



Public sector performance measurement and stakeholder support[☆]

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ABSTRACT

Over the past several decades there has been dramatically increased attention paid to measuring the performance of public sector and nonprofit organizations in the United States and elsewhere. Recent research has indicated that public sector and nonprofit organizations are responsive to performance measurement in both productive and unproductive ways. However, it is not yet known how stakeholders respond to this measurement. This paper makes use of a unique panel survey dataset of the population of elementary and middle schools in the state of Florida to directly investigate this question. We exploit the fact that Florida changed its school grading system in 2002 and study the degree to which private contributions to schools are responsive to the information contained in school grades. We find evidence that school grades can have substantial effects on a school's ability to obtain private contributions. We also observe that schools serving different clienteles are treated differently in response to changes in school grades.

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1. Introduction

Over the past several decades there has been dramatically increased attention paid to measuring the performance of public sector and nonprofit organizations in the United States and elsewhere. These performance measures, ranging from report cards for Medicare HMOs to determinations of whether schools make “adequate yearly progress” as required by the federal No Child Left Behind Act to charity ratings provided by the American Institute of Philanthropy, are intended to induce health care providers, schools, charities and other organizations to provide their services more efficiently. Because public sector and nonprofit quality is multidimensional and costly to measure, stakeholders often have difficulty obtaining and processing information about these services.¹ Conveying information about

public sector performance has the potential to improve stakeholders' monitoring abilities, and to the degree to which stakeholders may use their monitoring to effect change, this could improve the performance of service providers.

Recent research has indicated that public sector and nonprofit organizations are responsive to performance measurement in both productive and unproductive ways. Schools, for example, respond to accountability incentives by boosting overall performance and introducing substantive policy and practice changes aimed at improving performance (Rouse et al., 2007) but also by engaging in apparently strategic behavior (see, e.g., Figlio, 2006; Jacob, 2005; Neal and Schanzbach, forthcoming) that makes it more difficult to know the extent to which accountability-induced improvements are genuine. These behavioral reactions are to be expected, given the high degree to which consumers use accountability information: Report cards are influential in determining housing prices (Figlio and Lucas, 2004), school choice (Hastings and Weinstein, 2008), and Medicare HMO enrollment decisions (Dafny and Dranove, 2008). Performance measurement influences consumer behavior regarding private-sector firms as well, in areas ranging from responses to restaurant hygiene grade cards (Jin and Leslie, 2003) to movie reviews (Reinstein and Snyder, 2005).

It is, therefore, clear that performance measurement influences the behavior of the measured, as well as overall market responses to the public sector and nonprofit organizations being measured. But it is not yet known how stakeholders respond to this measurement. These organizations frequently draw both from public support and from contributions by invested parties. Does receiving a good or bad rating influence the degree of support for the organization shown by these stakeholders?

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¹ Research on the frontier of economics and cognitive science (e.g., Gabaix, Laibson, Moloche and Weinberg, 2006; and Payne, Bettman and Johnson, 1993) describe the costs of cognition that individuals face when gathering and interpreting information about goods and services. See also DellaVigna (2009) for examples of economic behavior in real-world informational settings.

This paper directly investigates this question. Making use of a unique panel survey dataset of the population of elementary and middle schools in the state of Florida, we study the degree to which private contributions to schools—typically collected via parent–teacher organizations—are responsive to the information contained in school grades. Beginning in 1999, Florida assigned letter grades to its public schools on the basis of measured school performance. We exploit the fact that in 2002 Florida dramatically changed its school grading system, generating an information “shock” that caused some schools to have better grades than they would have had under the previous system and other schools to have worse grades than would have otherwise occurred.

To our knowledge, this is the first paper of its type: the closest research of which we’re aware is [Jin and Whalley’s \(2007\)](#) study of the expansion of US News and World Report’s ranking system to cover a larger number of universities, in which they measure the effect of attention per se on state financial support of universities. That study, however, is addressing a fundamentally different question, as it does not identify the effect of placement in the ranking hierarchy. [Brunner and Sonstelie \(2003\)](#) utilize nonprofit tax return data to study the determination of voluntary contributions to schools in California in the aftermath of Proposition 13. They find greater total donations in larger schools and in schools serving richer and more educated families. However, their study describes the presence of voluntary contributions, rather than the response of contributions to performance measurement. And studying the response of contributions requires more detailed contributions data than tax return information, as the vast majority of schools receive sufficiently small amounts of donations that their parent–teacher organizations are not required to report contributions to the Internal Revenue Service. While this is not a serious issue for Brunner and Sonstelie’s purposes, it renders tax return data useless for our purposes. One can only credibly study the effects of accountability on contributions using survey data, and the survey that we utilize is, to our knowledge, the first of its kind.

We find evidence that receiving a high school grade, conditional on past grading performance, does not increase the level of voluntary contributions to the school, but receiving a low grade is associated with considerable reductions in private financial support for the school. Indeed, we estimate that a school that receives a grade of “F”—the lowest in the state’s system—will experience a drop in contributions of two-thirds or more, and a school that receives a grade of “D” also will experience a substantial reduction in contributions. In other words, stakeholder support, at least in the short run, is negatively impacted by receipt of a poor performance measurement score. We also observe that donations to schools serving poor or minority families are more sensitive to school grades than donations to schools serving more affluent families.

Our results provide empirical support to models (e.g., [Vesterlund, 2003](#); [Landry et al., 2006](#)) that predict that donations respond to signals of charity quality such as well publicized initial contributions. A related literature (e.g., [Sloan, 2009](#); [Chhaochharia and Ghosh, 2008](#)) has found that charities that receive more favorable accountability ratings by groups such as the Better Business Bureau’s Wise Giving Alliance get more contributions. A charity’s overhead rate may provide evidence on how efficiently it is operated. Although the evidence is mixed (see [Bowman, 2006](#), pp. 293–294), the preponderance of evidence suggests that less money is donated to charities with higher expense ratios. These results are consistent with our finding that less money is contributed to poorly run schools. Donors seem reluctant to throw good money at inefficient organizations. This withdrawal of support may provide another incentive for poorly-measured public and nonprofit organizations to improve their measured performance.

2. Conceptual framework

Suppose that people care about their own private consumption (C) and about how much learning is perceived to take place in the school (L). Perceived learning in turn hinges on the perceived effectiveness of spending on education (β) and on expenditures per pupil (E)

$$L = \beta \times f(E)$$

A lower school grade is hypothesized to decrease the perceived effectiveness of school spending (β). This raises the cost of learning. The effect on preferred school expenditures, and thus on donations to the school, hinges on how responsive the amount of learning (L) is to the drop in perceived school effectiveness.

If the price elasticity for learning is zero, then the percentage fall in β must be completely offset by the rise in $f(E)$. If resources from the school district or state are fixed, then donations to the school must rise. More generally, as long as the percentage fall in learning demanded (L) is smaller than the percentage fall in school effectiveness (β), a rise in school donations is needed to bring about the desired small or nonexistent drop in L . In this scenario, the community rallies around the school, increasing donations to the less efficient school.

On the other hand, if the price elasticity for learning is sufficiently large, then the fall in desired learning (L) is greater than the drop in school effectiveness (β). A fall in school spending is needed to bring about a sufficiently large drop in learning. In this scenario, donations to schools diminish as the quantity of learning demanded is sharply curtailed.

In conclusion, whether school donations rise or fall when perceived school effectiveness drops depends on how sensitive desired learning is to an increase in its cost. In a very similar theoretical structure, [Landry et al. \(2006, pp. 750–751\)](#) conclude that an initial “seed money” donation has an ambiguous impact on subsequent individual contributions to a charity.²

The responsiveness of perceived school effectiveness (β) to school report card grades should reflect how weight is placed on the new information provided by the school grades. Disadvantaged parents tend to be less involved in the school and thus are less informed about their school’s effectiveness. Since they are less informed, they are expected to be more responsive to school grades than more affluent parents.

3. School grading in Florida

Florida’s 1999 A+ Plan for Education introduced a system of school accountability with a series of rewards and sanctions for high-performing and low-performing schools. The A+ Plan called for annual curriculum-based testing of all students in grades three through ten, and annual grading of all public and charter schools based on aggregate test performance. As noted above, the Florida accountability system assigns letter grades (“A,” “B,” etc.) to each school based on students’ achievement (measured in several ways). High-performing and improving schools receive rewards, while low-performing schools receive additional assistance as well as sanctions. In addition to the stigma associated with receiving low grades, schools that received a grade of “F” in 2 years out of four have their students become eligible for vouchers to attend a different (higher rated) public school, or an eligible private school. And while poorly performing schools receive additional assistance, they also are subject to additional scrutiny and oversight. All “D” and (especially) “F”-graded schools are subject to site visits and required to send regular progress reports to the state.³

² Similarly, neutral technological change results in a rise in the amount of labor and capital demanded in an industry only if the price elasticity of demand for the product is sufficiently large. See [Blair and Kenny \(1982\)](#).

³ Details on oversight and reporting requirements can be found online at <http://www.bsi.fsu.edu/PerformanceUpdates/performanceupdates.aspx>.

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