



Lumina™
FOUNDATION

LUMINA ISSUE PAPERS

**OUTCOMES-BASED
FUNDING AND
RESPONSIBILITY CENTER
MANAGEMENT:
COMBINING THE BEST
OF STATE AND
INSTITUTIONAL BUDGET
MODELS TO ACHIEVE
SHARED GOALS**

EXECUTIVE SUMMARY

By Linda A. Kosten
University of Denver

JUNE, 2016



Executive Summary

State governments serve as a key funding source for public higher education. An alternative to funding methods such as historically based state subsidies or enrollment-based formulas, outcomes-based funding allows states to convey and promote alignment with goals for higher education by allocating state tax dollars to institutions based on results on outcome measures. As policymakers revise methods for allocating state funding to higher education, it is helpful to understand how campus administrators manage such funds. While many higher education institutions utilize a blend of methods to deploy and monitor funding, most prominent is centralized control of the budget, a model in which most decisions and accountability are held by the upper-level administration (president and key advisors) and funding is based on historical funding levels with small year-to-year changes.

As state funding has decreased and criticism of rising tuition rates has increased, institutions have been challenged to examine and improve their budget processes to achieve their missions with less funding, increased transparency and demonstration of strong stewardship of public and tuition dollars. One of the changes that some institutions have made is to decentralize responsibility, accountability and control of portions of the budget, engaging the next layer of administrators through a model called Responsibility Center Management. Under this effective model, deans and other mid-level managers have substantial budgetary authority for their own financial units, including both revenues (such as tuition, state allocation and gifts) and expenses (such as mix of courses and use of faculty). This authority can make these managers more entrepreneurial and potentially—if implemented in concert with outcomes-based funding—more aware of state objectives such as increasing completion rates, and of the benefits of meeting them. Indeed, when Responsibility Center Management and outcomes-based funding are integrated, there is a greater assurance of achieving the goals of both: fiscal sustainability and student success. By using Responsibility Center Management, college and university administrators are better able to marshal resources to help students complete their degrees and other credentials while also reaping the benefits of an outcomes-based funding system that directs public funding toward institutions that are doing just that.

Implementing Responsibility Center Management

The implementation of Responsibility Center Management within an institution involves key administrators and faculty who will need to make a series of essential decisions and develop systems to support the new decentralized structure. The key decisions include: (1) the method to be used for revenue distribution, including the use of outcomes measures to determine funding; (2) the definition of financial units to be involved; (3) the process for setting annual budget parameters such as tuition rates and salary increases; (4) the allocation of shared indirect costs across units; and (5) handling positive and negative variances from the budget.

In a study of Responsibility Center Management at 27 universities, deans confirmed that as a result of implementing this model, they are more fiscally aware, more empowered to manage their unit, more accountable and, as a result, more entrepreneurial. Reports from multiple universities

confirm that the model has been shown to: place authority in the hands of the proper decision makers; motivate mid-level managers and recognize their performance; and serve as an effective tool for constructive change. Others have described the model's impact on improving campus climate and the effectiveness of fiscal management throughout the organization. Responsibility Center Management encourages transparency and clear cause-and-effect accountability, promotes more targeted strategic planning activities and facilitates stronger focus on problem areas. Deans implementing Responsibility Center Management noted that while there are drawbacks to the model if not well-managed (such as financial considerations superseding academic ones), the positive outcomes mentioned above were much more prevalent. The use of Responsibility Center Management in conjunction with outcomes-based funding may also mitigate these potential drawbacks.

Integrating Responsibility Center Management and Outcomes-Based Funding

For Responsibility Center Management and outcomes-based funding to succeed, both models need strong design and leadership; effective, responsive and flexible data systems and support; clear communication and transparency; and engagement of campus leaders (central, mid-level and faculty) through shared responsibility and accountability. States with institutions that are implementing a Responsibility Center Management model are better equipped to manage some of the potential barriers to the success of outcomes based-funding, which include: (1) the lack of mission differentiation in design of some measures of outcomes; (2) the small portion of state funding represents in relation to total funding at many institutions; and (3) the lack of understanding of outcomes measures below the upper-level administration. For example, in Responsibility Center Management institutions, mid-level managers are already engaged in analyzing data concerning their unit's financial success as well as a wide variety of other data. To engage these leaders in discussions to define outcome measures for student access, progression, and completion is an obvious next step. Within Responsibility Center Management institutions, a structure of accountability and responsibility for outcomes is already in place. Positive student outcomes, as well as financial success, are only achieved by focused efforts within the organization at all levels.

Outcomes-based models can also leverage the entrepreneurialism and competition inherent in Responsibility Center Management institutions. States want to increase access to higher education, and the creativity encouraged by Responsibility Center Management's financial incentives is useful in achieving this goal. And as measures of outcomes (such as on-time degree completions or number of underserved students enrolled) are incorporated into distribution of state funds within an institution down to the unit level, there is a greater awareness of performance in these areas and an opportunity to more-strategically implement changes to improve student success.

When integrating the Responsibility Center Management and outcomes-based funding models, there are also possible limitations to consider and guard against. For instance, state appropriations dictated by the outcomes-based formula may be too small to provide incentives for change and therefore may be too small to decentralize in a Responsibility Center Management structure with any impact. Devolving the outcomes-based funding formula to individual units in an institution may be overly complex and not applied equally to all, possibly creating contention among the administration and the faculty.

Recommendations for Policymakers

As policymakers seek to ensure that their investment of state dollars in higher education is achieving the outcomes they seek, they should encourage institutions to adopt Responsibility Center Management as a partner to outcomes-based funding. Deans and other mid-level managers who are in direct contact with students and faculty members are involved in the generation and implementation of mission-specific outcome measures, and then held accountable for the outcomes they help create. Given this involvement in creation of measures and the built-in accountability of Responsibility Center Management, deans will have a vested interest in improving student support programs, designing curricula and meeting financial goals with the outcome measures in mind. Without Responsibility Center Management in place with outcomes-based funding, the responsibility for achieving outcome measures is limited to the central administration, and the creativity and entrepreneurialism of deans and other mid-level managers is lost.