This formula, as much as any other factor, has contributed to the wasteful competition among state institutions. … The funding formula should only reward those educational outcomes that align with Ohio's priorities. … Increases in enrollments or degrees granted, or improvements in other activities or outcomes that advance state goals, should be supported by appropriate increases in state funding. (Ohio Board of Regents, 2008a)

For the Ohio public universities, a different primary belief was involved, which is why we put them in a different advocacy coalition from the other actors. Especially in Ohio, there is evidence that the public universities—particularly the more selective ones—saw PF 2.0 as a way of preventing further erosion of their state funding (Authors' interviews OH PF1 #2, 9; OH PF2 #1, 10, 14). An Ohio state higher education official observed:

> I think that everybody felt, knew that we were in very, very difficult financial times. And that performance funding would get us more than we otherwise would get. And that may have been translated into kind of reduced expectations, that is, you would cut 5 percent and not 10 percent, rather than to get an increase. (Authors' interview OH PF2 #1)

A top university official echoed this point:

> What we were finding in our conversations with legislators and state leaders is that none of them really understood what the old formula was, what it bought. What they understood was there was always a dollar amount they needed to put into higher education. At the same time, there were budget pressures in Ohio starting to creep up like they were everywhere else in the nation. So what we were really able to do was sell the legislature on it as a brand new funding formula. We changed it from one that's based on students showing up at the beginning of the semester to one that rewarded people for degree completion for getting themselves through college. We were able to say to them, "Now you know what you're buying." … And all of a sudden now people understand in the Statehouse what our formula does which is always a good thing in trying to go get it funded. (Authors' interview OH PF2 #14)

4.3 Skeptics

While the Ohio public universities were largely supportive of the development of PF 2.0, a good number of public higher education institutions in our three states had reservations. Even when they had agreed to a form of performance funding, they sometimes felt somewhat forced to give their agreement (Authors' interview OH PF2-CC3 #3). The main concern of these skeptics in Ohio and Tennessee has been that the performance indicators do not fit well with the missions of particular institutions—particularly the open-access colleges, both four-year and two-year—and that those institutions will consequently suffer major drops in state funding (Authors' interviews OH PF1 #3; OH PF2 #8, 10; TN PF1 #1, 8c, 19, 21, 23, 24, 26; TN PF2 #1, 6).

In Ohio, "guarded skepticism" was concentrated particularly among open access institutions that feared a major loss of revenue if course and degree completions came to drive their state funding (Authors' interviews OH PF1 #3, 5, 8, 9, 10; OH PF2 #8). A state legislative staffer noted:

> You know there's no question this caused consternation when it was first proposed, because we had to be frank we had some underperforming universities that have higher dropout rates. And you know, for some very defensible reason, they were taking in at-risk students or students who were the first in their family to go to college or something, they presumably had a much higher statistical chance of dropping out. And they were saying "Hey, we have taken

> on the task of trying to educate undereducated kids, kids in remediation and that kind of thing. Now you're going to penalize us for trying to broaden the scope of higher ed." So you are correct in assuming that on the front-end of this there was a lot of, not skepticism, you know I guess guarded skepticism. (Authors' interview OH PF2 #8)

Doubts on the part of the higher education institutions was perhaps least evident in Tennessee but was still present (Authors' interviews TN PF1 #1, 8c, 19, 21, 23, 24, 26; TN PF2 #1, 6; SPEC Associates, 2012b, p. 24). A state legislator noted:

> [W]e used to kind of say this when we first passed it, which was everybody was for it. … College presidents, policy makers, everybody. But very quickly you would hear from a college president about how their institution was so unique and so these pieces didn't need to necessarily apply to them. (Authors' Interview TN PF2 #6)

Another government insider told us that institutions were hesitant about the new formula "because … there's a lot of anxiety about how is it really going to work. What are the long-term implications of this?" (Authors' interview TN PF1 #21).

Meanwhile, in Indiana, somewhat different concerns were at work. The leading public universities felt that the performance funding formula neglects university quality and unduly rewards the community colleges because it indirectly rewards enrollment growth and the community colleges are growing more rapidly (Authors' interviews IN PF2 #1, 2; Fyall, 2011; Kiley, 2011; Loughlin, 2011; SPEC Associates, 2012a, pp. 15, 30–31).[12] The president of Indiana University argued that the performance funding program was "incentivizing quantity at the expense of quality" (quoted in Fyall, 2011). A former state higher education official added:

> If you look at who has actually made money under the performance funding formulas over the last several years, it's almost all going to either the growing two-year system [or some of the smaller regional campuses]. … Because of their growth, they are virtually getting all of the new money. And then there are a couple of smaller, regional campuses that are also growing enrollment and they are

[12] Another concern in Indiana has been the perception—particularly at Ball State University—that the PF 2.0 formula's indicator for "high performance" (largely STEM) graduation numbers does not fairly treat their institution (Authors' interview IN PF2 #1, 5; Kiley, 2011; Stokes, 2011a, b).

> getting the rest of the money. And then the big four-year campuses—Ball State, IU Bloomington, Purdue at Lafayette, and Indiana State at Terra Haute, which educate by far and away the largest amount of students and produce far and away the largest amount of degrees—have actually lost money in the last 10 years under the performance funding formula. And so what we've done is we have shifted funding from established four-year schools to growing two-year and regional campus sectors…. And that's, right now, why everybody hates it, because even though it was intended as a way of aligning policy and being fair to campuses, it turns out it just has been another way to move money from one part of the system to the other. (Authors' interview IN PF2 #1)

Why higher education opposition has not been stronger. Despite such misgivings, public institutions have not fought the advent of PF 2.0, with the partial exception of some Indiana institutions (Authors' interviews OH PF1 #10; TN PF1 #20, 21, 23, 25). For example, in Ohio, a top university leader noted:

> The internal push-back we had that never got voice in the General Assembly, never got legs. … There was a little bit of activity on some of the websites, etcetera, but nothing that I would consider even remotely to be political pressure. … Yeah, an occasional comment at one of the faculty senates, the faculty representatives had their concerns. But it didn't come off as the faculty is opposed; you know it was a discussion. And so you know … in my opinion, there was I would say 80 percent of our folks supported it from the very beginning. (Authors' Interview OH PF1 #10)

The lack of strong pushback from higher education was due, in part, to the extensive consultative efforts made by the state coordinating commissions to persuade the public institutions and obtain institutional buy-in (Authors' interviews IN PF2 #2, 3; TN PF1 #8c, 21, 25; Fingerhut, 2012, p. 10; Petrick, 2012, p. 288).[13] For example, a Tennessee state higher education official stated:

> [W]e made a point of talking to everyone and their brother about this that we could. We traveled around the state. We

[13] The consultative efforts in Ohio and Tennessee were aided by the fact that the higher education commissions had consulted extensively with higher education institutions in devising and refining the earlier PF 1.0 programs (see Dougherty et al., 2013; Dougherty & Natow, 2010).

> did as many presentations as we could about the idea. The more we talked about it the less nervous people became. As they began to hear what we were doing, many people said we know that's exactly what I think you should be measuring because you guys have ignored my success in such and such an outcome forever. And they began to appreciate the fact that we're now going to be acknowledging their productivity successes across very obvious metrics, and not just enrollments. Secondly, on the committee we convened to go through all this, we were intentional about including institutional presidents, provosts, CFOs, a faculty representative. … The schools felt a lot of ownership, and they bought into it a lot. (Authors' Interview TN PF1 #8c)

After the passage of the Complete College Tennessee Act establishing the new outcomes-based funding formula, the Tennessee Higher Education Commission convened a committee to design the funding formula. It included high-level administrators from both two- and four-year colleges and representatives from the state's higher education boards and the Tennessee Higher Education Commission (THEC), as well as state government representatives, a consultant who advised the state on Lumina's Making Opportunity Affordable program,[14] and a representative from Complete College America (Tennessee Higher Education Commission, n.d.; see also Authors' interviews TN PF1 #8c, 25; TN PF2 #15).

As a result of such consultations, adjustments were made to the design of the policies so as to lessen their potential negative impacts (Authors' interview OH PF1 #1, 3, 10; TN PF1 #21, 23, 25; Fingerhut, 2012, p. 10). In the case of Tennessee, the Higher Education Coordinating Board invited higher education institutions to advise on the weighting of the various indicators so that they would better accord with the different priorities of the universities, four-year colleges, and community colleges (Authors' interview TN PF1 #8c). Also, the THEC added an "at risk" premium for low-income and adult students in order to accommodate open-access institutions and to guard against any creaming, which is when institutions move toward favoring better prepared students (Authors' interview TN PF1 #8c). Finally, the Commission decided to phase in the new

[14] It was later renamed the College Productivity Initiative.

funding formula over three years in order to reduce its impact on institutions (Authors' interview TN PF1 #8c, 23, 25).[15] A state higher education official observed:

> We wanted to make sure that to keep the disruption as little as possible that we basically calibrated, was the word we used, but we adjusted the new formula. This is the whole idea of phasing it in, so that this first year it generated about, for each institution, what the old formula would have. So there was not a stark [situation where] the campus was going to be well-funded under the old formula and now not funded under the new one. (Authors' interview TN PF1 #23)

Meanwhile, the Ohio Board of Regents also made some key adjustments. It devised separate formulas for the university main campuses, regional campuses, and two-year colleges, in order to tailor the performance indicators to campus differences (Authors' Interview OH PF1 #10; Fingerhut, 2012: 10; Ohio Board of Regents, 2009, 2011a, b, c). In addition, students who were deemed "at risk" (initially defined as those in financial need) were weighted more heavily in the university formula, thus taking into account the open-access institutions (Authors' Interview OH PF1 #10; Ohio Board of Regents, 2009, 2011 a, b, c).[16] Furthermore, performance data would be calculated on a three-year rolling average to avoid sharp shifts in funding (Authors' Interviews PF1 #3, 10). In addition, the new formula incorporated a "stop loss" provision to limit how much money colleges could lose (Authors' interviews OH PF1 #1, 3, 10; Fingerhut, 2012; Ohio Board of Regents, 2011a, b, c).

Finally, institutions may not have felt that they were in a strong position politically to fight the new performance funding programs (Authors' interviews IN PF2 #7; OH PF2 #8; TN PF1 #26). For example, when we asked an Ohio state legislative official why institutional opposition was quite muted, he replied:

---

[15] We did hear the argument that the result was a formula so well balanced that it effectively does not redistribute funds from less successful to more successful institutions. Whether this is indeed the case will only become fully clear once the phase-in process is complete.

[16] The Board of Regents initially did not put in a similar factor in the formula for community colleges because it felt that it would make little difference. According to a state higher education official, it was felt that the community colleges' demographic profiles are fairly similar and that generating an at-risk student analysis for each community college would produce a lot of data that would have little impact on the colleges' formula allocations (Authors' interview OH PF2 #1d). However, under the new performance funding program adopted in 2013, at-risk weights will be applied (Higher Education Funding Commission, 2012; Authors' interview OH PF2 #16).

> You know, when this was all going on, we had had, Ohio specifically, and the Midwest that had some pretty tough economic times and we haven't really bounced back from the 2001 to 2003 recession. … It is very difficult as a university president to look out, in a state that at that time had probably 10 percent or 11 percent unemployment, and say "These guys are asking us for efficiencies. They are asking us to get more people graduated in some type of capacity where students can afford it." It's impossible to go out there at that point and say "We're not for it." You know, there was a political reality of the circumstance where if you're the guy who stands out there and says "I'm not willing to be more efficient and I'm not willing to try to graduate more kids," you are the villain. … So they kept their complaints to the meeting rooms rather than to the committee hearings. (Authors' interview OH PF2 #8)

Meanwhile, in Tennessee, the heads of the two state governing boards (for the University of Tennessee System and for the other public colleges and universities) were stepping down, leaving those boards without strong leadership capacity to resist the reforms, had they been inclined to do so. However, they were unlikely to be so predisposed because most of their members had been appointed by Governor Bredesen and supported the new outcomes-based funding formula (Authors' interview TN PF1 #18, 23, 24, 26; SPEC Associates, 2012b, p. 30).

5. Formation of the Supporting Coalitions

Having described the advocacy coalitions in favor of PF 2.0 in our three states, we turn to an examination how these supportive coalitions were formed and how they came to identify PF 2.0 as a policy solution to be pursued. Policy Entrepreneurship theory is very helpful in helping us analyze coalition formation, for it highlights the role of policy entrepreneurs who foster awareness of particular policy problems, promote particular solutions to those problems, and pull together advocates for those solutions (Kingdon, 1995; Mintrom & Norman, 2009; Mintrom & Vergari, 1996).

In each of the three states, the governor operated as a key catalyst, inviting the state higher education coordinating board to offer ideas for reforming higher education.

However, the state higher education coordinator boards were also important policy entrepreneurs. They welcomed the governors' invitation and responded with proposals that the performance funding programs be moved from a PF 1.0 bonus structure to a PF 2.0 formula-embedded structure. Finally, national policy organizations and educational foundations played an important role in fostering interest in PF 2.0.

5.1 Indiana

In Indiana, Governor Mitch Daniels (2005–2013) asked the Indiana Commission for Higher Education (ICHE) in 2009 to suggest ways to cut $150 million from higher education funding (Authors' interview IN PF2 #2). The ICHE responded with the idea of targeting the cuts on the basis of institutional performance on performance indicators (Authors' interviews IN PF2 #1). This decision was not seen at the time as a permanent policy shift. However, as the financial cutbacks caused by the Great Recession continued, the ICHE shifted to a permanent PF 2.0 program by no longer providing performance funding as a bonus, but instead reserving a portion of state appropriations for higher education and having institutions earn it back on the basis of their performance on the indicators (Author's interviews IN PF2 #1, 2). A former state higher education official explained how the 2009 decision to start re-allocating the base eventually evolved into the current PF 2.0 program:

> We got to 2011 and unfortunately we're in the same boat, with no new money and, in fact, more budget cuts. And so they again went with the base-reallocation scheme. And then we got to 2011–2013, [and] guess what, still no money. And so the base-reallocation is being used, it appears as though it has sort of grown a history of its own, to say "Well that's what we intended back in 2007 or 2009," but I don't think that's right. … I think this year is the first year that you would say that the commission envisions it as a "permanent" part of the performance funding formula. (Author's interview IN PF2 #1)

The Indiana legislature approved having 5 percent of the FY 2013 state appropriation for higher education be allocated on the basis of performance indicators, with this percentage increasing to 6 percent in FY 2014 and 7 percent in FY 2015 (Authors' interviews IN PF2 #2, 3).

5.2 Ohio

In Ohio, Governor Ted Strickland (2007–2011) secured passage of HB 119 (2007), which mandated that the Board of Regents develop a 10-year strategic plan for higher education. The strategic plan stated: "The Chancellor will convene a funding consultation to develop recommended changes in the state subsidy for higher education that will support the outcome of the plan" (Ohio Board of Regents, 2008a, p. 117). The Chancellor and the Board of Regents seemed to already have in mind a major revamping of the state's existing PF 1.0 program, and the consultation was a means to persuade the public colleges and universities of the virtues of a PF 2.0 program. The Board of Regents had been considering for a number of years the idea of rewarding public colleges and universities on the basis of course and degree completions rather than on course enrollments (Authors' OH PF1 #1, 4; OH PF2 #5; Petrick, 2012). A state higher education official noted: "We had played around years ago with funding course completions and degree completion. … We had brainstormed about it many times in the past and we had modeled it" (Authors' interview OH PF1 #1). Also, HB 66 in 2006 had directed the Board of Regents to prepare "a study on distributing state share of instruction funds based on the number of degrees and certificates awarded" (Ohio General Assembly, 2006, p. 1; see also Ohio Board of Regents, 2006, p. 1; Petrick, 2012, p. 282).

At the same time, the Chancellor and the Regents staff were not set on the details of the new program and wanted the input of the public colleges and universities (Authors' interviews OH PF1 #1; OH PF2 #1, 2, 10; Fingerhut, 2012, p. 10; Ohio Board of Regents, 2008a, b, c, d; Petrick, 2012, p. 284). Chancellor of Higher Education Eric Fingerhut wrote:

> The Board of Regents took a two-pronged approach to garnering the support of college and university leaders for performance-based funding. First, we talked extensively with presidents and their boards of trustees to convince them of the importance of redesigning the formula. We made the case to college presidents that, if we wanted lawmakers to invest more in higher education, we had to demonstrate that state funds were being used wisely and efficiently. We argued that it was in all of the schools' best interests to get out ahead of any criticism and design our own performance system before legislators proposed their own efficiency measures. … Meanwhile, Vice Chancellor

> of Finance Richard Petrick and his capable staff sat down with the chief financial officers of each institution to work on the technical aspects of the formula…. Rich kept revising the formula until the CFOs became confident that they understood the system and that it was as fair as possible given the very different types of institutions that the formula covered. (Fingerhut, 2012, p. 10)

To a great extent the recommendations of the Ohio Association of Community Colleges and the Inter-University Consortium were accepted (Inter-University Consortium, 2008; Ohio Association of Community Colleges, 2008).[17] The resulting formula had the support of the governor and was then written into the 2009 biennial budget bill, HB1 (Authors' interviews OH PF2 #2, 10; Ohio Board of Regents, 2011a, b, c; Petrick, 2012, pp. 284–287).

In 2012, Ohio Governor John Kasich (2011–present) asked higher education leaders to revamp the performance funding program, accelerating the movement away from reliance on enrollments to one on outcomes. A higher education funding commission—composed of higher education presidents—responded with recommendations for major changes in the funding of public university main campuses, their 24 regional campuses, and the community colleges. For the main campuses, the share of state funding based on degree completion would rise from 20 percent in FY 2013 to 50 percent in FY 2014, with the remainder to be based on course completions (30 percent) and various set asides (20 percent), particularly for doctoral and medical education. The regional campuses would continue to be funded wholly on the basis of course completions in FY 2014, but in FY 2015 they would become subject to the same formula as the main campuses. And for the community colleges, their state funding would increasingly move away from a reliance on enrollments. By FY 2014, only half of their funding would be based on enrollments and the other half would be based on course completions and success points (such as successful completion of developmental education and accruing certain numbers of college credits). By FY 2015, none of the state funding would be allocated on the basis of enrollments (Ohio Higher Education Funding

[17] One recommendation by the Ohio Association of Community Colleges that was not accepted was for a performance indicator that would be chosen by individual colleges to reflect their unique missions (Authors' interview OH PF2 #2).

Commission, 2012, pp. 9–10). These recommendations were accepted by the Ohio Board of Regents and the Governor and incorporated by the legislature into the FY 2014 state budget for higher education (Ohio Association of Community Colleges, 2014; Ohio Board of Regents, 2013a, b; Authors' interview OH PF2 #16). The 2013 budget act also mandated a Community College Funding Consultation to work out the fine details of the FY 2015 funding formula. The recently completed consultation has recommended to the Ohio Board of Regents that that the FY 2015 state share of instruction for community colleges be allocated on this basis: 50 percent based on number of course completions; 25 percent on numbers reaching certain completion milestones (transfer or completion of associates degrees or long-term certificates); and 25 percent on numbers attaining certain success points (reaching certain credit thresholds or completing developmental education in English or math and taking the next college-level course). As can be seen, enrollments will no longer directly drive state funding under this new formula (Ohio Association of Community Colleges, 2014).

5.3 Tennessee

Governor Phil Bredesen (2003–2011) catalyzed Tennessee's shift toward a PF 2.0 program when he asked the Tennessee Higher Education Commission (THEC) for ideas for changes in higher education policy to be fed into a special legislative session he was calling on education reform (Authors' interviews TN PF1 #8c, 18, 19, 20; PF2 #5). A state higher education official noted:

> Our governor became really, really interested in education reform. It was his last year in office. It was really the last issue he'd yet to tackle, higher education. So he began to think about ways to reform higher education. Our governor, Governor Bredesen, began to convene, I guess they were monthly meetings of key legislators, a bipartisan group to think about what we can do for education…. So he began to ask higher [education] for some ideas as well as about … what he could include in a reform package that addressed higher [education] … So at that point we started to suggest things that were issues. And there was an issue of student transfer, and there were issues about the community colleges, and we also said there's this issue of finance policy. The governor said okay that's good. He said bring

> me some ideas on what we can do for finance policy. (Authors' interview TN PF1 #8c)

As it happened, the Tennessee Higher Education Commission had already been considering for some time the idea of increasing the proportion of state funding tied to performance indicators and moving performance funding indicators into the basic state formula for funding higher education (Authors' interviews OH PF1 #4; OH PF2 #1; TN PF1 #8c, 18, 22, 23, 25; TN PF2 #5; Petrick, 2012). A Tennessee state higher education official noted:

> For several years now [we had] been thinking about how to design the funding policy to be better than it was. And so we were kind of thinking about being "more productive" as a state, and trying to encourage more institutional productivity. … And so we were beginning to think about how we'd make a funding formula that does that as well. (Authors' interviews TN PF1 #8c).

Another state higher education official noted how the governor's invitation led the Higher Education Commission to take this idea and really expand it:

> Well we've had the performance funding piece, a small piece, for a number of years. An institution could earn up to 5.45 percent and really our conversations had been more about expanding that. … So instead of 5 percent what happens if you take it up to 20 percent, 25 percent? But we had already started looking at indicators that might be useful if we were, in fact, going to expand that part. But then when the governor reacted the way he did, that's when we thought well we'll just make it the main funding formula. (Authors' interview TN PF1 #23)

It seems that the governor may have played an important role not only in giving room for THEC to advance its new ideas but also in pushing it to go farther than it might have otherwise done (Authors' interviews TN PF1 #21, 23). We asked a state higher education official what kind of performance funding formula would have evolved if the governor had not reacted as he did:

> I think it would have been more incremental in maybe moving performance funding from 5 percent to 7 percent or something, but it wouldn't have gone nearly as far without

> his [reaction]. And, of course, the fact that it was put in statute, that did it. (Authors' interviews TN PF1 #23)

In pushing for a much larger performance funding share, Tennessee Governor Bredesen was influenced by ideas emanating from national policy organizations and educational foundations.

6. Sources of Policy Ideas

Where did the idea for PF 2.0 come from? A major part was certainly policy learning on the part of state higher education agencies. But those agencies were in turn influenced by the example of other states and initiatives by national policy organizations and educational foundations.

6.1 Policy Learning

A major part of the development of the new PF 2.0 programs in Indiana, Ohio, and Tennessee reflected policy learning on the part of the state higher educational coordinating agencies. These agencies developed new policy ideas as they reflected on the outcomes of the existing PF 1.0 programs (Authors' interviews OH PF1 #1; OH PF2 #9; TN PF1 #8, 8b, 8c, 25; TN PF2 #5; Petrick, 2012, pp. 281–284). For example, an Ohio state higher education official described the policy learning going on within the Ohio Board of Regents:

> There were … a series of things that we were doing that we weren't happy with. One was, for example, the train of students through developmental [education] courses [was] weak. We knew we were not either doing the job right or … getting the right students in the right courses…. And [we] also knew that the process of add-drops and the whole process of students enrolling in courses churned a lot of students through, and there were a lot of drops and incompletes, etcetera, that we weren't happy with. And of course the overall graduation rate was something that we were concerned with. … I remember the first spreadsheet I did where I just kind of listed every good thing a campus can do and said "Do you have a measure for it and how would we fold it into the formula?" … We decided not to

> fund things that were failures, and fund the things that were successes, the course completions, the degree completions. (Authors' interview OH PF1 #1)

The process described above accords well with the ACF's emphasis on the role of internal policy learning in the development of policy proposals (Sabatier, 1993). However, it is also clear that the proponents of PF 2.0 programs were influenced by other sources as well, including the example of other states and the counsel of educational foundations and national policy organizations. Here is where we can usefully draw on the insights of the policy diffusion perspective (Berry & Berry, 2007; McLendon et al., 2005, 2006) and of institutional theory (DiMaggio & Powell, 1983).

6.2 Example of Other States

With regard to other states, Tennessee was hearing about what other states, including Ohio, were doing with regard to new directions in performance funding (Authors' interview TN PF1 #25). A Tennessee higher education official noted, "We were going to these national meetings and hearing Rich Petrick from Ohio talk. … I think Ohio had talked about maybe going up as high as 20 [percent of state funding] or something like that" (Authors' interview TN PF1 #25).

Meanwhile, Ohio drew on the example of Washington State. When the Ohio community colleges were asked by the Board of Regents to suggest specific outcomes indicators, they drew on the experience of the Student Achievement Initiative in Washington (Authors' interview OH PF2 #1, 2; Ohio Board of Regents, 2008c). According to a community college leader,

> When we got into that discussion, what we wanted to do since the metrics were around completion and improving not only the number of students in the state system, also the number of graduates and so on, we looked around the country to see what else was going on elsewhere. [We] identified the momentum point program that Washington State was looking at and decided that was a viable approach in Ohio and made recommendations to that effect. It ultimately became legislated via what we now call "Success Points." (Authors' interview OH PF2 #2)

The Ohio policymakers became aware of the Washington case through Achieving the Dream, an initiative sponsored by Lumina Foundation (Authors' interview OH PF1 #1; OH PF2 #2). This points to the important role of foundation initiatives and public policy organizations as sources of policy ideas for state officials (see Balla, 2001; Berry & Berry, 2007; McLendon et al., 2005).

6.3 National Policy Organizations and Educational Foundations

Lumina Foundation has strongly endorsed performance funding (Lumina Foundation, 2011) and supported state efforts in the direction of PF 2.0. In Tennessee, Lumina Foundation's Making Opportunity Affordable (later renamed College Productivity) initiative provided important support for the reform of performance funding (Authors' interview TN PF1 #8b, 20, 25; SPEC Associates, 2012b, pp. 5–6; Tennessee Higher Education Commission, 2008). With support from Lumina, the Tennessee Higher Education Commission hired the National Center for Higher Education Management Systems (NCHEMS) to conduct a policy audit of the state's higher education policies. Among other things, NCHEMS recommended that the state create an additional performance funding pool tied to degree completions and, more interestingly, that it allocate its basic state funding for higher education not on the basis of enrollments two weeks into the fall semester but rather enrollments at the end of the fall semester or even the spring semester (National Center for Higher Education Management Systems, 2009, pp. 19–20; see also Authors' interviews TN PF1 #18, 24, 25; SPEC Associates, 2012b, pp. 5, 29). This "course completion" approach would place an output metric into the base state funding formula: that is, create a PF 2.0 program. These ideas fit well with ideas already percolating among staff members at the Tennessee Higher Education Commission and had a major impact on the discussion in Tennessee (Authors' interview TN PF1 #8, 8b, 8c, 25; SPEC Associates, 2012b, pp. 5, 29). In addition, Lumina funded a consulting firm—HCM Associates—to help THEC with the implementation of the 2010 Complete College Tennessee Act. After the passage of the CCTA, HCM facilitated a meeting of various stakeholders to discuss the goals of the CCTA. Moreover, HCM served as one of the external appointees to the funding formula committee appointed by THEC to work out the details of the new outcomes-based funding formula (SPEC

Associates, 2012b, pp. 6–7; Authors' interview PF2-TN #15).[18] Finally, the Gates Foundation provided encouragement for the state to bring in Complete College America (CCA) and its head, Stan Jones, to consult on the higher education reform package that the governor was assembling (Authors' interview TN PF1 #8b, 18, 20, 24; SPEC Associates, 2012b, p. 18). One of CCA's major policy interests is performance funding (Jones, 2012), and observers argue that CCA played a major role in why Tennessee decided to base a very large proportion of its state funding formula on performance indicators (Authors' interviews TN PF1 #18, 19; TN PF2 #15).

In Indiana, Lumina Foundation has also played an important supporting role in the development of PF 2.0 in Indiana. In 2009, it provided a four-year grant to the Indiana Commission for Higher Education (ICHE) and the Indiana Chamber of Commerce to broaden support for the performance funding program established that year (Achieve Indiana, 2013; Indiana Chamber of Commerce, 2009). Also, a Lumina grant supported the work of HCM Associates in holding discussions with the Indiana Commission for Higher Education and doing research and writing drafts that fed into the 2012 ICHE strategic plan (SPEC Associates, 2012a, pp. 3–4, 13). Moreover, Indiana is one of 28 states in Lumina's Strategy Labs Network, through which HCM Strategists provides research and technical assistance to states seeking to adopt and enhance policies that support higher education productivity (www.collegeproductivity.org).

Finally, in Ohio, the development of the performance funding measures for community colleges for FY 2015 was assisted by HCM Strategists with support from Lumina Foundation. As part of HCM's Lumina-funded Strategy Lab program, HCM personnel served as facilitators for the Community College Funding Consultation that involved members of the Ohio Association of Community College and staffers from the Ohio Board of Regents and the Ohio Office of Budget and Management (Ohio Association of Community Colleges, 2014).

[18] HCM also played an important role in ensuring that the Complete College Tennessee Act survived the transition from Democratic governor Phil Bredesen to Republican governor Bill Haslam. It convened a meeting involving both governors and external consultants such as Patrick Callan of the National Center for Public Policy and Higher Education and David Spence of the Southern Regional Education Board (SPEC Associates, 2012b, p. 6).

7. Policy Windows Opening the Way for PF 2.0

According to the Policy Entrepreneurship perspective, a key part of the role of policy entrepreneurs in getting policy solutions onto the government's decision agenda is taking advantage of political openings (Kingdon, 1995; Mintrom & Norman, 2009; Mintrom & Vergari, 1996). These political openings (termed either *policy windows* or *windows of opportunity*) take such forms as dramatic intensification of problems, major shifts in popular opinion, changes in which party controls government, or spillovers from other policy subsystems (Kingdon, 1995; Sabatier & Weible, 2007). Across the three states, the Great Recession of 2007–2009 provided perhaps the key policy window, but political events idiosyncratic to each state also provided policy openings.

7.1 Indiana

The primary occasion for policy change in Indiana was the Great Recession and its impact on the state economy and state revenues, as well as a highly publicized report showing that Indiana had a very low college graduation rate (Authors' interviews IN PF2 #1, 2, 10, 11; HCM Strategists, 2011; Lederman, 2009). An Indiana state higher education official noted:

> When we got to 2009, we hit the wall on revenues. There was no "new money" to give. In fact, we were in the process of cutting money to state agencies, but the commission really wanted their performance metrics to matter. And so that's when they got into the base and said "We're going to reallocate some percentage of the base and use that to distribute money under the performance funding [program]." (Authors' interview IN PF2 #1)

7.2 Ohio

In Ohio, consideration of a new performance funding program was facilitated by the Great Recession and the election of a new governor (Authors' interviews OH PF2 #2, 6, 8). A state legislative official observed:

> You know, it was the perfect storm of economic circumstances, especially in the state budget where this was an idea whose time had come. … I don't want to say "it wrote itself," but I think it was much easier to get done than it would have been to get done in the late '90s when there

> was plenty of money lying around. So the tragedy of the economy gave us the opportunity to make a significant change in how "business as usual" is going to operate in this town. You know, they sort of made, they took advantage of the calamitous economic circumstances to get some changes that wouldn't have been palatable in a regular economic cycle. (Authors' interview OH PF2 #8)

This economic opening was amplified by the fact that Ohio had elected a new Democratic governor who had economic and educational reform in mind. Ted Strickland (2007–2011) made reforming higher education in order to facilitate economic growth a centerpiece of his administration (Authors' interview OH PF2 #10). He pushed to make the chancellor of higher education an appointive position and a part of the governor's cabinet and to charge the chancellor with developing a new strategic plan for higher education that would focus on its contribution to the economy (Authors' interview OH PF2 #1; Fingerhut, 2012; Ohio Board of Regents, 2008a; Petrick, 2012, pp. 283–284).

Similarly, the recent change in the Ohio performance funding program—accelerating the movement away from enrollments as the basis for allocating state funds—was tied to the election of John Kasich in 2011. As a Republican replacing the Democratic governor who sparked the 2010 PF 2.0 program, there was a high likelihood that Kasich would push for a change. In 2012, Kasich called together the presidents of the public colleges and presidents to hammer out an agreement on how to allocate state funding for operating expenses. He made clear that he wanted to sharply increase the proportion of state funding based on outcomes rather than on enrollments (Bloom, 2012; Fields, 2012):

> We all know that we can all do better on graduation rates and there's been some movement on creating a new formula. We hope we can speed up the process so that we can fund higher education based on graduation rather than based on enrollment. (Quoted in Fields, 2012)

As incentives for cooperation, Kasich allowed the colleges to determine what outcomes indicators would be used, as long as they were oriented toward increasing graduation numbers, and he suggested the possibility that he might put more money into the state budget for higher education than had been initially planned (Authors' interview OH PF2 #2b; Fields, 2012).

7.3 Tennessee

Meanwhile, in Tennessee, the Great Recession (which intensified longstanding fiscal difficulties of the state), the governor's changed legislative priorities, and changes in the leadership of the state governing boards provided the key openings to reforming performance. A state higher education official pointed to the impact of the recession of 2007–2009 on the state's finances:[19]

> The reductions we had here in Tennessee the last three years—we've lost about 25 to 30 percent of our state funding over the last three years—in many ways I think that sort of focused the collective minds of policymakers that if that's the case they've got to do something to address the inefficient allocation. In other words, it almost sort of helped make the case that we needed to do something different with how we allocate money because those resources are so precious you can't just sort of send them to where they went last year and hope for the best. (Authors' interview TN PF1 #8c)

However, the Great Recession was only adding to longstanding fiscal constraints on the state, as a state executive branch official noted:

> We went through, in this state, several consecutive years of cuts to higher education just because we had other issues that were tugging that were more immediate in Medicaid reform issues, K–12 education funding and issues and so forth. So I think by the time if you had several years of a really tough economy where government has really had to do a much more aggressive job than it ever had done before, prioritizing, it starts to get people's attention about "Okay why are we just writing a check for, you know, institutions that are delivering 20, 30, 40 percent completion rates. Is this not a moment where we might ought to really kind of step back and think through what do

[19] One could also argue—as one of our respondents noted—that the Great Recession also intensified awareness in Tennessee of how the state lagged in college completions. (For more, see the discussion above of the beliefs uniting the supporters of performance funding.) It is this conjunction of recession and low college completion that may have made the Great Recession a more powerful opening to PF 2.0 development in states such as Tennessee, Ohio, and Indiana than in states with histories of better-than-average college completion rates.

> we want to fund at this point, given the fact that resources as it turns out are pretty finite?" So I would say it was a culture shift that happened over a decade really. (Authors' interview TN PF1 #24)

With regard to the governor's changed legislative priorities, Democratic Governor Phil Bredesen (2003–2011) had long wanted to address higher education but had been distracted by other policy issues (Authors' interview TN PF1 #18). In 2008 and 2009 he focused on education reform. The governor called for a special session of the legislature to focus only on reform of K–12 and higher education. The K–12 education reforms were designed in part to help the state make the case for federal aid through the Race to the Top competition (Authors' interviews TN PF1 #8b, 8c, 19, 20, 21, 24). The governor's timing nicely resonated with the rhythms of the Tennessee higher education governance system. The performance funding program was approaching the end of its latest five-year cycle and planning was beginning for the next cycle. The Higher Education Commission therefore was already thinking about a new performance funding program when the governor issued his invitation (Authors' interview TN PF1 #8b, 8c, 20, 23, 25). Moreover, the leaders of the governing boards for the state universities were stepping down, making it less likely that the boards would be able to resist the new program (Authors' interview TN PF1 #18, 23, 24, 26). The end result was a perfect coincidence of timing, according to a state higher education official:

> You get this strange confluence of events. You have all the political stuff here in Tennessee. You have Stan Jones and the Complete College America group whose interests happened to align with the governor. You had Tennessee already working with Lumina on Making Opportunity Affordable. … We were ready for a new master plan anyway. It was an election year, the governor's last year of office. You had all these things […] occur over about a six-month period, and we sort of "threaded the needle" so to speak from a policy standpoint and got everything passed. ... Everything just happened to fall in place at the right time. (Authors' interview TN PF1 #8b; also see TN PF1 #20)

8. Similarities and Differences Between the Origins of PF 2.0 and PF 1.0

The origins of the PF 2.0 programs in Indiana, Ohio, and Tennessee differ markedly from the origins of the earlier PF 1.0 programs in those states (see Dougherty et al., 2013). One difference is in the role played by governors. Another is in the nature of the influence of outside actors, particularly public policy organizations and educational foundations. And the last difference involves a change in the motivation of the state coordinating boards.

8.1 The Role of Governors

As we have noted above, governors played a catalytic role in the development of PF 2.0 in our three states. Even when they did not explicitly demand the transformation of PF 1.0 into PF 2.0, governors set the agenda and timing by requesting proposals from the coordinating boards to address new state goals for higher education and by strongly endorsing the responses they got. In contrast, while governors were supportive of the development of PF 1.0 programs in Tennessee in 1979, Ohio in 1995–1998, and Indiana in 2007, they did not play a key role. They certainly did not set the timing for those developments, as they did in the development of PF 2.0.[20] In fact, in the case of PF 1.0, the main impetus and timing came from the state higher education coordinating boards (Authors' interviews IN PF2 #1, 2, 3, 4, 6; OH PF1 #6; OH PF2 #2, 4, 7, 8; TN PF1 #1, 4, 12; Dougherty, Natow, Hare, Jones, & Vega, 2011; Dougherty et al., 2013; O'Neal, 2007, p. 47).

Looking more broadly, party affiliation may have played a large role in the development of second wave (post-2006) performance funding programs, particularly those taking a PF 2.0 form. Since 2006, performance funding programs have been adopted (or re-adopted) by at least nine states with Republican governors at the time, including Arizona, Indiana, Louisiana, Mississippi, Nevada, New Mexico, North Dakota, Pennsylvania, and Texas. Meanwhile, wave 2 programs have arisen in four states with Democratic governors at the time: Massachusetts, Minnesota, Ohio, and Tennessee.[21]

[20] A study of the origins of PF1.0 in six states found that governors played a weak role in the development of PF 1.0 programs in four of those states (Dougherty et al., 2011, pp. 18, 23, 25, 49, 58, 66; Dougherty et al., 2013).

[21] We should not assume that the presence of a Republican governor meant that the governor was actively

8.2 The Role of External Sources of Ideas

It appears that external sources were more important sources of ideas for PF 2.0 than they had been for PF 1.0 in our three states. We found evidence of the impact of external sources—whether these be other states, external policy organizations or consultants, or educational foundations—in the case of one state for PF 1.0 (Tennessee) but in all three states for PF 2.0. Moreover, there appears to have been a change as to which external sources are important. Leading educational foundations played a more important role in the development of PF 2.0 than in the development of PF 1.0. The Ford and Kellogg foundations financially supported the development of PF 1.0 in Tennessee in the 1970s (Dougherty et al., 2011, p. 21), but there is no evidence of this kind of involvement in the development of PF 1.0 in Ohio in 1996 and Indiana in 2007 (Authors' interviews IN and OH). However, as demonstrated earlier, important elements of the PF 2.0 programs in our three states were developed with the assistance of organizations such as the National Center for Higher Education Management Systems, Complete College America (aided by the Gates and Lumina foundations), and the Achieving the Dream and Making Opportunity Affordable/College Productivity initiatives of Lumina Foundation.

8.3 The Motivations of the State Coordinating Boards

A third difference in political origins between PF 1.0 and 2.0 in our three states concerns the motivations of the state coordinating boards. These boards were major actors in the development of both PF1.0 and 2.0 in our three states (Authors' interviews IN PF2 #1, 6; OH PF1 #1, 5, 6, 8; OH PF2 #7; TN PF1 #1; 8c; 23; 25; Dougherty et al., 2011, 2013). However, the motivations of these boards changed between the enactment of PF 1.0 and 2.0. At the time the PF 1.0 programs were developed, the state coordinating boards in Ohio and Tennessee saw performance funding as—among other things—a new source of public funding for higher education in a time of budget strain (Authors' interviews OH PF2 #7; TN PF1 #1; Dougherty et al., 2011, 2013). As an Ohio state-level higher education official observed about the origins of Ohio's PF 1.0 program (the 1995–1996 Challenge system),

pushing for performance funding. We need additional in-depth studies of the origins of wave 2 performance funding programs before we can pin down the role of party affiliation.

> They [the Ohio Board of Regents] were desperate at that time to increase state funding for higher education, and it was pretty clear that a straight across-the-board increase in subsidy was not going to fly. And so people put their heads together at the Funding Commission … to identify anything that they thought the members of the General Assembly would fund. And so it was really intended to … overcome the natural tendency of people to avoid straight across-the-board subsidy increases. (Authors' interview OH PF2 #7)

By the time PF 2.0 was adopted in these states, the higher education coordinating boards were not as strongly motivated by the need to increase public funding. A state higher education board might use this argument as a way of securing the support of public higher education institutions (Fingerhut, 2012). However, the coordinating boards appear now to be concerned more about securing greater responsiveness from higher education institutions in the face of growing demand from governors, legislators, business, and the coordinating boards themselves for higher numbers of college graduates and greater efficiency in the use of state revenues.

9. Summary and Conclusions

This paper examines the political origins of an important phenomenon— PF 2.0— that is receiving significant attention across the country. Because PF 2.0 often involves tying a considerably larger proportion of state funding to performance indicators than had been the case with PF 1.0 programs, its advocates expect PF 2.0 to be more likely to persist and to spark stronger institutional efforts to improve higher education outcomes (Jones, 2012; Longanecker, 2012a, b).

As we have seen, the origins of the PF 2.0 policies in Indiana, Ohio, and Tennessee are powerfully illuminated by the ACF, the Policy Entrepreneurship theory, and the policy diffusion theory. The ACF points to the role of advocacy coalitions united by common beliefs (Sabatier & Jenkins-Smith, 1999; Sabatier and Weible, 2007). Indeed, in all three states, we found clear advocacy coalitions—centered on governors, state coordinating boards, and less so, legislators and business—that were united by their common belief in the importance of increasing the production of college graduates and securing greater efficiency from higher education institutions and their belief that those goals would be powerfully served by embedding performance indicators into the base state funding for higher education. We also saw evidence of substantial support on the part of the public universities in Ohio. At the same time, no clear opposition coalitions arose, despite substantial grumbling among many public higher education institutions, particularly among open-access two-year and four-year colleges.

Policy Entrepreneurship theory's emphasis on the role of policy entrepreneurs in creating advocacy coalitions and taking advantage of policy windows also proves useful in illuminating the development of PF 2.0 in our three states. Governors emerged as key policy entrepreneurs, sparking the development of PF 2.0 by inviting the state coordinating boards to offer new ways to finance higher education. These governors were aided by policy windows (or *shocks* in ACF terminology) in moving PF 2.0 onto the government decision agenda. In all three states, the Great Recession intensified the fiscal problems of the state and made proposals that might improve the efficiency of higher education and increase its contribution to the economy more attractive to policymakers and practitioners. In Tennessee, several more idiosyncratic windows were at work: the governor was nearing the end of his term and wanted to make a mark on higher education; the existing performance funding system was nearing the end of a five-year cycle and awaited revision; and the heads of the university governing boards were departing.

Finally, the ACF and the policy diffusion theory contribute to our understanding of how states became aware of PF 2.0 and decided to implement it. In all three states, policy learning by the state coordinating boards—as they reflected on the results and the limitations of their PF 1.0 programs—paved the way for interest in new forms of performance funding. However, as policy diffusion theory would predict, there was also evidence of the example of other states as a source of policy ideas, as when Washington's Student Achievement Initiative provided ideas for the community college component of Ohio's new PF 2.0 program. We also observed the strong influence of external policy organizations—such as Complete College America and Lumina Foundation's Achieving the Dream, Making Opportunity Affordable, and College Productivity initiatives—in sparking interest in new approaches to performance funding.

While there are important similarities between the political origins of PF 1.0 and 2.0, there are also striking differences. Governors played key roles in catalyzing the development of PF 2.0 but not of 1.0 in Indiana, Ohio, and Tennessee. This reflects the growing interest of state policymakers in higher education as an object of policymaking. In addition, external policy sources—including leading educational foundations—played a more important role in the development of PF 2.0 than they had in the case of PF 1.0. And while state coordinating boards were important actors in the adoption of both PF 1.0 and 2.0 in our three states, their motivation in the latter case no longer included a strong desire to provide a new source of funding for higher education in a time of fiscal stringency.

The skepticism about PF 2.0 on the part of a good number of public higher education institutions in our three states raises an interesting issue about its long-term sustainability. Certainly, the argument can be made that PF 2.0 programs will be more stable and likely to persist than PF 1.0 programs because they are better insulated against the vicissitudes of the state revenue cycle. The fact that PF 2.0 is embedded into the base state funding for higher education makes it harder to eliminate performance funding when state funding drops; it does not exist as a separate bonus that can be sacrificed in order to protect the base funding (see Dougherty et al., 2012). However, the argument can be made that PF 2.0 programs may be as vulnerable as PF 1.0 programs. That fact that the PF 2.0 programs have encountered substantial grumbling from public higher education institutions in Indiana, Ohio, and Tennessee raises questions about whether many of them may shift to open and mobilized opposition as PF 2.0 really begins to bite into their revenues. As a Tennessee government insider stated

> [The Complete College Tennessee Act] wasn't particularly inclusive in terms of the institutions being involved in the crafting of the bill. … And the trick will be can you sustain it? It is the law, [but] can you keep it the law. And that will be what we'll find out here over the next three, four, five years. (Authors' interview TN PF1 #21)

This paper's analysis indicates the usefulness of two currents in recent policy studies of higher education. One is the growing effort to conduct multiple case studies of policy analysis in order to guard against the peculiarities of any one case. We can be more confident about the potential generalizability of our findings given that they are based on three states that have rather different educational, political, and socioeconomic structures and histories of performance funding. The other is the push to apply recent theoretical approaches that have arisen in political science and political sociology, particularly in a way that combines these theories in order to mitigate the relative weaknesses of any one approach (Dougherty et al., 2010, 2013; McLendon, 2003; Meijerink, 2005; Sabatier, 2007). As we have seen, the application of these three theories powerfully illuminates varied aspects of the origins of PF 2.0.

References

Achieve Indiana. (2013). *Achieve Indiana*. Indianapolis, IN: Author. Retrieved from http://www.achieveindiana.com

Balla, S. J. (2001). Interstate professional associations and the diffusion of policy innovations. *American Politics Research, 29*(3), 221–245.

Beyle, T. (2004). The governors. In V. Gray & R. L. Hanson (Eds.), *Politics in the American states* (pp. 194–231). Washington, DC: CQ Press.

Berry, F. S., & Berry, W. D. (2007). Innovation and diffusion models in policy research. In P. A. Sabatier (Ed.), *Theories of the policy process* (2nd ed., pp. 223–260). Boulder, CO: Westview Press.

Bibby, J. F., & Holbrook, T. M. (2004). Parties and elections. In V. Gray & R. L. Hanson (Eds.), *Politics in the American states* (pp. 62–99). Washington, DC: CQ Press.

Bloom, M. (2012, November 30). John Kasich's new higher education funding formula: Results equal funding. *StateImpact Ohio.* Retrieved from http://stateimpact.npr.org/ohio/2012/11/30/what-ohios-new-higher-education-funding-formula-could-look-like/

Burke, J. C. & Associates. (2002). *Funding public colleges and universities: Popularity, problems, and prospects.* Albany, NY: Rockefeller Institute Press.

Business Roundtable. (1999). *Transforming education policy: Assessing 10 years of progress in the states*. Washington, DC: Author.

Cavanaugh, J. C., & Garland, P. (2012). Performance funding in Pennsylvania. *Change Magazine, 44*(3), 34–39.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Review, 48,* 147–60.

Dougherty, K. J., Natow, R. S., Bork, R. H., Jones, S., & Vega, B. E. (2011). *The politics of performance funding in eight states: Origins, demise, and change* (Final report to Lumina Foundation for Education). New York, NY: Columbia University, Teachers College, Community College Research Center. Retrieved from http://ccrc.tc.columbia.edu/publications/performance-funding-eight-states.html

Dougherty, K. J., & Natow, R. S. (2010). *Continuity and change in long-lasting state performance funding systems for higher education: The cases of Tennessee and Florida* (CCRC Working Paper No. 18). New York, NY: Columbia University, Teachers College, Community College Research Center. Retrieved from http://ccrc.tc.columbia.edu/publications/performance-funding-tennessee-florida.html

Dougherty, K. J., Natow, R. S., & Vega, B. E. (2012). Popular but unstable: Explaining why state performance funding systems in the United States often do not persist. *Teachers College Record*, *114*(3), 1–41.

Dougherty, K. J., Natow, R. S., Bork, R. H., Jones, S., & Vega, B. E. (2013). Accounting for higher education accountability: Political origins of state performance funding for higher education. *Teachers College Record, 115*(1).

Dougherty, K. J., Nienhusser, H. K., & Vega, B. E. (2010). Undocumented immigrants and state higher education policy: The contrasting politics of in-state tuition eligibility in Texas and Arizona. *Review of Higher Education*, *34*(1), 123–173.

Dougherty, K. J., & Reddy, V. (2013). *Performance funding for higher education: What are the mechanisms? What are the impacts?* (ASHE Higher Education Report). San Francisco, CA: Jossey-Bass.

Erikson, R. S., Wright, G. C., & McIver, J. P. (2005). *Public opinion in the states: A quarter century of change and stability*. New York, NY: Columbia University, Department of Government.

Fields, R. (2012, September 11) Gov. John Kasich launches budget collaboration among colleges and universities. *The Plain Dealer*.

Fingerhut, E. (2012). Reflections on Ohio's new performance-based funding system. In D. Alstadt, E. Fingerhut, & R. Kazis (Eds.), *Tying funding to community college outcomes: Models, tools, and recommendations for states* (pp. 8–15). Boston, MA: Jobs for the Future. Retrieved from http://www.jff.org/sites/default/files/TyingFunding2CommColleges-042312.pdf

Fosler, R. S. (1990). *The business role in state education reform*. Washington, DC: The Business Roundtable.

Friedel, J. N., Thornton, Z. M., D'Amico, M. M., & Katsinas, S. G. (2013). *Performance-based funding: The national landscape*. Tuscaloosa, AL: University of Alabama, Education Policy Center.

Fyall, C. (2011, May 7). McRobbie critical of state's funding for IU. *Bloomington Herald-Times*.

Gray, V., Hanson, R., & Kousser, T. (Eds.) (2012). *Politics in the American states: A comparative analysis* (10th ed). Washington, DC: CQ Press.

Gorbunov, A. (2013). *Performance funding in higher education: Determinants of policy shifts*. Doctoral dissertation, Vanderbilt University.

Hamm, K. E., & Moncrief, G. F. (2004). Legislative politics in the states. In V. Gray & R. L. Hanson (Eds.), *Politics in the American states* (pp. 157–193). Washington, DC: CQ Press.

HCM Strategists. (2011). *Performance funding in Indiana: An analysis of lessons from the research and other state models*. Washington, DC: Author.

HCM Strategists. (2013, July). *What's working? #1: Outcomes-based funding in Tennessee.* Washington, DC: Author.

Indiana Chamber of Commerce. (2009). New funding to focus on improving higher education. Indianapolis, IN: Author. Retrieved from http://www.insideindianabusiness.com/newsitem.asp?id=38875

Indiana Commission for Higher Education. (2009). *Indiana Chamber of Commerce higher education legislative agenda for 2009*. Indianapolis, IN: http://www.in.gov/che/files/Disc_C_IN_Chamber_2009_HE_Legislative_Agenda.pdf

Inter-University Consortium. (2008). *A funding formula for Ohio's universities based on outcomes goals: Recommendations of the IUC subcommittee of the OBR Subsidy Funding Consultation*. Columbus, OH: Author.

Jacobs, J. (2012, February 24). More states utilize performance funding for higher education. *USNEWS.com*. Retrieved from Lexis-Nexis Academic Universe and http://www.usnews.com/education/best-colleges/articles/2012/02/24/more-states-utilize-performance-funding-for-higher-education

Jenkins-Smith, H. C., & Sabatier, P. A. (1993). The dynamics of policy-oriented learning. In P. A. Sabatier & H. C. Jenkins-Smith (Eds.), *Policy change and learning: An advocacy coalition approach* (pp. 41–56). Boulder, CO: Westview Press.

Jones, D. P. (2012). *Performance funding: From idea to action*. Washington, DC: Complete College America. Retrieved from http://dl.dropbox.com/u/28697036/Performance%20Funding%20Think%20This.pdf

Jones, D. P. (2013). *Outcomes-based funding: The wave of implementation*. Washington, DC: Complete College America. Retrieved from http://www.completecollege.org/pdfs/Outcomes-Based-Funding-Report-Final.pdf

Kiley, K. (2011, December 16). Performance anxiety. *Inside Higher Education*.

Kingdon, J. W. (1995). *Agendas, alternatives, and public policies* (2nd ed). New York, NY: Longman.

Lederman, D. (2009, December 28). Performance (de-)funding. *Inside Higher Education*.

Longanecker, D. (2012a). Performance funding 2.0: From ideas to action. Denver, CO: Western Interstate Compact on Higher Education. http://www.wiche.edu/info/lac/2012/longanecker.pdf

Longanecker, D. (2012b). *State efforts to assure affordability in the new normal*. Testimony before the U. S. Senate Committee on Health, Education, Labor, and Pensions. Denver, CO: Western Interstate Compact on Higher Education. Retrieved from http://www.wiche.edu/PPT/LonganeckerTestimonyBeforeCongress9-13-2012.pdf

Loughlin. S. (2011, December 24). ISU seeks state clarity on standards: Bradley wants Higher Ed Commission to detail how it will measure performance. *The Tribune-Star* (Terre Haute).

Lumina Foundation. (2011). *College productivity: Four steps to finishing first*. Indianapolis, IN: Author. Retrieved from http://www.luminafoundation.org/publications/Four_Steps_to_Finishing_First_in_Higher_Education.pdf

McGuinness, A. C., Jr. (2003). *Models of postsecondary education coordination and governance in the States* (StateNote Report). Denver, CO: Education Commission of the States.

McLendon, M. (2003). The politics of higher education: Toward an expanded research agenda. *Educational Policy*, *17*(1), 165–191.

McLendon, M. K., Hearn, J. C., & Deaton, R. (2006). Called to account: Analyzing the origins and spread of state performance-accountability policies for higher education. *Educational Evaluation and Policy Analysis*, *28*(1): 1–24.

McLendon, M. K., Heller, D. E., & Young, S. P. (2005). State postsecondary policy innovation: Politics, competition, and the interstate migration of policy ideas. *Journal of Higher Education, 76*(4), 363–400.

Meijerink, S. (2005). Understanding policy stability and change: The interplay of advocacy coalitions and epistemic communities, windows of opportunity, and Dutch coastal flooding policy. *Journal of European Public Policy*, *12*(6), 1060–1077.

Mintrom, M., & Norman, P. (2009). Policy entrepreneurship and policy change. *Policy Studies Journal*, *37*(4), 649–667.

Mintrom, M., & Vergari, S. (1996). Advocacy coalitions, policy entrepreneurs, and policy changes. *Policy Studies Journal*, *24*(3), 420–434.

National Center for Higher Education Management Systems. (2009). *Making opportunity affordable: Tennessee policy audit*. Nashville, TN: Tennessee Commission on Higher Education.

National Conference of State Legislatures. (2013). *Performance funding for higher education*. Denver, CO: Author. Retrieved from http://www.ncsl.org/issues-research/educ/performance-funding.aspx

Ohio Association of Community Colleges. (2008, August 27). *OACC recommendations for funding alignment with strategic plan goals*. Columbus, OH: Author.

Ohio Association of Community Colleges (2014). *SSI allocation recommendations*. Columbus, OH: Author.

Ohio Board of Regents. (2006). *Higher education funding study council report*. Columbus, OH: Author.

Ohio Board of Regents. (2008a). *Strategic plan for higher education 2008–2017*. Columbus, OH: Author.

Ohio Board of Regents. (2008b). *SSI consultation 4/30/2008*. Columbus, OH: Author.

Ohio Board of Regents. (2008c). *Draft notes: Subsidy consultation meeting #4.* Columbus, OH: Author.

Ohio Board of Regents. (2008d). *SSI consultation 7/10/2008*. Columbus, OH: Author.

Ohio Board of Regents. (2009). *State share of instruction handbook: Providing the methodology for allocating state share of instruction funds for fiscal year 2010 and fiscal year 2011 for use by: Community and technical colleges*. Columbus, OH: Author.

Ohio Board of Regents. (2011a). *State share of instruction handbook: Providing the methodology for allocating state share of instruction funds for fiscal year 2012 and fiscal year 2013 for use by: Community and technical colleges*. Columbus, OH: Author. Retrieved from http://www.ohiohighered.org/files/uploads/financial/ssi/HANDBOOK%20CC.pdf

Ohio Board of Regents. (2011b). *State share of instruction handbook: Providing the methodology for allocating state share of instruction funds for fiscal year 2012 and fiscal year 2013 for use by: University main campuses.* Columbus, OH: Author. Retrieved from http://www.ohiohighered.org/files/uploads/financial/ssi/HANDBOOK%20UM.pdf

Ohio Board of Regents. (2011c). *State share of instruction handbook: Providing the methodology for allocating state share of instruction funds for fiscal year 2012 and fiscal year 2013 for use by: University regional campuses*. Columbus, OH: Author. Retrieved from http://www.ohiohighered.org/files/uploads/financial/ssi/HANDBOOK%20UB.pdf

Ohio Board of Regents. (2013a). *State share of instruction handbook: Providing the methodology for allocating state share of instruction funds for fiscal year 2012* *and fiscal year 2014 for use by: Community and technical colleges*. Columbus, OH: Author. https://www.ohiohighered.org/node/2519

Ohio Board of Regents. (2013b). *State share of instruction handbook: Providing the methodology for allocating state share of instruction funds for fiscal year 2012 and fiscal year 2014 for use by: University regional and main campuses.* Columbus, OH: Author. Retrieved from https://www.ohiohighered.org/node/2519

Ohio General Assembly. (2006). *Higher education funding study council report*. Columbus, OH: Author.

Ohio Higher Education Funding Commission. (2012). *Recommendations of the Ohio Higher Education Funding Commission*. Columbus, OH: Author. Retrieved from https://www.ohiohighered.org/sites/ohiohighered.org/files/uploads/financial/ssi/Ohio%20Higher%20Education%20Funding%20Commission%20-%20Report.pdf

O'Neal, L. M. (2007). *Performance funding in Ohio's four-year institutions of higher education: A case study*. (Doctoral dissertation). Available from ProQuest Dissertations and Theses database. (UMI No. AAT 3272928)

Patrick, R. (2013, July/August 2013). Wish list vs. results. *Indiana State Chamber of Commerce BizVoice*, pp. 58-60.

Petrick, R. (2012). The Ohio experience with outcomes-based funding. In A. P. Kelly & M. Schneider (Eds.), *Getting to graduation* (pp. 269–292). Baltimore, MD: Johns Hopkins University Press.

Roberts, N. C., & King, P. J. (1996). *Transforming public policy: Dynamics of policy entrepreneurship and innovation*. San Francisco, CA: Jossey-Bass.

Sabatier, P. A. (1993). Policy change over a decade or more. In P. A. Sabatier & H. Jenkins-Smith (Eds.), *Policy change and learning: An advocacy coalition approach* (pp. 13–39). Boulder, CO: Westview Press.

Sabatier, P. A. (Ed.) (2007). *Theories of the policy process* (2nd ed.) Boulder, CO: Westview Press.

Sabatier, P. A. & Jenkins-Smith, H. C. (1999). The advocacy coalition framework: An assessment. In P. A. Sabatier (Ed.), *Theories of the policy process* (pp. 117–166). Boulder, CO: Westview Press.

Sabatier, P. A., & Weible, C. (2007). The advocacy coalition framework: Innovations and clarifications. In P. A. Sabatier (Ed.), *Theories of the policy process* (2nd ed., pp. 189–222). Boulder, CO: Westview Press.

Schulman, T. (2007, March/April). States see benefits from performance funding. *Indiana State Chamber of Commerce BizVoice*: 30.

SPEC Associates. (2012a). *National evaluation of Lumina Foundation's productivity work: Interim report for Indiana.* Detroit, MI: Author.

SPEC Associates. (2012b). *National evaluation of Lumina Foundation's productivity work: Interim report for Tennessee*. Detroit, MI: Author.

Sponsler, B. (2010). Coveting more than thy neighbor: Beyond geographically proximate explanations of postsecondary policy diffusion. *Higher Education in Review, 7*(2010), 81–100.

Stokes, K. (2011a, December 1), Indiana to base larger portion of college funding on performance. *StateImpact Indiana.* Retrieved from http://stateimpact.npr.org/indiana

Stokes, K. (2011b, December 19). Why Ball State worries about getting left behind. *StateImpact Indiana.* Retrieved from http://stateimpact.npr.org/indiana

Tennessee Higher Education Commission. (n.d.). *Formula Review Committee members*. Nashville, TN: Author. Retrieved from http://www.state.tn.us/thec/complete_college_tn/frc_members.html

Tennessee Higher Education Commission. (2008). *Making opportunity affordable—Tennessee. Planning grant proposal*. Nashville, TN: Author.

U.S. Bureau of the Census. (2005). *Statistical abstract of the United States, 2004–2005*. Washington, DC: Government Printing Office.

U.S. Chamber of Commerce. (2007). *Leaders and laggards: A state-by-state report card on educational effectiveness*. Washington, DC: Author. Retrieved from http://www.uschamber.com/reportcard/2007

Waddock, S. (1994). *Business and education reform: The fourth wave* (Report Number 1091-94-RR). New York, NY: The Conference Board.

Wall, J. K. (2010, January 18). State links university funding to lifting graduation rates. *Indianapolis Business Journal.*

Walker, J. L. (1969). The diffusion of innovations among the American states. *American Political Science Review, 63*(3), 880–899.

Zahariadis, N. (2007). The multiple streams perspective: Structure, limitations, prospects. In P. A. Sabatier (Ed.), *Theories of the policy process* (pp. 65–92). Boulder, CO: Westview Press.