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The Uses of Institutional Financial Aid As A Marketing Incentive in Higher Education

*by Carol H. Anderson, Kathryn Ellickson,
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With increased competition for students who can meet, even with financial assistance, the escalating costs of college, this article addresses a timely marketing problem. While student assistance program changes will impact all colleges and universities, individual private institutions will be affected most adversely (National Commission on Higher Education Issues, 1981). Student financial aid has provided a balance between the public and private sectors of higher education. It is the source of survival for many of the more tuition dependent, private institutions since a significant portion of their operating budget may be derived from the various forms of student aid (Fenske, 1983; Kelly, 1980). Hearn (1980) concluded that while aid policy itself can do little to counter future enrollment declines, individual policy innovations and reforms do have some potential to redistribute enrollment between sectors.

The increasing expense of a college education often creates barriers to more education after high school. Declining college enrollments may lead to fewer student services at higher prices, faculty attrition, and other negative impacts. It is then more difficult for colleges and universities to maintain an attractive image conducive to recruiting and retaining good students. As a result, the marketing of higher education is receiving more attention (Taylor, 1982).

Incentive programs can be an important marketing tool to reach prospective students who do not have the financial resources for a college education. As the business sector is well aware, any product or service will "sit on the shelf" if the consuming public is unaware of its benefits or availability. Higgins (1984) cites a number of studies which have found that generally high school students are poorly informed about financial aid opportunities for pursuing postsecondary education, which in turn has a negative impact on access and choice. This article focuses on present policies and practices in using financial aid as a marketing incentive to attract students to Illinois colleges and universities. Sources and types of aid are examined for target student groups.

The Use of Financial Aid in Student Recruiting

Financial aid is an important aspect of student retention, as well as a valuable marketing tool for recruiting and admissions. However, the emphasis in this article is on the marketing aspect of financial aid as it is used in recruiting. Within this context, financial aid refers to institutional funds awarded to a student primarily on the basis of financial need, although discussion also includes aid which is awarded on a no-need basis. Huff (1983, p. 77) defines institutional aid as "assistance where the college or the university decides on the recipient and makes the award from funds

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(other than federal or state funds) under its direct control." For the purposes of this study, institutional aid includes aid as defined by Huff, plus campus-based Title IV funds (Supplemental Educational Opportunity Grants, College Work Study, and National Direct Student Loans). Aid forms include: Scholarships or grants, i.e. gift aid not to be repaid; loans to be repaid after a student has left college; and work-study, an allowance of salary funds earned by a student as an employee of the university in a guaranteed part-time job. Two or more aid types are usually packaged together and awarded to a student. The package depends upon an institution's available funds, its particular aid policies, and the students it is trying to assist (College Entrance Examination Board, 1977).

The effective administration of a financial aid program depends on a packaging philosophy that is consistent with the mission and goals of the university. If a financial aid package is heavily weighted toward gift aid, and students are not told that it may be reduced in years subsequent to the initial reward, the result may be student attrition and/or resentment (Binder, 1983).

The primary goal of student financial aid has been to eliminate the financial barrier to higher education. Scholarships frequently have been used as a competitive recruiting device. Loans are the least attractive type of aid because of the repayment commitments, and often are used as a last resort. Jobs have been available, but have been seen as more of an aid to the institution than to the student. Institutions view student aid as a way to stabilize their enrollment, enhance their academic reputation, and promote acceptance of the institution by specified consumers. The coordination and delivery of financial aid resources must be consistent with objectives which have been clearly and carefully defined (American College Testing Program, 1978; Huddleston & Batty, 1980).

The marketing of higher education has shifted from a "production-orientation" to a "consumer-orientation" as competition for students increases. Interest has grown in using financial aid as an inducement to enrollment (Baldrige, Green, & Kemerer, 1982). Huff (1983) acknowledges that the college's or university's ability to award its own resources provides more flexibility and independence in the administration of its aid programs (for example, providing aid to middle income parents who might have an excessive contribution expected by the national need determination formulas). Most institutional aid programs focus on awarding money to individual students, whereas state and federal programs encourage both access and choice. According to the National Commission on the Financing of Postsecondary Education, access is the opportunity to enroll in postsecondary education, choice is the opportunity to choose among institutions which are appropriate to that person's needs, capability, and motivation (Dickmeyer, Wessels, & Coldren, 1981). However, the literature is inconclusive about the effect financial aid has on access and choice.

The American Council on Education (1978) considers financial aid an efficient tool for increasing access and choice by narrowing the tuition gap between the public and the higher priced private sector for low-income students. Elliot (1980) states that the higher "priced" private institutions use financial aid as a "discounting" device. Scholarship or gift aid is viewed as a "cash discount" and loans as "consumer credit." Conversely, Wilcox concludes that financial aid is not seen as a discount procedure until after a student's admission to a particular institution, and so is not a major determinant of where students apply (in Elliot, 1980). Hyde (1978) finds grants more effective than either loans or work study programs for increasing enrollment. Grants also tend to increase students' chances of completing college, but grants generally have a smaller positive impact than work programs on persistence (Wenc, 1983). Jackson (1978) proposes that the award of aid is more important than the amount of aid.

Nearly two-thirds of all American colleges and universities have begun to recruit undergraduate students more aggressively, according to a 1980 study commissioned by the U. S. Department of Education. Recruitment of minorities, women, international, and remedial/developmental students also increased. Most institutions were quite aware that the recruitment function was vital to maintaining a viable position in the college marketplace (Campbell, 1982).

Aggressive recruiting and marketing efforts should be viewed in terms of the needs of continuing students, as well as the recruitment of new students. The recruitment of the right type of student who will remain and graduate is interrelated with the basic mission of the institution. In both recruiting and retention, competitive financial aid packages can enhance a college's market position. For further discussion of the use of student aid in recruiting, admissions, and retention, see Boyd and Henning (1983).

Methods

This research study was designed to determine whether institutional financial aid is used by two- and four-year private and public institutions of higher education in Illinois as a marketing tool to recruit students. This study was supported in part by a grant from the Illinois Association of Student Financial Aid Administrators. Specific objectives were:

1. to determine the level of usage of financial aid as a recruiting tool by type of higher education institutions;
2. to determine types of financial aid offered; and
3. to determine usage of market segmentation strategies in the offering of financial aid and/or financial aid packages, specifically,
 - a) whether certain groups of students were targeted, and if so,
 - b) what forms of aid, or aid packages, were offered to each target group.

A questionnaire was sent to directors of financial aid in four types of Illinois institutions of higher education (two- and four-year private and public) in Fall 1983. The survey instrument contained 20 items dealing with many aspects of financial aid, including recruitment, requirements, and differential treatment of various applicant groups (See Appendix for list of items). Respondents were instructed to answer all questions in relation to first-time undergraduate students. A total of 141 questionnaires were mailed, with a telephone follow-up. Forty-one usable responses (29 percent) were returned. Of these, 12.5 percent were from four-year publics, 46 percent from four-year privates, 29 percent from two-year publics, and 12.5 percent from two year privates. The mailing closely followed a similar national survey done by the College Board, which may have adversely affected the response rate to this study.

Financial aid policies and procedures were compared for the four institutional types. Tests of statistical significance are not reported because of the relatively low response rate and the fact that the responses did not result in a configuration by institutional type that approximated the population of institutions in Illinois. These data are unique and valuable, however, and the following section describes the results of our analyses.

Results

Usage of Financial Aid

On the average, 62 percent of all 1983 freshmen received financial aid. Two-thirds of the institutions reported that over half of their freshman class currently receives some type of financial aid. One-third reported this to be true for over three-fourths of their freshmen.

Nearly 37 percent of the respondents gave a positive answer to the question, "Does your institution use financial aid as a method of recruiting students?" Forty percent of the four-year public institutions and the two-year private institutions gave a positive answer. However, four-year private institutions were more likely (47.4 percent) and two-year public schools were less likely (16.7 percent) to use financial aid to attract students.

The institutions allocated anywhere from 0 to 26 percent of their total 1982-83 budgets to financial aid, with the average being 7 percent. Four-year publics allocated the least and four-year privates allocated the most. Forty-nine percent of the institutions reported no change in this percentage allocation in comparison to 1979-80. Forty-six percent reported an average increase of 21 percent. The four-year privates obtained the greatest increase in allocation of institutional monies to financial aid, perhaps to maintain a competitive position in the marketplace. Fifty-six percent of the institutions were offering more no-need scholarships and grants than in the past, and the remainder maintained about the same level of aid.

Types of Financial Aid Offered

Need-based awards. All institutions except four-year publics allocate the greatest percentage of financial aid funds to need-based awards, averaging 52 percent compared with 8 percent of academic merit awards, 8 percent for tuition remissions, and 17 percent for employment funds. While no significant relationships were found, two-year private institutions tended to give the highest priority to need-based awards and four-year publics to employment funds.

No-need awards. The no-need scholarship is based on some quality that the institution finds attractive and worthy of reward rather than on financial need. Eighty-three percent of the surveyed institutions offered no-need based scholarships and grants. Ninety-six percent of four-year colleges compared with 65 percent of two-year colleges offered such merit awards. Respondents who offered no-need scholarships and grants were asked to compare two reasons why they offered them: "as a recruiting device" and "as a reward for outstanding achievement." The respondents compared the two reasons by dividing 100 points between them. Across all institutions, on the average, most of the points (63) were given as "a reward for outstanding achievement." The comparison of mean responses among the four types of institutions is as follows for "outstanding achievement" and "recruiting device" respectively: four-year publics 71 and 29 points; four-year privates, 61 and 39 points; two-year publics, 59 and 41 points; and two-year privates, 66 and 34 points.

Market Segmentation Strategies

A modified financial aid package offers the sought-after student an unusually attractive combination of aid forms. The package tends to be disproportionately high in grants/gift aid and low in interest-bearing loans and employment (American Association of Collegiate Registrars and Admissions Officers and the College Board, 1980). It can be adapted to the need-based or no-need situation, and to specific student groups.

Targeted student groups. Thirty-four percent of the respondents identified specific types of students currently recruited with financial aid. Of these, 69 percent identified academically talented students as being a priority. This finding is supported by results of a national survey which found that 67 percent of all institutions, except the two-year publics, directed special recruiting activities toward academically talented students (American Association of Collegiate Registrars and Admissions Officers and the College Board, 1980).

Other favored recipients named as a priority in the present study were students with special talents (10 percent), students entering preferred academic areas (7 percent), minorities, economically disadvantaged, low or no financial need (4 percent each), and educationally disadvantaged (2 percent). None of the respondents identified women, out-of-state, international, non-traditional, or part-time students as a priority.

Forms of aid for each target group. Institutions may modify the mix of grants, loans, and work in various aid packages to attract different groups of students. This implies that the institution must know in advance the types of students it wants to attract and the amount of each type of aid it wants to provide for each category of students.

There is a greater trend for four-year than two-year colleges to offer no-need based scholarships and grants and to provide packaging models tailored for different target populations. This is not surprising since, typically, the two-year (especially public) colleges do not have significant funds to award as merit-based gift aid. Across all institutions only 23 percent offer such packaging models, while 83 percent offer no-need scholarships and grants. Four-year publics were most likely to offer either. See Figure 1.

Different packaging models were offered to applicants from seven of the twelve identified student groups. Part-time students (62 percent) and the academically talented (59 percent) were most favored as recipients of special packages. None were offered to women as an exclusive category, and very few were offered on the same basis to minorities (12 percent) and educationally disadvantaged (13 percent). These findings concur with those of a 1980 national survey conducted jointly by the American Association of Collegiate Registrars and Admissions Officers and the College Board (1980). See Table 1.

Only 29 percent of those institutions that offered no-need scholarships and grants also offered packaging models targeted to specific populations. Moreover, most institutions offering no-need scholarships (56 percent) saw no connection between financial aid and recruiting. Those providing different packaging models (70 percent) were more apt to consider financial aid as a recruiting method. The composition of the aid package is apparently related to the type of student being recruited. All institutions that provided different packaging models also offered no-need scholarships and grants.

Discussion and Summary

The majority of the schools surveyed do offer financial aid to students, with 62 percent of the freshmen reported to receive some type of assistance in 1983-84. However, most do not perceive this useful recruiting device as a marketing tool. In spite of this attitude, they do intentionally select specific groups of students ("target markets") as potential financial aid recipients, and design special aid "packages" for them, which implies a responsible "consumer orientation." It would seem that a valuable marketing incentive is being used in an ineffective and random manner rather than being integrated into a comprehensive plan with clearly stated marketing objectives.

Although financial aid only recently has been seen as a marketing device in higher education, the high negative response by financial aid directors was unexpected. Perhaps an unscrupulous or negative "hard-sell" connotation was associated with the use of financial aid as a recruiting incentive. Perceptions of the statements'

Figure 1. The Offering of Different Packaging Models and No-Need Scholarships by Type of Institution (Percent)

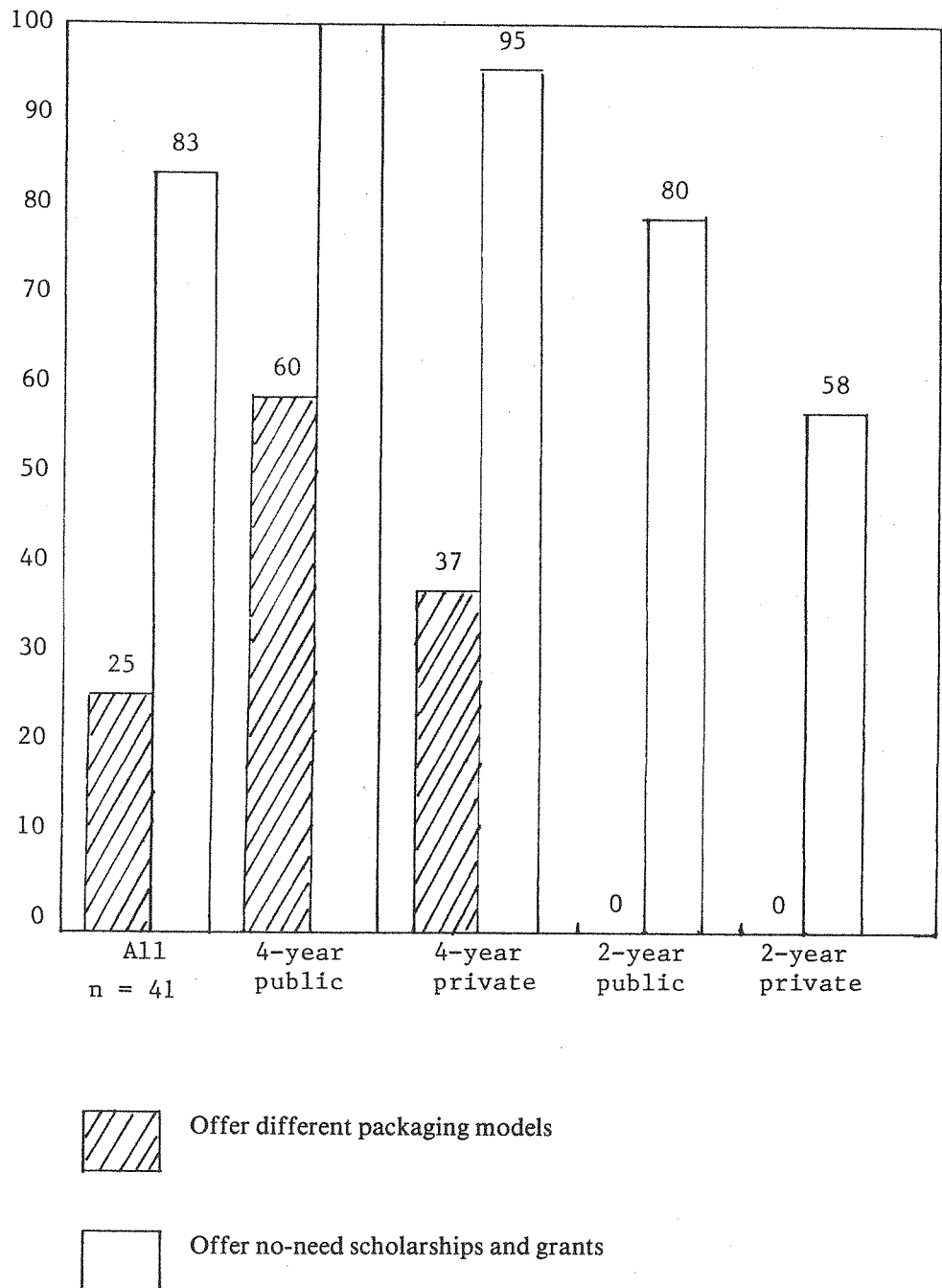


Table 1

The Offering of Different Packaging Models to Applicants from Targeted Groups

Type of student	Offer different packages (percent)
All full-time students	
Academically talented	59
Special talents	42
International	33
Preferred areas	30
Economically disadvantaged	25
Low/no financial need	23
Out-of-state	18
Non-traditional	18
Educationally disadvantaged	13
Minorities	12
Women	0
All part-time students	62

meaning may also have differed. A financial aid officer may not regard financial aid as a recruiting tool when supplying the admissions recruiters with financial aid information or traveling with them on a recruiting trip.

Overall, institutional aid is awarded most frequently on a first-come, first-serve basis, closely followed by level of financial need and academic potential. Four-year publics were most inclined to award institutional aid on the basis of financial need level; two-year publics on a first-come, first-serve basis; four-year privates on a combination of need level and academic potential; and two-year privates on a variety of bases.

Gift aid, as opposed to loans or work, was the most frequent type of aid allocated to each group of students by institutions who use financial aid in recruiting. Gift aid recipients were most apt to be academically talented students, followed by students with special talents, and those entering preferred academic areas. Work was the least frequent form of aid allocated to all student groups, except to economically disadvantaged and international students. However, as Wenc (1983) notes, there is supporting evidence that student work programs not only meet the financial need of students, but also aid in their retention. Gift aid appears to be the preferred form of aid and hence most likely to attract the desired type of student. Apparently, work and loans are not as effective in recruiting students with special talents or students entering preferred academic areas for this group of respondents.

Finally, private institutions appear primarily concerned with need-based awards and publics with employment funds. This suggests a congruency between type of aid and type of institution. Future inquiry might address whether allocation of financial aid to employment funds will increase in the near future, and whether the private sector's concern with need-based awards reflects increased efforts to maintain a competitive position relative to public institutions. The distinction between financial need and academic potential as primary criteria in both the awarding of institutional aid and the amount of financial aid awarded also needs clarification.

The data analyzed in this study suggest that all institutions have relatively common financial aid practices and procedures. Financial aid and admission decisions are kept separate, but financial aid directors appear aware of the need for a working relationship with the admissions office. Practices concerning who actually awards the no-need scholarships and grants are diverse, but it is typically the director of financial aid. Others include various committees, the president, the admissions office, and academic departments.

Institutions in this study not only targeted their efforts toward particular segments of students, but one-fourth of them had developed different packaging models for different target populations. It may be to diversify the student body, to bolster less popular departments, to support a variety of talents, to balance budgets, to maintain enrollments, or to accomplish other purposes. While there is a significant relationship between type of talent scholarship and type of institution, academically talented students are by far the most sought after full-time student by most of the institutions surveyed.

It appears that the provision of different packaging models for different target populations is considered more of a marketing technique than the offering of no-need scholarships and grants by financial aid directors. The latter, however, is the prevalent practice and is viewed in most cases by the institution as a reward for outstanding achievement.

Recommendations

Colleges and universities have at their disposal a powerful recruiting device for increasing enrollment and attracting desired students. This study suggests that the potential of financial aid as an incentive for a student to choose and to attend a particular school has not been fully realized. The practice of offering financial aid has often been fragmented and executed in a unilateral manner, lacking direction and coordination with other campus units.

The most obvious recommendation is for collegiate financial aid administrators and others involved in the recruiting process to come together and develop a comprehensive marketing plan for the use of financial aid as an incentive in the recruiting process. This would involve several steps:

1. identification of the image and mission of the institution;
2. identification of the types of students that it desires to recruit, keeping in mind that persistence is closely related to the fit between the student and the institution;
3. analysis of financial aid offered by the institution relative to
 - a. type and amount available,
 - b. suitability for target student groups,
 - c. probability of increasing financial aid allocations;
4. identification of a recruiting "network" for devising and offering the various types and packages of aid; and
5. development of a methodology for evaluating the effectiveness of the financial aid program in achieving its recruitment objectives.

In addition to establishing the above procedures, several other recommendations are made. First, if packaging of attractive aid components is the key to successful recruitment, then research should be conducted to assess those combinations of aid considered most desirable by both the institution and the student, and how students respond to various offers.

Secondly, if the actual awarding of aid is more important than the amount of aid (Jackson, 1978), this has strong marketing implications. If a perceived financial barrier to higher education is more psychological than economic, then promotional campaigns should be developed to inform prospective recruits about the various types of aid available, and the probability that they will receive the type of aid most attractive to them. An extensive public relations program should be instituted with aid recipients. Perhaps more students could be offered smaller amounts of aid with a greater return for each dollar spent. Of course, it is assumed that such marketing efforts would be carried out in an ethical and responsible manner.

Lastly, the value of financial aid offers in student recruitment should be further investigated and documented as a marketing device in a declining higher education market. Financial aid administrators and admissions personnel need to be made more aware of how to use this marketing tool, and whether their money and efforts are achieving the desired results.

Several directions for future research are suggested by the results of this inquiry. Although the present study focuses on the initial recruiting process only, the effort to attract students should be matched by the effort to retain them in order to maintain enrollment size and to be sensitive to consumer-oriented issues (Campbell, 1982; Hershey, 1981). The retention issue of financial aid is important for two reasons: the enticement of students to enroll without considering whether they will be able to continue through graduation may create attrition and retention problems later, and the cost of dropping out can be high to both the student and the institution. For further discussion, see Fenske and Huff (1983) and Wenc (1983).

Maloney (1984) has pointed out that lower enrollments at the undergraduate level have a spillover effect on graduate school enrollments, which is an area of concern for many graduate programs. It is also recommended that admissions officers be included in future studies to provide information about their perceptions of the role of financial aid in student recruitment.

An analysis of the concentration of special aid packages for academically talented and part-time students rather than women, minorities, and educationally disadvantaged students was not within the scope of this study, but bears further investigation. These students may be an underutilized target market. The effect of the institution's size and image on financial aid practices in recruiting should be included in future studies. If the use of financial aid as a marketing tool is increasing

as this study indicates, then sources and methods of expanding the financial base of this aid should be examined also.

The use of financial aid in the marketing of higher education is not new, but the authors believe that its full potential has not been realized. The challenge is for financial aid and admissions personnel to admit that they must market their product and develop comprehensive marketing programs that will allow them to be competitive in today's student market.

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APPENDIX
Questionnaire Items

1. What percentage of the total freshman enrollment at your institution will receive financial aid in some form of package in 1983?
2. What percentage of your institution's total budget for 1982-1983 was allocated to financial aid?
3. Compared to 1979-1980, how much has this percentage increased/decreased/remained the same?
4. Do the recruiters from the admissions office have the authority to commit a certain amount of scholarship money when recruiting?
5. What is your institution's policy or practice concerning the relationship between admission and financial aid decisions?
6. During your initial correspondence, do you routinely offer some financial aid to those students you are particularly interested in recruiting?
7. Has one institutional representative been delegated responsibility for the administration and coordination of all financial aid programs, including the financial aid used in recruiting freshman students?
8. In general, do you award institutional aid (loans, work-study, gift aid)
 - a. on a first-come, first-serve basis?
 - b. based on level of financial need?
 - c. based on level of financial need and academic potential?
 - d. other?
9. What percentage of your financial aid funds are allocated to each of the following four forms of aid?
 - a. need based awards
 - b. academic merit awards
 - c. tuition remissions
 - d. employment funds (assuming part of this is non-need based)
10. Does your institution award no-need based scholarships and grants for academic merit?
11. Please divide 100 points between the following two reasons your institution offers no-need scholarships and grants:
 - a. as a recruiting device
 - b. as a reward for outstanding achievement
12. Who awards the no-need scholarships and grants?
13. Is the number of no-need scholarships and/or grants you were authorized to offer for the 1983-84 academic year
 - a. higher than it was for 1981-1982?
 - b. about the same?
 - c. lower than 1981-1982?
 - d. does not apply
14. Do you have different packaging models for different target populations?
15. Does your institution use financial aid as a method of recruiting students?
16. Do you offer different packaging models to applicants from the following groups?

<ol style="list-style-type: none">a. academically talentedb. preferred academic areasc. special talentsd. womene. minoritiesf. economically disadvantagedg. educationally disadvantaged	<ol style="list-style-type: none">h. low/no financial needi. out-of-statej. internationalk. non-traditional/olderl. part-timem. other
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17. If possible, identify the types of students you currently attempt to recruit with financial aid by ranking the top three groups (listed in 16 above).
18. How have your financial aid practices changed over the last five years regarding recruitment of each of the following groups (listed in 16 above)?
19. Rank each of the 3 types of aid for each category of student in the order of general allocation (listed in 16 above).
20. From the following list, identify only the top three criteria with respect to the awarding of institutional aid dollars excluding federal campus based aid:
 - a. financial need
 - b. academic talent
 - c. preferred academic areas
 - d. special talent
(non-academic
non-athletic)
 - e. age
 - f. sex
 - g. racial or ethnic minority
 - h. enrollment status
(part/full-time)
 - i. residency status
(in/out-of-state)
 - j. citizenship (American/
International)
 - k. dependency status
 - l. other