Trends in Public Higher Education Funding: A Resource Dependence Perspective on the Diversification of Funding Streams

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Abstract

This report focuses on public higher education funding through the framework of resource dependence theory. An administrative perspective of organizational change in higher education provides the context for those intended to be the audience. Three sections to this report include: 1) three background themes, introduced at the onset of the report to provide additional context by which to view current trends in public higher education funding; 2) a discussion on the framework of resource dependence theory; and 3) outcomes generated by the potential solutions outlined in the third and final section of this report stem from the diversification of resources, the leveraging of those resources, and successful advocacy of innovative programs set forth.
Introduction

The purpose of this paper is to discuss administrative action in the context of organizational change surrounding the current trend of state disinvestment in higher education. This report will focus specifically on *public higher education funding* through three background themes: 1) a review of past political trends that provide scope and scale to better understand the privatization of higher education in the United States, 2) the impact that coordinating boards have on state funding and governance for public higher education (specifically community colleges), and 3) goal ambiguity that coincides with the environmental vulnerability shared by the American higher education industry. The three themes will be discussed through the theoretical framework of *resource dependence theory* in order to shed light on the management of the various nuances associated with funding flows and organizational change in higher education from an administrative perspective. Once the theoretical framework has been discussed in this context, a section on possible solutions and associated outcomes will follow to conclude the report. The recommendations offered in the conclusion provide administrative suggestions to inform higher education leaders of the reasons and available options for decreasing dependence on any one funding stream.

Trends in Public Higher Education Funding

This section will elaborate on a few trends associated with declining State support for higher education by which to provide context for the framework of possible administrative action as viewed through the lens of *resource dependence theory*. The current trends to be discussed in this section entail an overview of the privatization of higher education, a discussion on coordinating boards and the power dynamics associated with them, and the environmental vulnerability shared by so many higher education institutions. These trends will provide insight to
the administrative constraints witnessed in the budgeting process of higher education institutions in hopes of offering a useful background by which to view the theoretical framework of resource dependence theory through.

Privatization

Through decades of policy discourse, the rising cost of tuition has been extensively discussed. In order to review the tenants of privatization, we must harken back to the late forties, when Federal student aid burst onto the scene through the Serviceman’s Readjustment Act of 1944, also known as the GI Bill. The notion of human capital development represents the political rhetoric of the time, and most citizens bought into the idea of social mobility. Striving for equality and the overall development of the U.S. economy, most politicians and citizens alike agreed on the role of the state and federal government funding education past K-12.

The next three decades would see this support build and erode. The support for a federal student aid program blossomed in the late sixties when the Higher Education Act of 1965 was enacted, and “student aid became the primary means of federal support for higher education, which was well funded through the 1970s” (St. John, Daun-Barnett & Moronski-Chapman, 2013). Throughout the 1980’s, political discourse grew and there was little agreement on social and economic values thus presenting disagreement on the role of the federal government in funding higher education. Student loans became the topic of discussion following the push to minimize the federal government and the notion of privatization was born.

Privatization in higher education represents the movement of funding responsibilities from the institutions and government entities to the individuals, or the students. This phenomenon can best be viewed through the rising cost of tuition and fees at institutions across the country. The current level of funding for public higher education from state budgets is
markedly low when compared to the rising cost of tuition and fees. Much of the State(s) support began to erode during the 1990’s, when public higher education models were viewed as inefficient and unproductive in nature. The ideals of limited government were in full swing and the neo-liberal (St. John et. al., 2013) ideologies established standards of privatization and an open market economy. Figure 1, located below is a table depicting these funding shifts in the State of Alabama. Note the negative change in appropriations from the State to its public institutions for the most recent decade. There was a decline of -34% in State appropriations to public two – and four- year institutions in the State of Alabama, while tuition and fees revenue increased by upwards of 54%. This depiction of privatization in Alabama can be witnessed across the nation at both two - and four - year institutions.

| Figure 1: Tuition and Fees Revenue Compared to State Appropriations at Public Institutions of Higher Education in the State of Alabama (1990-91 to 2010-11) |
|---|---|---|---|---|---|
| 1990-1991 Tuition and Fees Revenue | 2010-2011 Tuition and Fees Revenue | Change in Dollars | 1999-1991 State Appropriations | 2010-2011 State Appropriations | Change in Dollars |
| $564,882,928 | $1,226,739,347 | **$661,856,419** | $1,295,481,814 | $976,610,199 | **$318,871,615** |

** Data obtained from USED IPEDS found @ http://nces.ed.gov/ipeds/datacenter/CDSPreview.aspx and account for historical records submitted to IPEDS by each Public 2 and 4 year institution in Alabama

Viewing resource dependence theory through the lens of privatization allows for a useful take on administrative practices that attempt to manage such harsh funding environments. Furthermore, the ability to apply the resource dependence theory framework to that of shifting nuances in the political realm creates a useful means of developing possible solutions to such an issue.

Community College Funding/Governance

The subject of funding for community colleges provides a useful scene by which to have a discussion on resource dependence theory as well so, a summarized background on community
college funding and governance is provided here. The information presented for this sub-section is derived from a study conducted by Christopher Mullin and David S. Honeyman in 2008, and discussed in the *Community College Journal of Research and Practice*, through an article entitled, “The Funding of Community Colleges: Formulas & Governance.” Initially, community college funding structures were autonomous, relying heavily on tuition and local property taxes (Mullin & Honeyman, 2008). This structure has certainly witnessed much change over the past half century or thereabout, as familiar themes associated with higher education in general effectively made a mark on the various state community college systems. Drawing from state and federal funds since the mid 50’s, community colleges in America have bared witness to policy alignment with K-12 entities as well as four-year higher education institutions.

Coinciding with the era of privatization in higher education, a shift in political ideology framed support for, “…increased regulation by state and federal agencies with a concern for equity and efficiency” (Tillery and Wattenbarger, 1985). This movement toward accountability resulted in the separation of community colleges and K-12 education for coordinating proposes and placed community college under the higher education umbrella where new structures were necessary to ensure funding of already diminishing and scarce higher education resources to community colleges. The scene presently painted represents over fifty years of change in the context of funding and governance and allows for a greater understanding of the difference between states with a funding formula for community colleges and states without a funding formula for community colleges.

The notion of a funding formula ensures the equitable treatment of community colleges across the various regions and sectors of each state, and is conducted differently across all fifty states in the nation. As of 2008, 40 of the 50 states had a funding formula associated with their
community college system while 50% of those were controlled by a specific community college entity and 50% controlled by a general higher education governing entity (Mullin & Honeyman, 2008). The process for requesting funds was had on an appropriations basis as well as budget request across all of the states containing a funding formula. This bifurcated concept represents the need for understanding each state’s system on an individual basis when attempting to apply resource dependence framework to management practices. The notion of equity related to governance structures places a different spin on resource dependency as state priorities become involved in the decision components, thus presenting “individualized needs to meet state-wide goals” (Mullin & Honeyman, 2008). This background of funding formulas in community college governance represents a practical view of resource dependence theory witnessed through an external entity directing the resource/ funding streams.

Environmental Vulnerability

A unique aspect of higher education is that of its relationship to the external environment. This phenomenon is certainly witnessed in public higher education funding as, public institutions are extremely vulnerable to environmental influences such as: politics, economics, demographics, funding, and a number of other components. These variables are directly related to the organization through their “dependency upon external influences” (Hendrickson, Lane, Harris, and Dorman, 2013). To further this point, consider the various goals of higher education, and the ambiguous nature of those goals. Higher education, in general, serves a diverse population with varying goals that often change over time; and its accountability to the various constituencies in place make goal-setting a very difficult task. In fact, “most institutions find it hard to decline goals in general, as their preferences are so unclear” (Hendrickson et. al., 2013).
Couple these two characteristics of higher education together and one can certainly witness the environmental vulnerability held by public institutions of higher education.

Most institutions are constantly focused on sheer survival, and the importance of understanding the various external constituencies can be witnessed through the ability of an institution to co-operate and define themselves around those constituencies. Fred Harcleroad and Judith Eaton (2011) offer a useful take on these forces by breaking down the “external constituencies” into a three-sector system: voluntary enterprise sector, public enterprise group, and the private enterprise sector. Each sector will be summarized below.

The first of the three sectors, the voluntary enterprise sector, “is composed of millions of independent nonprofit organizations” (Harcleroad & Eaton, 2011). This sector influences the decisions of the community based upon the general well being of the surrounding citizenry through philanthropic gestures and coalition forming. The second sector, termed the public enterprise group is, “comprised of all local, state, and federal governments” (Harcleroad & Eaton, 2011). This second sector represents the initial constituency by which public institutions of higher education are formally accountable. This sector greatly influences the decision-making processes and goal setting ambiguity at public institutions driven by institutional missions and statewide goals. The third sector, private enterprise, represents “profit-seeking business and commerce” (Harcleroad & Eaton, 2011). These entities provide the basis for much of the support noted in the other two sectors, and offer useful means by which to develop partnerships with the public institution. All three of these sectors make up the dynamic power structures that guide American higher education, thus representing the characteristic of goal ambiguity. When considering public institutions, it is important to remember that each sector must be taken into account.
Resource Dependence Theory Framework

The context placed around resource dependence theory in higher education can be illustrated through the aforementioned themes of privatization, funding models/structures, and the general environmental vulnerability of higher education institutions. As previously discussed, the notion of state disinvestment, state governing/coordinating boards, and goal ambiguity all play a unique role in the funding processes that prevail in public higher education. Through this context, the framework of Jeffery Pfeffer and Gerald Salancik’s Resource Dependence Theory will be discussed using their 1978 study entitled, “External Control of Organizations: A Resource Dependence Perspective.” Pfeffer and Salancik lay out the purpose of this seminal work as an attempt to “understand organizational behavior, [and] understand how the organization relates to other social actors in its environment.” (Pfeffer & Salancik, 1978). Through this lens it is possible to analyze the three themes illustrated in public higher education funding previously discussed. The authors open their discussion on resource dependence by stating the notion of organizational survival, through the influences of external environments. This notion parallels public higher education in the context of the past and present political environment, governance/coordination, and overall environmental vulnerability in higher education witnessed through goal ambiguity.

This section of the analysis will provide a basic framework with which to review resource dependence theory. Essentially, Pfeffer and Salancik describe resource dependence theory as a power structure, where external constituents control an organization through funding, politics, supply and demand, or any other locus of control. The concept of power had through the external control of organizations and public higher education funding certainly coincide when viewing the political environment of higher education in general. The unique environment that
public higher education has come to dwell in represents the external locus of control that then shapes the daily activities of the organization. The key locus of control in this sense is that of financial resources stemming from political capital or what Pfeffer and Salancik would call “social actors.” The authors define control as, “the ability to initiate or terminate actions at one’s discretion” (Pfeffer & Salancik, 1978). The authors elaborate on the notion of control in an organizational context by stating that the control of an organization is “never absolute because there are always competing claims for the control of given activities” (Pfeffer & Salancik, 1978). The control of an organization is defined by the “coalitions of varying interests,” and in the case of public higher education, these stem directly from external constituencies such as the political environment, coordinated funding efforts, and internal decision-making that defines the various organizational goals to be undertaken. Pfeffer and Salancik discuss the control of an organization by denoting eight conditions that facilitate control. For the purpose of this paper and in an effort to efficiently add context to the higher education perspective, these conditions are reduced to the notion of 1) the criticality and scarcity of the resources in question, 2) an external entity holding power, and 3) the focal organizations ability to carry out the desired action and/or control the resources offered.

**Criticality and Scarcity of Resources**

The first condition of external power offered in this paper is that of the criticality and scarcity of resources in the higher education realm. Pfeffer and Salancik state that, “institutions become increasingly dependent on one resource, and therefore render themselves vulnerable to the availability of that resource” (Pfeffer & Salancik, 1978). This fundamental concept represents the criticality of financial resources in higher education, and coincides with the notion of privatization. The scarcity concept enters the scene as state funding for higher education
declines and an institution’s criticality of financial resource increases. This example of control directly relates to resource dependence theory for public institutions of higher education, as state governing/coordinating boards distribute scarce resources across the entire public higher education landscape in an effort to equally fund institutions to carry out the demands associated with the economy and altogether political environment. Here the notion of privatization, criticality, and scarcity of resources offered develops a nexus of dependency that cannot be ignored at the institutional level.

**External Power Entity**

The second condition of external power, in this case, represents the State government and its control over the funding flows associated with public higher education. This political struggle is carried out on an annual basis as budget requests and allocations target scarce resources toward the institutions that can best use them. The ability of a public institution to operate at an efficient and effective level while completing directives of the State that may or may not be uniquely assigned, represents the notion of external power held by the governing body of the State. Pfeffer and Salancik describe this action of power by maintaining that, “the social actor seeking control over the organization can act to increase the conditions, and thereby increase its control over the organization” (Pfeffer & Salancik, 1978). The authors further this point by noting that, “environments become known through a process of enactment in which perceptions, attention, and interpretation come to define the context for the organization” (Pfeffer & Salancik, 1978). This represents the locus of control/power stemming from the State government as a means of funding for particular characteristics (i.e. institutional mission, size, ability, and even representation).

**Organizational Abilities**
Resource dependency, the phenomenon witnessed in the context of previously mentioned *scarcity* and *criticality* then relates to the third position discussed in this paper: that of the organization’s ability to carry out the desired action and/or control of the resources offered. Here, the institutions ability to effectively distribute the resources that they have represents more than the ability to efficiently carry out assigned tasks according to institutional mission or external directives. The organization must also establish strategic relationships with suppliers of its various resources. Here, the third component of resource dependence theory for higher education illustrates the institutions needs to develop a niche that only it can serve. Additionally, for higher education, achieving this concept is difficult, as state mandated goals and missions typically create varying degrees of support and control within the state and the institution.

The fundamental concepts of *resource dependence theory* outlined above provide a useful template by which to discuss possible outcomes and solution for public institutions of higher education. The concepts of *scarcity* and *criticality* of resources shape organizational goals at the institutional and state coordination level. Denoting the various actors associated with funding decisions in higher education represents the external control of those resources stemming from outside constituencies. As resources dependence is often the determinant for organizational action, the ability to act and react accordingly to political shifts or environmental demands represents the third overarching concept of *resource dependence theory* in public higher education funding.

**Possible Solutions/Outcomes**

A necessary discussion on the possible solutions and outcomes associated with resource dependency in the context of public higher education funding can be represented through a working understanding of the various ways to recognize and address resource dependence as
noted in James Bess and Jay Dee’s analysis of the theory in Understanding College and University Organization: The State of the System. Here, a discussion of three ways to recognize/address resource dependency will be offered with examples of solutions to coincide with each. The three means of addressing resource dependence will be delivered through the three background themes associated with public higher education funding from the beginning of this report.

**Dependency Reduction**

Coinciding with the notion of *scarcity* and *criticality* of funding/resources, the view of *dependency reduction* represents, just as its name implies, a useful ability to reduce the dependency on a particular resource. The idea of reducing the dependency of a particular funding flow by generating new funding flows offers a somewhat obvious measure by which to address resource dependence. Considering the environmental vulnerability of public higher education institutions one may reflect on the inconsistent role of state support based upon unique institutional missions and coinciding goal ambiguity. In general, public higher education remains vulnerable to the economic needs of the state and is therefore subject to fluctuating funding flows that follow various metrics such as unemployment, corporate sponsorship for technical job training, performance measures, etc.

Establishing an understanding of the relationship between public higher education and the surrounding environment allows for a multiple solutions or outcomes to be had. Examples offered in Bess and Dee’s conceptual understanding certainly provide *dependency reduction* and are provided as a means of generating positive relationships with other funding flows. The notion of development or advancement of an institution through building endowments decreases reliance of governmental monies, yet also creates a dependence on other environmental factors...
such as the stock market (Bess & Dee, 2008). A similar notion of dependency reduction represented through Bess & Dee’s analysis is that of marketing. A shift in marketing philosophy attempting to gain more out of state students or market a continuing education program to reach non-traditional students may also reduce dependency on a given funding stream, yet requires devoted resources to those programs. Each of these examples offered by James Bess and Jay Dee represent a single “macro-solution,” that of diversification. By diversifying funding streams and multiplying the institutions financial options, the institution then becomes less vulnerable to funding flows associated with higher education’s environmental outcomes and the goals that guide them. Furthermore and equally as important, the ability to leverage multiple funding flows against one another represents an innovative and effective means of reducing dependency.

**External Linkages**

The notion of external linkages for public higher education can be witnessed through a sort of “reverse dependence” application. Establishing this “reverse dependence” is the notion of the “focal organization becoming more important to the outside world, thus ensuring a steadier stream of resources” (Bess & Dee, 2008). The importance of infrastructure must not go overlooked in this case, as institutions must depend on there ability to serve a unique niche that other institutions may not be able to, in the case of a coordinated funding system. Basically, in order to develop a niche to market, the institution must have a long-range plan in place to provide commitment to the industry while solely defining their role in the partnership. While numerous institutions exist in any given state system of higher education, it is the administrations role to develop a given niche and market it accordingly.

This discussion can be represented through university and industry partnerships. In the case of community colleges, a specific technical training program that is offered to provide
workers for a local corporation, can in turn increase that corporations dependency on the institution thus making the case for increased support from the state and/or coincidentally, the corporation itself. Essentially, the industrial success experienced by a corporation or state economy can become “intertwined with the institutions success and make for increased advocacy” (Bess & Dee, 2008). However, this potential solution is also plagued with a possible dependence perspective, so it is thus useful to once again diversify the options and partnerships with industry and state in an effort to minimize that vulnerability.

*Enactment of a New Environment*

The idea of enacting a new environment represents the notion of advocacy in the political realm. Bess and Dee discuss this act by stating, “rather than considering the environment to be an unchangeable force… work to make the external conditions more hospitable” (Bess & Dee, 2008). This third possible solution to resource dependency is more commonly referred to as lobbying. While resource diversification and the development industry partnerships can certainly decrease resources dependency, the notion of altering the funding environment altogether represents a costly yet effective solution. This type of effort is best witnessed through intentional lobbying efforts that support the institution’s mission and ability to help the surrounding economy. The outcomes associated with this solution are best had through the development of a coalition or an association of similar organizations in order to make an undeniable case for funding at optimal levels.

As an administrator or institutional leader, the ability to appoint powerful community leaders allows for a more powerful lobbying position (Bess & Dee, 2008). The ability to team up with similar institutions and form an overarching marketing plan that in turn bolsters state investments to combat the privatization of higher education represents a powerful force in the
area of dependency reduction as a whole. Similar institutions are able to convene and work together to develop a specific niche as a whole, and in individual parts, to then provide lobbying and marketing efforts that are difficult to refute at an overall level. Another solution coinciding with this outcome is that of unifying the elections of state officials and/or board appointees. The combined efforts displayed in the political arena can have definitive effects on the surrounding funding environment, and while this notion may difficult to achieve, it is certainly the most powerful once an overall agreement of similar institutions and sectors are had.

**Conclusion**

The background provided in this report relates to that of public higher education funding and may be applicable to other sectors as well. While the conceptual framework of Jeffery Pfeffer and Gerald Salancik’s resource dependence theory offers administrative technique for a host of varying organizations, the ability to relate the theoretical underpinnings to public higher education institutions provides for a useful discussion on possible solutions to resource dependence. Stemming from a macro level perspective of state disinvestment and, varying degrees of funding and governance to the general notion of goal ambiguity and environmental vulnerability in public higher education, the need for understanding Pfeffer and Salancik’s theory is certainly made evident. Potential solutions and outcomes focused on resource diversification and leveraging offer practical takeaways to this framework. The ability to advocate and form noticeable coalitions provides for a unique ability to enact a new environment as well. Each of the potential outcomes associated with this report are directly related to the institution, association, or state’s ability to develop an innovative means by which decrease resource dependency.
References


