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# Analysing neoliberalism in theory and practice: The case of performance-based funding for higher education

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## Contents

Abstract.....	1
Introduction .....	2
The origins of performance-based funding.....	6
Implementation of performance-based funding.....	14
Impacts of performance-based funding .....	19
Conclusions .....	25
References .....	32

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# Analysing neoliberalism in theory and practice: The case of performance-based funding for higher education

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## **Abstract**

Neoliberal ideas – whether the new public management (NPM), principal-agent theory (or agency theory), or performance management – have provided the rationale for sweeping reforms in the governance and operation of higher education. Despite this, little attention has been devoted to how well neoliberal theory illuminates the policy process by which neoliberal policy is enacted and implemented. This paper expands our understanding of the origins, implementation, and impacts of neoliberal policies by examining the case of performance-based funding for higher education in the United States, Europe, Canada, Australia, and elsewhere. With regard to policy origins, neoliberal theory correctly anticipates the key role that top government officials play in the development of performance funding. However, neoliberal theory fails to anticipate the important role of business

and of higher education institutions in the formation of neoliberal policies. Neoliberal theory correctly notes the important role of monetary incentives as policy instruments and the obstacles posed by gaming on the part of agents. At the same time, this paper demonstrates that the implementation of performance funding also involves the use of other policy instruments as well. Moreover, the performance funding experience points to a host of obstacles beyond gaming to the effectiveness of performance funding. Finally, with regard to outcomes of neoliberal policymaking, the paper demonstrates that outcomes fitting the neoliberal focus on organisational effectiveness and efficiency are only weakly produced by performance funding, but performance funding is associated with a host of unintended impacts that neoliberal theory ignores. The paper concludes with recommendations for how to improve performance funding and how to construct policy models that go beyond the narrow imaginings of neoliberal theory.

## **Introduction**

Neoliberalism has been a longstanding concern of higher education policymakers and scholars, with many championing it and just as many decrying it (see for example, Brown, 2013; Giroux 2002; Jones, 2012a; Kivisto, 2007; Marginson, 2009). In good part, this concern has been due to the fact that neoliberal theory is not just a description of a situation but also a prescription for action. Hence, it has provided the rationale for sweeping reforms in the governance and operation of higher education (Brown, 2011, 2013; Marginson, 2009; Olssen & Peters, 2005; Rhoades & Sporn, 2002; Slaughter & Rhoades, 2004).

As we are using it here, “neoliberalism” refers to a variety of theories of public administration that – while they vary in specifics – have certain common claims as they relate to education. These theories include the new public management (NPM), new managerialism, principal-agent theory (or agency theory), and less directly, performance management (Bleiklie, 1998; Broucker & DeWit, 2015; Deem & Brehony, 2005; Ferlie, Musselin, & Andresini, 2008; Franco-Santos & Otley, 2018; Gerrish, 2015; Hood, 1991; Kivisto, 2007; Lane & Kivisto, 2008; Marginson, 2009; Moynihan, 2008; Olssen & Peters, 2005; and Pollitt & Dan, 2011).<sup>1</sup> They share certain key intellectual precursors, particularly the economics of organisations, in the form of public-choice theory and transaction-cost theory (Kivisto, 2007; Moe, 1984;

Neave, 1998; Olssen & Peters, 2005). Neoliberalism is particularly focused on making public agencies more effective and economically efficient.<sup>2</sup> There is less concern about using them as instruments of greater equality or social solidarity (Ferlie et al., 2008, p. 335; Hood, 1991, pp. 11-12, 15; Marginson, 1997, p. 5; Olssen & Peters, 2005, pp. 320-322; Pollitt & Dan, 2011, p. 5). With regard to higher education in particular, NPM downplays the importance of academic freedom and collegial, shared governance between faculty and administrators in favour of vesting more authority in institutional administration and marketing the institution as attractive to key stakeholders (Bleiklie, 2018).

A key neoliberal tenet is that human well-being is best ensured by encouraging private enterprise, individual responsibility, and competitive markets to spur and coordinate the actions of entrepreneurs (Harvey, 2005, pp. 2, 64-65; Olssen and Peters, 2005, pp. 314, 317, 322-324). Government operations should be privatised as much as possible by selling off public holdings and services to private entrepreneurs (Broucker & DeWit, 2015, pp. 61-62; Brown, 2018, p. 4; Feigenbaum, Henig, & Hamnett, 1998; Harvey, 2005, pp. 2, 64; Hood, 1991, p. 3; Olssen and Peters, 2005, pp. 314, 322-324). But when this is not possible, governments should enmesh public agencies in “quasi-markets” by creating fiscal incentives for those agencies to compete with each other to become more efficient (Dill, 2007, p. 52; Hood (1991), p. 3; Le Grand, 2007; Marginson, 2009, pp. 2-4; Olssen and Peters, 2005, pp. 318-324; Naidoo, Shankar, & Veer, 2011, p. 1145; Pollitt & Dan, 2011, p. 5).<sup>3</sup> Because neoliberal theory conceptualises government agencies as fundamentally self-interested, with their interests often running counter to those of the elected official “principals” they serve, it argues that monetary incentives and accountability and monitoring are needed to get the interests of agencies aligned with those of principals and to address the “information asymmetry” in which agents usually know more about their activities than do the principals (Broucker & DeWit, 2015, pp. 61-62; Connell, Fawcett, and Meagher, 2009, p. 334; Ferlie et al., 2008, pp. 335-336; Kivisto, 2007, pp. 106-110; Lane & Kivisto, 2008, pp. 144-146, 160-161; Olssen & Peters, 2005, pp. 315, 327-329; Pollitt & Dan, 2011, p. 5; Renmans, Paul, & Dujardin, 2016, pp. 13-15). Indeed, Connell et al. (2000, p. 334) note that for NPM and neoliberal theory of public-sector organisations more generally: “each part of an organization functions like a profit-making firm, with its managers held accountable for the income/expenditure balance ... Both organizations and

individuals are required to *make themselves accountable* in terms of competition” (emphasis in original).

These ideas have profoundly shaped higher education policymaking worldwide (Brown, 2011, 2013, 2018; Dougherty & Natow, 2015; Kelchen, 2018b; Frolich, Kalpazidou-Schmidt, & Rosa, 2010; Guthrie & Neumann, 2007; Huisman & Currie, 2004; Jones, 2004; Marginson, 1997; Slaughter & Rhoades, 2004; Rhoades & Sporn, 2002). Yet, it is notable how little attention has been devoted to how well neoliberal *theory* illuminates the policy process by which neoliberal *policy* is enacted. Are the actors and motives that neoliberal theory points to actually the ones that are involved in enacting and implementing neoliberal policy? What policy instruments does the theory identify as driving neoliberal policies, and are they indeed the ones used to implement those policies? What implementation obstacles does neoliberal theory identify and how well does that list capture the hindrances to neoliberal policy that do appear? Finally, what likely impacts – unintended as well as intended – of neoliberal policies does neoliberal theory predict and to what extent are these forecasts met?

This paper expands our understanding of the origins, implementation, and impacts of neoliberal policies by examining the case of performance-based funding for higher education in the United States, Europe, Canada, Australia, and elsewhere. We argue that performance-based funding is an apt case. Such funding has been repeatedly identified as a major example of neoliberal policymaking (Broucker & DeWit, 2015; Ferlie, Musselin, & Andresani, 2008; Gerrish 2015; Hillman, Fryar, & Crispin-Trujillo, 2018; Kelchen, 2018b; Lane & Kivisto, 2008; and Schulze-Cleven & Olson, 2017). Moreover, performance-based funding for higher education is quite widespread. In the United States, the National Conference of State Legislatures estimated that as of 2015 some 33 U.S. states had performance-based funding programmes in place that reward higher education institutions for such outcomes as student retention, completion of certain courses or programmes, degree completion, and job placement (National Conference of State Legislatures, 2015; see also Dougherty & Natow, 2015, pp. 30-35).<sup>4</sup> Performance-based funding is also quite common outside the United States. For example, many European countries (19 as of 2010), Canada, and Australia have funded their higher education system on the basis of output-related criteria such as degrees produced, credits earned, and research effort and quality

(Center for Higher Education Policy Studies, 2010; DeBoer, Jongbloed, Benneworth, Cremonini, Kolster, Kottmann, Lemmens-Krug, & Vossensteyn, 2015; Dougherty & Natow, 2015, pp. 20-21; Gauthier, 2004).<sup>5</sup> Finally, the case of performance funding illuminates a previously understated aspect of neoliberal theory: that neoliberal policies can lead to unintended consequences that can move higher education organisations away from egalitarian ideals.

In the remainder of the paper, we will examine the origins, implementation, and impacts of performance-based funding for higher education both in the United States and abroad. A key feature of our analysis will be to bring out which elements of the development of performance funding are correctly captured by neoliberal theory and which elements are missed by it. Moreover, as we go along, we will note when our findings are echoed by studies of the origins, implementation, and impacts of neoliberal reforms other than performance-based funding for higher education. Our critique of neoliberalism draws on original research we conducted on the origins, implementation, and impacts of performance funding in the United States (Dougherty, Jones, Lahr, Natow, Pheatt, & Reddy, 2016; Dougherty & Natow, 2015) and on our review of the research literature on performance funding, performance management, and policy implementation in the United States and many other countries.

We should note that our approach focuses on the predictive capacity of neoliberal theory in explaining neoliberal reform. This might lead us to underplay the normative dimension of neo-liberalism, that is the aspect of neoliberal theory where the introduction of quasi-market mechanisms into government operations is seen not simply as a matter of securing greater efficiency but also of securing ideological/cultural conformity to capitalist principles on the part of government. However, the virtue of our approach is that it allows us to capture several features of neoliberalism that are missed by the more sweeping critiques of it. Nonetheless, we do address below the normative dimension of neoliberalism.



## The origins of performance-based funding

The question of why governments enacted performance-based funding leads naturally to asking what actors, motives, and political conditions were involved. What role does neoliberal theory play both as an incitement to action (its prescriptive side) and as an explanation of what did occur (its analytic side)?

Certainly there is evidence that neoliberal ideas played a major role in the push for performance-based funding in the United States and elsewhere. Scholars have pointed out how the genesis of performance funding in the United States was driven in good part by views of public administration consonant with neoliberal ideas, even if public officials often were not aware of the connection (Dougherty & Natow, 2015, pp. 64-68, 150; Hillman et al., 2018; Kelchen, 2018b). For example, a state official in Washington State described sentiments among legislators that fit well with the claims of neoliberal theory:<sup>6</sup>

They were believers in accountability in general. Not solely in higher education but across the spectrum of governmental activities and funding. They were proponents of smaller government and fiscal restraint. And I think they were also believers in the notion that we tend to get more of what the funding structure responds to, so what is incentivized and measured and funded, we tend to get more of and less of other things. . . . And there was a lot of talk, in the early nineties and going forward, about reinventing and reengineering government and focusing on outcomes and data related to that as opposed to inputs.  
(Quoted in Dougherty & Natow, 2015, p. 64)

Scholars have also found that the genesis of performance-based funding in Australia, Canada, Denmark, England, Germany, and Norway is consonant with neoliberal theory (Barnetson & Boberg, 2000, pp. 75-79; Brown, 2018; Frolich, Kalpazidou-Schmidt, & Rosa, 2010, p. 18; Guthrie & Neumann, 2007, p. 234; Huisman & Currie, 2004, p. 534; Jones, 2004, pp. 44-46, 49; Marginson, 1997, p. 8; Rhoades & Sporn, 2002, p. 374).

With respect to Germany, Gary Rhoades and Barbara Sporn find:

[U]nder the title “Zielvereinbarungen” (goal contracts) and “Finanzautonomie” (financial autonomy), contracted and performance-based budgeting together with institutional autonomy have been implemented at increasing numbers of German universities. The aim has been to increase quality (measured as efficiency and effectiveness), accountability, and self-regulation through effective leadership... What models have been used in this reform process? Basically, we find the principles of “New Public Management (NPM)” ... it involves strengthening market-orientation and competition, management concepts from private industry, decentralised structures with increased freedom for individuals and units, and output control and assessment. (Rhoades & Sporn, 2002, p. 374).

### **Who supported performance-based funding and why?**

If neoliberal theory motivated the development of performance-based funding, who precisely were the supporters and were their motives consonant with neoliberal theory? The literature on neoliberalism – whether celebratory or critical – has not delved deeply into how precisely neoliberal policies are enacted, examining in detail the supporters and opponents and their reasons (see the critiques by Mars & Rios-Aguilar, 2010; Schulze-Cleven, Reitz, Maesse, & Angermuller, 2017; Schulze-Cleven & Olson, 2017). This lack of detail is consequential. The lack of close attention to the political origins of neoliberal policies can lead to a narrative that it is simply a case of political “principals” imposing it on largely recalcitrant “agents.” But this leaves unexamined the motives of the agents, who may actually see benefit in neoliberal policies and, in any cases, are potent political actors pursuing interests of their own. As Matthew Mars and Cecilia Rios-Aguilar (2010, pp. 455-456) note:

The higher education scholarship has viewed the entrepreneurial behaviors and activities of those within the academy as outcomes or consequences of neo-liberal policies, globalization, and associated market permeation that have promoted the emergence of market and market-like agendas. Thus, the demand-side perspective has dominated the academic entrepreneurship literature and has perpetuated what we have observed to be the “victimization” of those within the academy who are forced to be

entrepreneurial by the conditions that comprise and surround their academic environments. The increased application of theoretical approaches ... that acknowledge the entrepreneurial agency of individuals would create opportunities for higher education scholars to more objectively and thoroughly explore the independent agendas of entrepreneurial-minded professors, students, practitioners, and administrators.

As Mars and Rios-Aguilar (2010) note, it is important to focus not just on the intentions and power of “principals” who are pushing a policy but also the intentions and power of “agents” who are to be its implementers. Agents can play very important roles in the formation and implementation of neoliberal policies. They may even be supporters of neoliberal reform, although often for reasons different from those cited by neoliberal theory (see Slaughter & Rhoades, 2004).

It is also important to acknowledge context. There is considerable variation in the enactment and implementation of neoliberal policies across nations and their subnational political divisions. This shows up in considerable variation in the actors and motives that shape neoliberal policies and the eventual form, content, and mode of implementation (Broucker & DeWit, 2015; Rhoades & Sporn, 2002; Schulze-Cleven & Olson, 2017; Schulze-Cleven et al., 2017).

In the next three sections, we examine how well the origins of performance funding fit the neoliberal emphasis on the interests and actions of principals. The first section identifies evidence comports with neoliberal theory, while the second section notes evidence that is at variance with it. Meanwhile, the third section analyses the importance of national and subnational contexts, which are given too little attention by neoliberal theory.

### **Evidence in keeping with the neoliberal conceptualisation of the policy actors**

Neoliberal theory emphasises that top government officials will be the key agents of neoliberal reforms. They are the ones motivated by a concern to cut back government funding and secure greater efficiency from public agencies, including public higher education institutions. To do this, top government officials will wish to create a quasi-market for those institutions that uses market incentives to prod them to compete with each other to attract clients and public support (Le Grand, 2007; Olssen and Peters, 2005; Naidoo et al., 2011).

The development of performance-based funding provides evidence for this expectation on the part of neoliberal theory. In the United States, state governors, legislators, and officials of state higher education boards certainly played a key role in the development of US performance-based funding (Dougherty & Natow, 2015, pp. 64-70, 146-149; Gorbunov, 2013; and McLendon, Hearn, & Deaton, 2006). For example, in Tennessee, a legislative staffer noted:

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.... [T]his 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. (Quoted in Dougherty & Natow, 2015, p. 146)

Moreover, studies of the origins of performance funding outside the US also point to the key role of government officials in spearheading those efforts in Europe, Canada, and Australia (DeBoer et al., 2015; Guthrie & Neumann, 2007; Jones, 2004; and Woelert & Yates, 2015).<sup>7</sup> For example, in Ontario, Canada:

In 1995, the higher education policy environment in Ontario began to change. The election of a new Progressive Conservative government under Premier Mike Harris signalled the beginning of the "Common Sense Revolution," a platform of policy change designed to address the province's deficit by reducing government expenditures while simultaneously reducing government revenues through cuts to provincial taxes.... Privatization and marketization were key elements of many of the new policy initiatives associated with the Harris government, signalling a change in direction in higher education policy. Key Performance Indicators were introduced in both the university and college sectors, and KPIs now determine a modest component of each institution's operating grant. (Jones, 2004, pp. 40, 46)

## **Evidence deviating from the neoliberal conceptualisation of the policy actors**

Studies of the origins of performance funding also show that neoliberal theory fails to anticipate several key actors and motives behind the development of performance funding. In particular, neoliberal theory fails to address the role of business as a principal and the entrepreneurial role of agents, including higher education institutions.

### **The role of business**

Despite its emphasis on the application of business methods to government agencies, neoliberal theory says surprisingly little about the role of business in the enactment of neoliberal policies. Yet the origins of performance-based funding in the United States give ample testimony to the major role of business in the enactment of state-level performance funding (Dougherty & Natow, 2015, pp. 67-68, 146-148; Opoczynski, 2016, pp. 10-11). This business role has taken both direct and indirect forms. In some states, business leaders directly lobbied for performance funding, working with state government officials to secure and even design the performance funding system. For example, in Indiana, the State Chamber of Commerce declared: “The Indiana Chamber supports a shift in Indiana’s higher education funding formula from an enrollment-based system to a performance-based system” (quoted in Indiana Commission for Higher Education, 2009, p. 3). Chamber leaders testified publicly in favour of performance funding and sent messages to Chamber members supporting it (Dougherty & Natow, 2015, p. 147).

But business also worked indirectly, by shaping the climate of ideas in which policymakers operated and by affecting the incentives government officials faced.<sup>8</sup> Pushing neoliberal ideas about improving government efficiency by making government agencies use business-like methods and be subjected to market-like constraints,<sup>9</sup> business made it more likely that state officials would view performance funding as a desirable and politically attractive policy for higher education. This ideological influence allowed business to exert considerable power over the genesis of performance funding, even when it was not directly involved. This ideological influence was evident in South Carolina, Washington, Florida, and Missouri (Dougherty & Natow, 2015, p. 67).

Business also exercised power by its influence over the incentives faced by government officials. Because of the systemic power of business within a capitalist

economy, state officials are attracted to policies that would be helpful to business even when business people do not lobby for such policies. State officials recognise that “business confidence” – often bought through pro-business policies – is often key to getting business to invest in a state and generate jobs and tax revenues (Block, 1987; Carruthers, 1994; Dougherty, 1994; Lindblom, 1977; Skocpol & Amenta, 1986).<sup>10</sup> In Missouri, for example, a prominent state legislator observed how business indirectly shaped the genesis of performance funding:

You’ve got this maybe coincidental group of conservative business entities who act as a resistance to additional funding... they want to talk about things like accountability... So you know, performance-based funding was just kind of brought to us by consultants as a way to pacify various conservative groups. (Quoted in Dougherty & Natow, 2015, p. 67)

Studies of the origins of performance funding outside the United States do not mention of the role of business in the development of performance-based funding in other countries. However, such a role might be there, given the importance put on closer connections to business and labour market in the performance funding programmes in Australia, Austria, Denmark, Germany, Ireland, and Scotland, and the rise of European business organisations such as European Round Table of Industrialists that promote a narrative of the societal need for human capital development and improved industrial competitiveness (DeBoer et al., 2015, pp. 36, 43, 57-59, 84, 102, 118, 121-122; Guthrie & Neumann, 2007, p. 236; Slaughter & Cantwell, 2012, pp. 588-591).

### **The role of higher education institutions**

Another proponent of neoliberal policy also goes unmentioned in neoliberal theory, namely the agents who will be implementing government policies. They are seen by neoliberal theory as objects – and resistant objects at that – to neoliberal policies. The agents are conceived as usually having interests that conflict with those of their principals who initiate the policies, either wanting to do different things than the principals want or at the very least wanting to put in less effort (“shirking”) than principals might desire (Broucker & DeWit, 2015, p. 70; Kivisto, 2007, pp. 16, 22-23, 67-98; Kivisto & Zyalevska, 2015, pp. 136-137, 142; Lane & Kivisto, 2008, pp. 144-

145, 154, 160-161, 164-165, 171-172; Olssen & Peters, 2005, pp. 324-325). However, research on the origins of performance-based funding finds that higher education institutions – which act as agents of their principals in the higher reaches of government – are often key *supporters* of neoliberal reform and their motives often converge with those of their principals.<sup>11</sup> In the United States, higher education institutions – while opposing performance funding in several states – also supported it in several other states (Dougherty & Natow, 2015, pp. 70-76, 151-157; see also Macias, 2012, pp. 139-140 and Rabovsky, 2014a, pp. 765-766). And studies of performance-based funding in Europe find evidence of substantial university support, even as they also find evidence of misgivings or opposition (DeBoer et al., 2015, p. 62; Frolich et al., 2010, pp. 12-13; but see Braun, 1993, pp. 144, 147, 149).

This support for performance-based funding on the part of higher education institutions stems from two main motives. First, higher education personnel and institutions sometimes support performance-based funding because they believe it will produce improvements in higher education outcomes, such as student graduation or faculty research productivity, that state officials value.<sup>12</sup> This motive certainly was present in the United States (Dougherty & Natow, 2015, p. 71; Li, 2017b, p. 195; Ness, Deupree, & Gandara, 2015, pp. 52-53; Rabovsky, 2014a, p. 771). For example, a state community college leader in Florida declared: “I think the philosophy of performance funding is just a basic concept that should be embraced by everybody. I honestly believe that whether they get more money or not, that they should be out there trying to get the best performance that they possibly can” (quoted in Dougherty & Natow, 2015, p. 71). Moreover, there is evidence that this desire by higher education officials to improve educational outcomes was at work in other countries as well, whether the Netherlands or Norway (DeBoer et al. 2015, p. 31; Frolich, 2011, pp. 847-850, 854). Drawing on surveys of Norwegian higher education leaders, Frolich concludes:

The HEI leaders support PBF – if not uncritically – mainly due to the belief that PBF increases downward, inward and outward accountability. The HEIs are expected to adapt their strategies to the system of rewards for credits, which is seen as enhancing both student recruitment and efforts to ‘take better care’ of the students. The leaders believe that research quality, efficiency and relevance will improve in the long term

as research activities become more focused on results and that institutions will likely place priority on the research and funding possibilities which will augment their budgets. (Frolich, 100, p. 847)

Secondly, higher education personnel and institutions frequently believe that performance-based funding – whatever the demands and the dangers it poses for the institutions – also provides them with a new way to legitimate themselves in the eyes of government officials, other stakeholders, and the public and therefore assure their access to public funding.<sup>13</sup> When government funding is tight, they can make a case for more funding or at least protect existing funding by appealing to favourable performance indicators (Dougherty & Natow, 2015, pp. 67, 71-72, 152; Rabovsky, 2014a, p. 766; see also Rabovsky, 2014b, p. 267; Rutherford & Rabovsky, 2017, pp. 8-9). For example, a community college leader in Florida explained why they supported performance funding:

We thought it would lead to an improved funding. We thought it was a great opportunity to market the system in terms of what we do as a community college system in terms of outcomes.... We thought it would be a great opportunity ... to explain to legislators and policymakers what the role of the community college was all about in the state of Florida. (Quoted in Dougherty et al., 2011, p. 37)

This motive appears as well in studies of performance-based funding and quality assurance in Norway (Frolich, 2011, p. 847; Frolich et al., 2010, p. 16).

### **The importance of national and subnational context**

Neoliberal theory has not been unmindful of the impact of socio-political context in shaping how neoliberal policies are enacted (Kiser, 1998). However, it has not given sufficient importance to this point. Which actors are involved, with what valence, and with what effect can vary greatly across different settings (Jones, Jones, Elliott, Owens, Assalone, & Gandara, 2017, pp. 5-6; Pollitt & Dan, 2011, p. 52; and Schulze-Cleven et al. 2017, pp. 803, 808, 809).

In the case of US performance funding, how actively governors, legislators, and business supported performance funding varied considerably across states (Dougherty & Natow, 2015, pp. 64-67, 146-149). For example, in the case of



legislators, they were significantly more likely to be involved and supportive to the degree that the Republican membership of a legislature was high (Dougherty & Natow, 2015, pp. 64-66; Li, 2017a, p. 763; McLendon et al. 2006, p. 11).

Furthermore, state context affects whether and how performance-based funding programmes address racial inequality. An analysis of how states address race in their performance-based funding programmes finds that, while 20 of the 32 programmes extant did address race disparities, six of those states made the race metrics optional rather than mandated. The states that made racial metrics tended to be in the South (Arkansas, Florida, Virginia). The other states with optional racial-disparity metrics were Illinois, Kansas, and Massachusetts (Jones et al., 2017, pp. 130-137).<sup>14</sup>

## **Implementation of performance-based funding**

As in the case of explaining the origins of policies, neoliberal accounts provide an incomplete analysis of how those policies are implemented. With regard to policy instruments,<sup>15</sup> they focus on financial incentives. And when considering the obstacles that those policy instruments encounter, they focus on gaming and resistance. Analysis of the implementation of performance-based funding in the United States and elsewhere backs up both predictions but it also finds other policy instruments and implementation obstacles at work as well.

### **Policy Instruments**

Neoliberal theory focuses on the use of monetary incentives and accountability and monitoring as the main motivators to get agents to move in the directions desired by principals. Because agents are conceptualised as self-interested, with their interests often running counter to those of the principals, incentives and monitoring are necessary to align agents' motives with those of the principals (Broucker & DeWit, 2015, pp. 61-62; Ferlie et al., 2008, pp. 335-336; Kivisto, 2007, pp. 106-110; Lane & Kivisto, 2008, pp. 144-146, 160-161; Olssen & Peters, 2005, pp. 315, 327-329; Pollitt & Dan, 2011, p. 5).

The implementation of performance funding in the United States certainly gives testimony to the primacy put by policymakers on monetary incentives (Dougherty et

al., 2016b, pp. 42-52). For example, a state policymaker in Indiana stated: “The state wants higher graduation rates, the state wants more research dollars coming in, the state wants a more efficient higher ed system, and so they would say, ‘If you do these things that align with our policies, then we will try and get you some more money for doing that.’ It’s a simple financial incentive model” (quoted in Dougherty et al., 2016b, p. 43).

But the implementation of performance funding in the United States also testifies to the importance put on other policy instruments, including persuasive communication and capacity building, that are given much less emphasis by neoliberal theory (Dougherty et al., 2016b, pp. 52-76; Jones et al., 2017, pp. 147-149; and Li, 2017b, 191-192). Persuasive communication involves the principal communicating to the agent why a certain policy is important, with the hope of aligning their values (Dougherty et al., 2016b, pp. 52-54). For example, a state higher education official in Indiana stated: “We really worked hard to [implement performance funding] in partnership with the institutions. When [the previous commissioner of higher education] was here, he worked with all of the presidents and all the institutions to try to get them to buy into this. We’ve continued to acknowledge their concerns as we refine the metrics” (quoted in Dougherty et al., 2016b, p. 53). This strategy of persuasive communication fits with the strain in principal-agent theory that emphasises how deviant action by agents is more a matter of “slippage” due to conflicting and inadequate communication and less a matter of self-interested “shirking,” which is the formulation favoured by the dominant, economics-oriented version of principal-agent theory (Lane & Kivisto, 2008, pp. 154, 164-165, 170-172).

Capacity building involves expanding the resources that institutions have available to produce the desired outcomes. These resources could be money, skilled staff, knowledge, etc. American states pursuing performance funding have moved to enhance the organisational capacities of higher education institutions by such means as holding workshops where institutions can inform each other about organisational obstacles they have encountered in responding to the demands of performance funding and promising solutions they are pursuing to meet those demands (Dougherty et al., 2016b, pp. 71-74; see also Brinkerhoff, 2010).<sup>16</sup>

## **Obstacles**

Neoliberal theory has devoted considerable attention to why implementation breaks down. As before, research on obstacles to the implementation of performance funding for higher education both buttresses the claims of neoliberal theory but also points to much that it misses.

## **Evidence in keeping with the neoliberal conceptualisation of policy implementation**

In keeping with its analysis of policy origins, neoliberal theory's analysis of policy implementation focuses on conflicting self-interests between principals and agents. Those conflicting self-interests make it likely that agents will be tempted to go their own way to the detriment of the principal's interests, and this probability is heightened if there is significant "information asymmetry" in which agents are far more aware than principals about how well they are carrying out the principal's desires (Kivisto, 2007, pp. 17-18, 56-66; Lane, 2012, pp. 282-284; Lane & Kivisto, 2008, pp. 143, 145, 146, 158-159). Principals will try to combat this threatened divergence by providing agents with monetary incentives to behave and by monitoring their actions (see above). But agents can defeat that monitoring by "gaming" it in ways that obscures their deviance. For example, academics can respond to principals' demands for improved graduation rates by lowering their grading standards and demands for improved research productivity by choosing easier research projects and slicing up their publications into many different forms (Kivisto, 2007, pp. 98-100, 112).

Research on the implementation of performance funding does find considerable evidence of extensive resistance and gaming on the part of higher education institutions.<sup>17</sup> US higher education institutions and their staffers frequently do resist the demands of state governments that they wholeheartedly pursue certain outcomes standards (Dougherty et al., 2016b, pp. 159-161; Li, 2017, p. 193). They attempt to disguise this resistance by such devices as reducing course and programme demands so that students can more easily pass (Dougherty et al., 2016b, pp. 184-189). For example, a faculty member at an Ohio University stated:<sup>18</sup>

Well, in an effort to promote student success, there is a substantial pressure to minimise the failure rates of the students in some of these undergraduate courses. And of course that would translate into inflation

of grades in order to make sure that the students are passing all of these courses and so forth. So I as a faculty member have a concern as to the watering down of our course materials as well as the quality of our majors, the programs. (Quoted in Dougherty et al., 2016b, p. 186)

Meanwhile, studies of performance funding in England and Australia have found gaming as well in the operation of their performance-based systems for funding research (Talib & Steele, 2000; Woelert & Yates, 2015, pp. 184-186; but see Sharp, 2004 contra). For example, Peter Woelert and Lyn Yates conclude from their interview study of Australia's performance funding of research:

The phenomenon of 'output distortion' brings us to the discussion of a more deep-seated problem with the current form of performance measurement en vogue in Australian higher education... there is also a wide range of evidence, both historical and recent, that the same performance measurement regimes can stimulate a range of strategic adaptations commonly referred to as 'gaming', which may ultimately have a detrimental effect on the actual outcomes achieved... our project interviews produced a number of unsolicited comments of such 'gaming' practices being learnt or observed today in Australia. There are indications that in Australian higher education, such 'gaming' of performance measures has also occurred on the level of whole universities and their reporting to government. (Woelert & Yates, 2015, p. 185).

The characterisation above of neoliberal theory's analysis of implementation focuses on the dominant economic model, which is centred on the conflicting interests of principals and agents and "shirking" of responsibilities by the agents. But there is another, less dominant current in neoliberal principal-agent theory – rooted more in political science – that focuses instead on "slippage," caused by conflicting *understandings*. The focus here is on conflicting understandings caused by multiple principals demanding different things from the agent or poor communication between principal and agent (Kivisto & Zyalevska, 2015, 142; Lane & Kivisto, 2008, pp. 154, 164-165, 171-172; Miller, 2005, 211-213; Moe, 1984, 768-769).

There is considerable evidence of such slippage in the US experience with

implementing performance-based funding.<sup>19</sup> Studies of the communication between state officials and administrators and faculty of higher education institutions about the content and methods of performance funding have documented a high incidence of poor communication (Dougherty et al., 2016b, pp. 52-65, 148, 162-163; Li, 2017b, pp. 191-192). For example, in interviews with faculty and administrators in three states with leading performance funding systems (Indiana, Ohio, and Tennessee), 21% of the reports of institutional communication were that there had been no such communication at all (Dougherty et al., 2016b, p. 56).

While neoliberal theory has illuminated the role of gaming in the implementation of policy, it has also failed to capture many other factors that are at work in hindering organisations in responding to policy initiatives. Let us examine how these missing factors show up in analyses of the implementation of performance funding.

### **Evidence going beyond the neoliberal conceptualisation of policy implementation**

Research on performance-based funding points to several obstacles to implementation that neoliberal theory ignores. These include client composition, lack of organisational resources, unstable funding, and a poor fit between performance-funding indicators and organisational missions.

Client composition. Several studies of US performance funding have pointed to the fact that a major impediment to the ability of higher education institutions to meet performance demands is the character of their student bodies. Colleges and universities will find it difficult to produce as many graduates or job placements as demanded if many of the students entering those colleges are not well prepared academically or face other social disadvantages (Dougherty et al., 2016b, pp. 148-153; Jones et al., 2017, p. 77; McKinney & Hagedorn, 2015; Ness et al., 2015, pp. 56-58). For example, graduates of predominantly Black institutions in the United States face considerable discrimination in hiring that makes it difficult for them to get jobs that generate good job placement figures for their colleges (Jones et al., 2017, p. 52).<sup>20</sup>

Lack of organisational resources. Studies of US performance-based funding find that higher education institutions often find it difficult to meet performance demands if they lack the institutional capacity to analyse their problems and decide how to meet

them and the financial and human resources to mount an effective response (Dougherty et al., 2016b, pp. 146, 156-159; Jenkins, Ellwein, & Boswell, 2009, p. 28; Jones et al., 2017, pp. 20, 54, 62, 147-149). Colleges with institutional research offices that are poorly financed and not particularly expert find it difficult to isolate the causes of poor institutional performance and devise reliable solutions. But even if they surmount these hurdles, they often lack the funds to invest in those solutions, particularly if they take years to reach fruition.<sup>21</sup>

Instability in funding and indicators. Institutional responses to performance funding are hindered as well if performance indicators frequently change and institutions have difficulty predicting how much funding they will receive under the performance funding programme. Both sources of volatility make it hard for organisations to plan their responses to performance funding and mobilise the necessary resources (Dougherty et al., 2016b, p. 148; Li & Zumeta, 2016b, pp. 10-11).

Poor fit between performance indicators and organisational missions. Higher education institutions are also hindered in responding if they find that the PBF indicators do not fit well with their organisational missions. As a result, they may appear to be performing poorly according to the government's standards, but not according to the institutions' own lights. This shows up in studies of US performance funding (Dougherty et al., 2016b, pp. 153-156) and studies of performance funding in Europe and Australia (Frolich et al., 2010, p. 18; Guthrie & Neumann, 2007, p. 24).<sup>22</sup> This points to the fact that higher education institutions may behave in ways different from those intended by policy principals not so much because there is a difference in self-interests, as neoliberal theory claims, but a difference in *values*. This point about value conflict is consonant with the bottom-up perspective in implementation studies. That perspective notes that the "street level bureaucrats" applying policies may act in ways different from those intended by policy designers because they diverge in their values and in their understanding of the demands of the local context (see Lipsky, 1980; Matland, 1995; and Sabatier, 1986).

## **Impacts of performance-based funding**

Neoliberal discourse on policymaking has focused on the intended impacts of greater effectiveness and efficiency at lower cost to government (Brown, 2018, p. 4;

Ferlie et al., 2008, p. 335; Harvey, 2005, p. 54; Hood, 1991, p. 3; Kivisto, 2007, pp. 22-23, 67-98; Pollitt & Dan, 2011, p. 5; Slaughter & Rhoades, 2016, p. 506). There has been much less attention to unintended impacts, with many important unintended impacts largely ignored by neoliberal theory.

### **Intended impacts**

Neoliberal theory has focused on how public organisations can be made more effective and efficient (Ferlie et al., 2008, p. 335; Hood, 1991, pp. 11-12, 15; Marginson, 1997, p. 5; Olssen & Peters, 20015, pp. 320-322; Pollitt & Dan, 2011, p. 5).<sup>23</sup> When applied to higher education institutions this has taken the form of such goals as improved instructional effort, student outcomes (particularly programme completion), and faculty research productivity (DeBoer et al., 2015; Dougherty & Natow, 2015).

With regard to instructional effort, studies both in the United States and abroad do find evidence of improved instructional effort in response to performance funding. In the United States, several studies find that higher education institutions subject to performance funding increase their spending on instruction and make improvements in their instructional programmes and student services (Banta & Fisher, 1984, pp. 34–36; Bell, 2005, pp. 107, 121, 129-130; Dougherty et al., 2016b, pp. 127-129; Jenkins et al., 2009, pp. 30-31; Ness, Deupree, & Gándara, 2015, pp. 51-52; and Rabovsky, 2012, p. 693; but see Kelchen & Stedrak, 2016, contra). The most commonly made campus-level academic changes that occurred around the time of performance funding adoption were reshaping developmental education, improving course articulation and transfer, and revamping advising and counseling services (Dougherty et al., 2016b; Jenkins et al., 2009, pp. 30-31; Ness et al., 2015, p. 51). Looking abroad, similar findings appear in the case of performance funding in Denmark (Frolich, 2011, pp. 848-849; Jongbloed & Vossensteyn, 2015, p. 590).

In the case of graduation rates, the effects of performance funding are weaker to even nonexistent (Bell, Fryar, & Hillman, 2018; Dougherty et al., 2016b, chap. 6; Hillman, Fryar, & Crespín-Trujillo, 2018; Kivisto & Kohtamaki, 2016; Rutherford & Rabovsky, 2014; and Umbricht, Fernandez, & Ortagus, 2017). In their meta-analysis of 12 US studies, Bell et al. find that the average effect on degree completion is not distinguishable from zero (Bell et al., 2018, pp. 116-117). Similarly, in a difference in differences study of the two trailblazing states of Ohio and Tennessee, Hillman and

his colleagues find no impact on baccalaureate and associates degree production. They do find a significant impact on certificate production, but they argue that this is coming at the expense of greater effort to raise baccalaureate and associates completion (Hillman et al., 2018, pp. 161-163; see also Hu, forthcoming). Studies of performance funding in Europe also fail to find any significant impact of performance funding on student completion in the case of Denmark (Claeys-Kulik & Estermann, 2015, p. 44; Jongbloed & Vossensteyn, 2015, p. 590).

With regard to the impact of performance funding on research productivity, the evidence is positive but not conclusive. Because US performance funding systems have largely ignored faculty research outcomes (Dougherty & Natow, 2015, pp. 19-22), we instead focus on studies of performance funding in other countries. Several studies of performance funding in Europe do find evidence that performance funding has led to higher rates of faculty research productivity in Denmark, the Netherlands, Norway, Switzerland, the United Kingdom, and Hong Kong (De Boer et al., 2015, pp. 60, 91, 114-115; Hare 2003; Huisman & Currie, 2004, pp. 544-545; Jongbloed & Vossensteyn, 2015; McNay, 1999, p. 195-199; Mishra, 2016; Morgan, 2004; Schenker-Wicki & Hürlimann, 2006; and Sharp, 2004; but see Frolich, 2011 contra). However, many of these findings come from studies that do not rely on research designs that adequately control for causes other than the advent of performance funding.

The lack of uniformly strong impacts of performance funding on intended organisational outcomes may seem surprising. However, this accords with findings from studies of the impacts of other kinds of neoliberal policies. For example, in a meta-analysis of 49 studies of the impact of performance management, Gerrish (2015) found that the mean effect size was only 0.030, statistically significant but small. It only rises to 0.12 when one controls for type of performance management system, whether it used best practices, and the type of research design.

### **Unintended impacts**

While policymakers pursue certain goals when adopting performance funding, there are also likely to be – as with any policy intervention – unintended and often unanticipated consequences (Dougherty et al., 2016b; Guthrie & Neumann, 2007; Li and Zumeta, 2016a).<sup>24</sup> Neoliberal theory has anticipated some of the unintended impacts that have cropped up in the process of implementing performance funding,



but it has paid little attention to several others that have appeared as well in studies of the implementation of neoliberal policies, including reduced admission of less advantaged students, narrowing of institutional missions, growing stratification of institutions and the creation of vicious-cycle mechanisms, growing stratification of the academic labour force, and damaged motivation of academic personnel.

### **Evidence in keeping with the neoliberal conceptualisation of unintended impacts**

Neoliberal theory has devoted attention to how neoliberal policy can impose considerable compliance costs, involving additional management and administration, on the agents carrying out those policies (Kivisto, 2007, p. 119). And there is good reason for this attention. It is a frequent side effect of the application of performance funding in the United States (Dougherty et al., 2016b, pp. 172, 188-190; Gray, Harkreader, & Wagar, 2001, pp. 31–32, 36) and in Europe and Australia (DeBoer et al., 2015, pp. 17, 115; Guthrie & Neumann, 2007, p. 247).<sup>25</sup>

Another unintended impact noted by neoliberal theory is that its proposed reforms may result in reductions in the quality of government services as agencies respond to heightened competition and declining revenues by cheapening the quality of the services they provide (Kivisto, 2007, p. 112).<sup>26</sup> This impact has been noted as well by studies of the implementation of performance funding both in the United States and abroad. Studies of the United States have noted how higher education institutions resort to such devices as weakening academic demands through inflating grades and reducing the number of difficult courses required for graduation (Dougherty et al., 2016b, pp. 172, 184-188; Dougherty & Hong, 2006, pp. 73–74; Jenkins et al., 2009, p. 39). Meanwhile, studies of performance funding abroad have noted unintended impacts in both instruction and research. In the case of instruction, institutions may reduce their academic demands and churn out graduates (Claeys-Kulik & Estermann, 2015, pp. 40, 48; Frolich, 2011, pp. 848-850; Frolich et al., 2010, pp. 16-17). In the case of research, studies find evidence that performance funding is associated with faculty trying to improve their publication statistics by slicing up their publications into more articles, many of which are little different from each other, and pursuing less difficult research questions (DeBoer et al., 2015, p. 91; Sharp, 2004, 2002; Talib & Steele, 2000).<sup>27</sup>

## **Evidence going beyond the neoliberal conceptualisation of unintended impacts**

Neoliberal theory ignores many important unintended impacts of the policies it espouses. The implementation of performance funding has produced such unintended impacts as reduced intake of less advantaged students, narrowing of institutional missions, growing stratification of institutions and the creation of vicious-cycle mechanisms, growing stratification of the academic labour force, and damaged motivation on the part of higher education personnel.

Reduced admission of less advantaged students. Many studies of performance funding find that performance funding in the United States leads institutions to reduce their intake of less advantaged students in order to improve their performance (Dougherty et al., 2016b, pp. 172-183; Jones et al., 2017; Kelchen & Stedrak, 2016; Li & Zumeta, 2016; McKinney & Hagedorn, 2015; Ness, Dupree, & Gandara, 2015, p. 47; Umbricht, Fernandez, & Ortagus, 2017).<sup>28</sup> For example, an analysis of the impact of PBF on Indiana public institutions finds that – after the advent of performance funding – they were admitting more students with high ACT college aptitude scores, fewer minority students, and – in some cases – fewer low-income students (Umbricht et al., 2017, pp. 661-663). American higher education institutions can become more restrictive in whom they accept by such means as raising their academic requirements, focusing their recruitment activities on secondary schools with better prepared and more socially advantaged students, and targeting their institutional financial aid on such students (Dougherty et al., 2016b, pp. 177-184). Studies of performance funding abroad raise this possibility of reduced equity as well. However, they do not cite local evidence to back up that it has indeed occurred (DeBoer et al., 2015, p. 15; Santiago et al., 2008, p. 314).

Governments can counteract such impacts by careful design of performance funding programmes. Greater weighting in funding formulas of enrollments and completions for underrepresented groups – whether low-income, minority, or older students – can provide a counterweight to the temptation of institutions to reduce or keep down their intake of such students (Dougherty et al., 2016b, chap. 9; Gandara & Rutherford, 2017; Kelchen, 2018a). For example, Kelchen conducted a multivariate difference in differences study using IPEDS data on 526 public four-year colleges and universities across the United States located in states with performance funding systems. He

examined the impacts of state performance funding systems that included incentives to enroll and graduate underrepresented students and of PBF systems that had no such incentives. He found that institutions (particularly selective colleges) facing PBF systems with egalitarian incentives were more likely to enroll African-American students than colleges facing PBF systems with no such incentives. However, he found mixed and not statistically significant associations with enrollment of Hispanic, low-income, and older students (Kelchen, 2018a, pp. 716-720). In addition, Li, Gandara, & Assalone (2018) find that incorporating metrics for student progress can protect institutions serving many minority students from being hurt by performance funding programmes.

Distortion of institutional missions and reduction of institutional diversity. By financially rewarding some higher education activities more than others, performance funding can narrow the range of activities that institutions pursue and reduce the diversity of missions among institutions. This has been identified as a problem in studies of US performance funding (Bell, 2005, pp. 117-118; Dougherty et al., 2016b, pp. 172, 193; Jenkins et al., 2009, pp. 36–37) and of performance funding in Europe, Canada, and Australia (Barnetson & Cutright, 2000, p. 286; Claeys-Kulik & Estermann, 2015, p. 48; DeBoer et al., 2015, pp. 14, 61-62, 70; Gauthier, 2004, pp. 104-105; Guthrie & Neumann, 2007, p. 247; Sharp, 2004, p. 202; Sporn, 2018). In the case of performance funding for research in England, there is evidence that performance funding for research has led researchers to converge in their research topics, giving up ones that might prove less useful in securing performance funds, and has led institutions to put less emphasis on teaching (McNay, 1999, pp. 195-200; Sharp, 2004, p. 202).<sup>29</sup>

Growing stratification of higher education institutions and the creation of vicious cycles. Performance funding studies have identified the danger that it can increase inequality of institutional performance by penalising poor performers, leaving them without the resources they need to improve their performance. This problem of a vicious cycle has been identified in both American and European research (Claeys-Kulik & Estermann, 2015, pp. 40, 42; Zumeta & Li, 2016, p. 10). Particularly in studies of performance funding abroad, researchers have raised the issue that performance funding seems to increase stratification between institutions (DeBoer et al., 2015, pp. 114-116; Morgan, 2004). Studies of the Research Assessment

Exercise in England have found that it has led to concentrating more research funding in Oxford, Cambridge, and the Russell Group institutions, making it harder for other institutions to compete (Morgan, 2004).<sup>30</sup> Performance funding can also harm minority-serving institutions if the metrics are not carefully designed with their situation in mind (Jones et al., 2017).

Growing stratification of the higher education labour force. Even as performance funding can lead to more stratification among institutions, there is also evidence that it leads to greater stratification within institutions. Performance funding has been found to increase the power of administrators at the expense of faculty in the United States and Australia (Dougherty et al. 2016b, pp. 192-193; Dougherty & Reddy, 2013, pp. 76-77; Guthrie & Neumann, 2007, pp. 234-235).<sup>31</sup>

Damaged motivation of institutional personnel. Finally, performance funding has been found to erode the motivation of the agents to which it is applied. The assumption – particularly in policies driven by principal-agent theory – that the agents are not committed to the goals of the institution and often shirk their duties – wounds the agents' amour propre. An emphasis on extrinsic motivation can damage the morale of organisational staffers who are substantially oriented by intrinsic motives.<sup>32</sup> This in turn undercuts their willingness to do the work of the institution (Dougherty et al., 2016b, p. 192). For example, a Tennessee faculty member noted: “[It is] completely demoralizing.... The implication from this type of funding is that we’re not working hard enough, we’re not willing to change, and we’re not willing to improve” (quoted in Dougherty et al., 2016b, p. 192).

## Conclusions

In the pages above, we have examined how the development of performance funding for higher education can shed light on the strengths and weaknesses of neoliberal theory. As we have noted, several different strands of neoliberal theory – whether new public management, principal-agent theory, or performance management – recommend the use of performance funding.

Using performance funding as a test case of neoliberal practice, we have examined the origins, implementation, and outcomes of performance funding in the United

States and abroad. Our aim has been to determine to what degree neoliberal theory accurately captures the development and impacts of neoliberal practice.

With regard to policy origins, we have seen that neoliberal theory correctly anticipates the key role that top government officials (both elected and appointed) play in the development of performance funding. However, neoliberal theory fails to anticipate the important role of business and of higher education institutions in the formation of neoliberal policies. The failure to anticipate the important role of higher education institutions and their sometimes convergent interests with government officials and business largely stems from the fact that neoliberal theory is focused on the actions and intentions of policy “principals” and ignores the role of semi-autonomous “agents” not just in policy implementation but also in policy origins. But those agents can play a powerful role in policy origins, pursuing interests of their own that both converge and diverge from those of their principals. Finally, neoliberal theory fails to point to the important role of socio-political contexts in determining which actors and what interests get activated in particular places and times (for more, see Schulze-Cleven et al., 2017).

The “semi-autonomous” role of government officials and agencies, including public higher education institutions, can be better understood by drawing on the theory of the state and post-pluralist theories of political power (Block, 1987; Carruthers, 1994; Dougherty, 1994; Lindblom, 1977; Lindblom & Woodhouse, 1993; Lukes, 2005; Roscigno, 2011; Skocpol and Amenta, 1986). The literature on the theory of the state illuminates the distinctive interests and values of government officials and how they pursue them within a field of force shaped by capitalism on the one hand and democracy on the other. The literature on post-pluralist theories of power sheds light on how social actors can shape government policy not just through conventional forms of political participation such as lobbying and campaign contributions but also through controlling the political agenda and by shaping the beliefs and values of political decision makers.

When it comes to policy implementation, neoliberal theory correctly notes the important role of monetary incentives as policy instruments and the obstacle posed by gaming on the part of agents. Monetary incentives are a key element of performance funding and gaming is certainly present. At the same time, the implementation of performance funding points to the important use of other policy

instruments such as persuasive communication between principals and agents and efforts by principals to build up the organisational capacity of agents. Moreover, the performance funding experience also points to a host of obstacles beyond gaming to the effectiveness of performance funding. These include unfavorable client composition, lack of organisational resources, unstable funding, and a poor fit between performance-funding indicators and organisational missions.

Finally, with regard to outcomes of neoliberal policymaking, the performance funding experience raises many questions about the claims of neoliberal theory. The higher education outcomes that fit the neoliberal focus on organisational effectiveness and efficiency – such as improved instruction, higher rates of graduation, and enhanced faculty research productivity – are rather weakly related to performance funding. Although performance funding does appear to produce improvements in instructional practice and faculty research productivity, there is little evidence that it produces increases in graduation rates. And there is the additional problem that performance funding is associated with a host of unintended impacts that neoliberal theory largely ignores. The theory does point to such problems as compliance costs and drops in output quality, but it fails to anticipate such other unintended impacts as reduced admission of less advantaged students, narrowing of institutional missions, rising inequality among higher education institutions and the creation of vicious-cycle mechanisms, growing stratification of the academic labour force, and damaged motivation on the part of higher education personnel. These unintended impacts are important because they indicate a movement by higher education institutions away from egalitarian ideals such as broad access to higher education and higher education as a democratising force.

The analysis of the unintended impacts of performance funding and other neoliberal policies would be greatly enriched by drawing on theorising on the unintended impacts of purposive action, sparked by the original sociological insights of Robert K. Merton (De Zwart, 2015; Franco-Santo & Otley, 2018; Hood & Peters, 2004; Merton, 1968, 1976; Mica, 2017; Portes, 2000; Sieber, 1981). This literature analyses various conditions that increase the likelihood that policy effects deviate from policy intentions.

Table 1 summarises the claims made by neoliberal theory and how well they are validated by research on performance funding, both in the United States and abroad.

It also points out features of the origins, implementation, and impacts of performance funding that research has discovered but are not anticipated by neoliberal theory.

<b>Table 1: Summary Assessment of the Claims of Neoliberal Theory</b>	
<b>Neoliberal Theory</b>	<b>Performance Funding Research Findings</b>
<b>Policy Origins</b>	
Top government officials are key proponents of neoliberal policy reform.	Confirmed
	Major role of business, exercising both direct and indirect power.
Agents typically resist policies because their interests often diverge from those of policy principals.	Substantially disconfirmed. Many higher education institutions supported performance funding. Their interests and values were often convergent with those of principals.
<b>Policy Implementation</b>	
<i>Policy instruments</i>	
Financial incentives	Confirmed
Monitoring and accountability processes	Confirmed
	Persuasive communication
	Capacity building
<i>Obstacles</i>	
Resistance and gaming	Confirmed
	Client composition
	Lack of organisational resources
	Unstable funding
	Poor fit between performance-funding indicators and organisational missions.
<b>Policy impacts - Intended</b>	
Improvements in organisational performance	Partially confirmed. More instructional spending, instructional reform, and research productivity. No big impacts on student outcomes.
<b>Policy impacts - Unintended</b>	
Compliance costs	Confirmed
Quality reduction	Confirmed

	Reduced admission of disadvantaged students
	Distortion of organisational missions
	Growing stratification of institutions
	Growing stratification of higher education labour force
	Damaged motivation of institutional personnel

Neoliberal theory has undoubtedly made a contribution to understanding how public agencies can be made more responsive. However, as we see above, neoliberal theory is also deficient in many regards. Given these major limitations, it is not surprising that we have seen major challenges to it in both theory and practice. The last two decades have seen the appearance of systematic critiques of neoliberal “market fundamentalism” in social theory, social policy, and social practice (Berezin, 2009; Block & Somers, 2014; Brown, 2011, 2013; Callender & Dougherty, 2018; Ganti, 2014; Giroux, 2002; Gledhill, 2004; Greenhouse, 2010; Harvey, 2005; Milkman, Luce, & Lewis, 2014; Panitch & Gindin, 2018; Stiglitz, 2018).

Given the above, performance-based funding is unlikely to make any substantial contribution unless it outgrows its neoliberal husk. Whatever promise performance-based funding might have, it can only be realised if efforts are made to systematically address the many unintended impacts it produces and the many obstacles it encounters in realising its intended impacts. Neoliberal theory does illuminate some of these obstacles and unintended impacts but it misses many others. Hence, the design of performance-based funding needs to be shaped in the light of perspectives from sociology, political science, anthropology, and social and organisation psychology that capture these missing elements (Dougherty et al., 2016b; Hernandez, 2012; Kiser, 1998; Li & Zumeta, 2016; Moynihan, 2008). Important repositories of these other perspectives are studies of policy implementation from a bottom-up perspective (Matland, 1995; Sabatier, 1986) and from the perspective of how policy implementers make sense of policies, their tasks, and their environment (Spillane, Reiser, & Gomez, 2006; Yanow, 1996).

To begin to address the limitations of performance funding, governments need to protect academic standards and counteract the temptation to restrict admission of



less prepared and less advantaged students. Governments and institutions can monitor academic standards and student learning outcomes through assessments and mandatory reporting about grade distributions and degree requirements. Anonymous faculty surveys may provide information as to whether instructors feel compelled to lower academic standards. Governments may also incentivise the enrollment and graduation of disadvantaged students by including metrics for access and success of disadvantaged students and by taking account of institutional missions and student demographics when assessing relative institutional performance (Dougherty et al., 2016a, 2016b; Dougherty & Reddy, 2013; Gandara & Rutherford, 2017; Jenkins & Shulock, 2013; Jones et al., 2017; Shulock & Jenkins, 2011). These steps would help to reduce some of the unintended impacts of performance funding. Moreover, governments and institutions should endeavor to overcome the barriers to effective responses to performance funding policies, which tempt institutions to resort to reducing academic standards and excluding less advantaged students. To do this, governments can provide extra funding to higher education institutions with many disadvantaged students and take action to help institutions improve their capacity to implement changes that respond effectively to performance accountability requirements (Dougherty et al., 2016a, 2016b).

More generally, prescriptions for performance funding need to challenge the “new public management” by putting less emphasis on narrowly economic models of organisational behavior and the market- and audit-based controls they favour and putting more emphasis on socio-political models of organisational behavior that emphasise organisational cooperation and learning (Davis, Schoorman, & Donaldson, 1997; Ferlie et al., 2008, 2011; Hernandez, 2012; Moynihan, 2008). For example, this second approach emphasises the importance of organisational learning involving the systematic gathering and consideration of information on organisational performance through decentralised, egalitarian, and well-funded learning forums that bring together a wide range of people inside and outside organisations (Bensimon, Dowd, Longanecker, & Witham, 2012; Dougherty et al., 2016b; Moynihan, 2008).<sup>33</sup>

In order to do this effectively, performance-based funding needs to be firmly grounded in an awareness of how organisational performance is shaped by a host of organisational and environmental factors typically ignored by neoliberal theory:

organisational culture and leadership; organisational resources and capacity; the external environment, including other organisations, the economy, and government; and the interests and power of differentially advantaged social groups (Burke, 2011; Dougherty et al., 2016b; Kezar, 2014; Jones et al., 2017; Moynihan, 2008, pp. 202-205; Rabovsky, 2014b). This socio-political perspective converges with a conceptualisation of nonprofit agencies as involving multiple stakeholders who have made investments – emotional as often as economic – in those organisations. Consequently, the interests that need to be considered are not just those of the agency “owners” or “principals,” whether government officials or agency directors, but also those of the “employees” or “agents” and other stakeholders (see Speckbacher, 2003).

Finally, any successor to neoliberal policy and theory needs to pay close attention to stratification by class, race, gender, and other social characteristics. If these are not kept foremost in mind, there is a danger that any policy that pursues efficiency will do considerable damage. Apostles of efficiency always need to consider “efficiency for whom?” Are gains in efficiency – even if the majority of the population benefits – being purchased at the cost of harming those disadvantaged by systems of class, racial, gender, and other inequality (see Fisman, Jakiela, Kariv, & Markovits, 2015; Hu, forthcoming; Jones et al., 2017)?

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## Endnotes

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<sup>1</sup> Within each of these theoretical schools flowing along the broad neoliberal stream, there are further subdivisions. For example, there are significant differences between the economic, political science, and sociological versions of principal-agent theory (Kiser, 1999; Lane & Kivisto, 2008; Miller, 2005).

<sup>2</sup> For example, NPM has been defined as “a reform model arguing that the quality and efficiency of the civil service should be improved by introducing management techniques and practices drawn mainly from the private sector” (Bleiklie, 2018, p. 1).

<sup>3</sup> See Marginson (2009) for an analysis of why higher education can never fully become a market.

<sup>4</sup> The US federal government also has its own performance funding programs. For example, the federal government funds students to attend vocational programs in higher education so long as those programs maintain a certain minimum graduation rate and their students do not emerge overly indebted (Kelchen, 2018b; Natow, 2017). Moreover, it could be argued that the massive system of federal funding for research – through such agencies as the National Science Foundation and the National Institutes of Health -- constitutes a form of performance-based funding in that funding is based on competitive proposals and a researcher’s track record is a major factor in securing approval of a proposal.

<sup>5</sup> We are including here performance agreements in which governments advance funding to institutions in return for promised performance outcomes (Jongbloed, Kaiser, van Vught, & Westerheijden, 2018).

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<sup>6</sup> This quotation and others that cite Dougherty & Natow (2015) appear in *The Politics of Performance Funding*. © 2015 Johns Hopkins University Press.

<sup>7</sup> See Barzelay (2001) for evidence of the key role of top government officials (both elected and appointed) in other neoliberal reforms in the United States, Canada, England, Australia, and New Zealand.

<sup>8</sup> For more on indirect, nonparticipative political power exercised by business, see the exposition of nonpluralist theories of power in Dougherty (1994), Lindblom & Woodhouse (1993), and Lukes (2005).

<sup>9</sup> Though neoliberal theory has many parents, business patronage is one of the more important ones. For more, see Harvey (2005, chap. 2), Jones (2012b), and Steger & Roy (2010, p. 23).

<sup>10</sup> This power of economic “constraint” resembles the second dimension of power discussed by Lukes (2005). For more, see Dougherty (1994) and Lindblom & Woodhouse (1993).

<sup>11</sup> Studies of the enactment of neoliberal reforms in other areas of public policy also find evidence of support from the agents and value convergence with the principals (Fitzgerald & Ferlie, 2000, pp. 729, 734; Nyhagen, Bleiklie, & Hope, 2017, p. 291).

<sup>12</sup> This motive fits with the criticism that principal-agent theory relies on too narrow a conceptualization of self-interest (Perrow, 1990; Renmans et al., 2016).

<sup>13</sup> In a meta-analysis of reforms conducted under the banner of the new public management, Pollitt & Dan (2011, pp. 56, 59) find evidence that those reforms allow government agencies a way to demonstrate an anti-bureaucratic stance, evidence of active and reforming government, and a customer orientation.

<sup>14</sup> Only three southern states (Arkansas, Florida, and Virginia) had provisions for race metrics and all three made them optional (Jones et al., 2016, pp. 131-132). Another study finds that only two Southern states (Tennessee and Virginia) have performance-based funding programs that provide an incentive for advancing and graduating minority students (Gandara & Rutherford, 2018).

<sup>15</sup> For general treatments of the concept of policy instruments, see McDonnell & Elmore (1987), Schneider & Ingram, (1990), Van Vught (1994), and Nyhagen, Bleiklie, & Hope (2017).

<sup>16</sup> For other analyses of capacity building as a policy instrument in the implementation of neoliberal policies, see Pollitt & Dan (2011), pp. 40, 43, 55.

<sup>17</sup> Gaming responses have been found as well in studies of neoliberal policymaking other than performance funding for higher education (DeBruijn, 2002, pp. 21-32; Ferlie, Ashburner, Fitzgerald, & Pettigrew, 1996, pp. 112-115; Franco-Santos & Otley, 2018, p. 718; Grizzle, 2002, pp. 363-65; Heinrich & Marschke, 2010, pp. 195-196; Moynihan, 2010, pp. 288-289; Radin, 2006, pp. 17-19; Renmans, Paul, & Dujardin, 2016, p. 11; Van Thiel & Leeuw, 2002, p. 27). For a more general treatment of gaming in the policy implementation process, see Bardach (1977).

<sup>18</sup> This and other quotations that cite Dougherty et al. (2016b) appear in *Performance Funding for Higher Education*. © 2016 Johns Hopkins University Press.

<sup>19</sup> Evidence of poor communication between principals and agents also shows up in analyses of other forms of neoliberal policymaking (Colyvas, 2012, p. 178; Romzek, 2000, p. 30; Townley, Cooper, & Oakes, 2003, pp. 1061-1062).

<sup>20</sup> Studies of the implementation of other neoliberal policies also find that client composition can hinder public agencies in meeting performance targets (Andrews et al., 2006, p. 286; Meier & Bohte, 2003; Moynihan, 2008, p. 202; Pollitt & Dan, 2011, pp. 40-41, 55).

<sup>21</sup> Further evidence for the importance of organizational resources can be found in the studies of the implementation of other types of neoliberal policies by Andrews et al. (2006), pp. 286-287; Moynihan (2008), pp. 104-105, 113, 167, 178-185; Pollitt & Dan (2011), pp. 40, 43, 55; Rabovsky (2014b), p. 267; and Schick (2003), pp. 84-86. Also see Kerrigan (2014, 2015); and Light (2014). For discussions in the policy implementation literature on the importance of organizational resources, see Honig (2006), pp. 5-6; Matland (1995), p. 161; Sabatier (1986), p. 23; and Sunderman & Kim (2007), pp. 1072, 1077.

<sup>22</sup> The perception of a gap between indicators and the real nature of the institutional processes they are measuring is an example of the political and organizational conflict over commensuration discussed by Espeland and Stevens (1998).

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<sup>23</sup> This focus on efficiency should not obscure the fact that a major part of the appeal of neoliberal theory is its largely unstated but nonetheless real emphasis that governments have a moral duty to introduce market mechanisms wherever possible. Government should not be allowed to be insulated from the culture of capitalism.

<sup>24</sup> For theoretically based conceptualizations of unintended impacts of purposive social action, see De Zwart (2015), Elias (1978, 1987), Merton (1968, 1976), Mica (2017), Portes (2000), and Sieber (1981). It should be noted that unintended and unanticipated actions are not one and the same; a result can be anticipated but unintended.

<sup>25</sup> Compliance costs are also noted in studies of other neoliberal reforms (Brown, 2013, p. 125; Franco-Santos & Otley, 2018, p. 718; Renmans et al., 2016, pp. 15-16; Stensaker, 2003, p. 155).

<sup>26</sup> At the same time, we should note that a major motive for policy makers' efforts to increase the competitive situation of higher education institutions is to force them to improve their quality (Sporn, 2018).

<sup>27</sup> Studies of other kinds of neoliberal reforms also find evidence of quality reductions (Brown, 2013, pp. 149-150).

<sup>28</sup> Equity reductions or what has also been called "creaming" or "cherry picking" turn up frequently in studies of performance management and other forms of neoliberal policymaking (Grizzle, 2002; Heckman, Heinrich, Courty, Marschke, & Smith, 2011; Heinrich & Marschke, 2010; Lake, Kvam, & Gold, 2005; Moynihan, 2008, 2010; Rothstein, 2008a, 2008b; Stecher & Kirby, 2004; Van Theil & Leeuw, 2002; Wells & Johnson, 2001).

<sup>29</sup> Studies of other neoliberal reforms have also documented that they can lead to distortion and narrowing of missions (Bevan & Hood, 2006, pp. 521, 524, 530-531; Brown, 2013, p. 124; Colyvas, 2012, p. 183; Franco-Santos & Otley, 2018, p. 718; Marginson, 1997, pp. 12-13; Moynihan, 2010, p. 289; Rothstein, 2008b, pp. 9-23; Speckbacher, 2003, p. 273; Van Theil & Leeuw, 2002, pp. 273-274).

<sup>30</sup> Vicious-cycle effects have been identified as well in analyses of other neoliberal reforms (Renmans et al., 2016, p. 16).

<sup>31</sup> Similar impacts have been found in studies of the implementation of other neoliberal reforms (Ferlie, Ashburner, Fitzgerald, & Pettigrew, 1996, pp. 65, 112, 167, 176).

<sup>32</sup> Studies of other forms of neoliberal reform have pointed out the same negative impact on staff morale (Ferlie & Franco-Santos & Otley, 2018, pp. 718, 720; Geraghty, 2005, p. 423; Power, 1997, p. 2; Shore & Wright, 2000, p. 77; and Speckbacher, 2003, p. 273).

<sup>33</sup> This emphasis fits well with the conceptualization -- advanced by the Advocacy Coalition Framework in policy studies -- of the conditions of effective policy learning across advocacy coalitions (Jenkins-Smith, Nohrstedt, Weible, & Ingold, 2018).