The Impact of For-Profit Privatization on Higher Education in the State of Massachusetts

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ABSTRACT OF DISSERTATION

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ABSTRACT

The expansion of for-profit institutions of higher education has outpaced that of traditional institutions for the past decade, both in terms of the number of institutions and the number of degrees granted. The State of Massachusetts has approved three proprietary institutions based outside of Massachusetts since the beginning of 2005. These institutions join the University of Phoenix that was given approval to operate in 2000. The University of Phoenix is currently the largest private university in the country and all four represent publicly traded companies. The current legal and political environment has helped to foster a period of unparalleled growth of for-profit institutions of higher education.

To what extent higher education is truly unique in how it serves the public interest, or is just another product in need of the kinds of efficiencies that might be brought about by market forces, should be of significant importance to those policymakers that oversee the laws and practices that support or discourage for-profit privatization. The multitude of policy questions and the speed at which privatization is taking place led the state of New York to decide to put a moratorium on the approval of proprietary institutions of higher education until there is a better understanding of the implications and consequences of privatization in that state.

This issue of for-profit privatization should be of particular importance in Massachusetts, where higher education constitutes a significant part of the state’s economy, and understanding the implications of such a rapid change in the competitive landscape is critical. The answer as to whether for-profit privatization is a negative or positive trend is a mix of pluses and minuses that need to be understood in order for public policy to best serve the public interest.

1 The three institutions approved since the beginning of 2005 include Devry, Webster, and Park.
Massachusetts regulators have continued to approve out-of-state for-profit institutions that have a primary responsibility to their stock holders. Unfortunately, there is very little in the way of empirical study that can inform policymakers and guide decision making in regards to this expansion of privatization and its consequences. How do policymakers balance competing objectives of protecting the public interest at large and leveraging the fiscal benefits of private competition and tax revenues? Are the two mutually exclusive? What are the current and potential adverse impacts and unintended consequences of privatization for the state’s public and nonprofit institutions, as well as the specific populations served by these institutions, and should policymakers in Massachusetts be concerned about these consequences?

This exploratory study used surveys to assist in identifying a select sample of institutions for in-depth interviewing. The institutions represented in the interviews included both public and private institutions. These institutions were categorized by their level of response (either political or market focused). Analytical generalizations were used to formulate recommendations for traditional institutions, for-profit institutions, accrediting bodies, and policymakers.
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CHAPTER I: INTRODUCTION

Problem Overview

America’s universal system of higher education has been a primary contributor to the economic growth and well-being of the country by providing the most highly educated workforce in the world, as indicated by the 2007 OECD annual report on education. American higher education is of such recognizable value globally that it has become the most sought after educational experience for foreign nationals in the world, attracting 22% of all international students worldwide in 2005 (OECD, 2007). The broad availability of higher education has undoubtedly played a key role in America’s past prosperity, but the growth of “brainpower industries” is rapidly raising the stakes and America’s future will depend upon maintaining a comparative advantage in education. According to the OECD “The economics of OECD countries increasingly rely on a stable supply of well educated workers and this is a trend that is likely to grow.” (OECD, 2007, p.3)

Taken by itself, the fact that the United States has maintained the highest adult post secondary education rate of any OECD country (nearly 40%) for the past three decades would suggest that the United States is poised to maintain its economic position in the world as these brainpower industries expand. However, the rosy snapshot depicted by the current statistics regarding current education levels of

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nations may be masking the fact that America could in actuality be on the verge of losing its global comparative advantage at a time when a highly educated workforce could be the only comparative advantage a country can have. As Lester Thurow puts it, “Today, knowledge and skills now stand alone as the only source of comparative advantage” (Thurow, 1996, p.68). The OECD report indicates that the United States no longer has the highest proportion of young people graduating from college. Even more alarming is the fact that the United States now ranks tenth for the proportion of 25 to 34 year olds who graduate from college, and that the college completion rate is only 54%, which ties for the lowest on the OECD list (Petrie, 2007).

While the United States has largely stood still for the past three decades (Petrie, 2007), other countries have made concerted efforts to raise the level of higher education for their citizenry with the explicit intention of strengthening their national economies through the advancement of knowledge industries and a knowledge workforce. The government of Japan, for example, identified several knowledge industries for development, including biotechnology and materials science, and has encouraged through policies and investment, the preparation of a workforce capable of advancing these industries (Thurow, 1996). The Canadian Council on Learning released a report this December, entitled Post-Secondary Education in Canada, which warns that the lack of a national strategy and adequate information are putting Canada’s future prosperity in jeopardy.⁴

Just as many of the world’s governments contemplate ways in which it can match, or even surpass, the education level of America’s workforce, American higher education is beginning to get swept up in the national trend toward the privatization of public goods. The privatization movement has left a number of casualties in its wake, while also achieving success within some sectors, but the danger of haphazardly applying the privatization model to higher education could have profound impacts on the traditional institutions of higher education that made the U.S. an economic leader and ultimately could be putting America’s future at risk. At the same time, privatization could also turn out to be a powerful tool for advancing America’s institutions and system of higher education if the forces of competition can be used in a targeted way to bring about reforms in traditional institutions.

Privatization “involves the increased reliance on private actors and market forces to pursue social goal.”\(^5\) The privatization trend has been ongoing for many years, but it was in the 1980s that it became heavily popularized and began a rapid expansion into many previous public domains, enough so that it may be “the single most influential concept of the decade.”\(^6\) But privatization has continued on into the new millennium, with the latest iteration a large-scale outsourcing to for-profits of everything from electricity, water purification, prisons, and military security. Higher education also defacto falls into this outsourcing category given the tremendous amounts of public


resources, in the form of financial aid, going to for-profit institutions of higher education.

Unfortunately, this latest brand of privatization has not been without issues or concerns. These concerns range from constitutionality issues to the sacrifice of public values such as equity.\(^7\) At its core, privatization relies on self-interest and therefore risks the loss of altruistic values, including cooperation and self-sacrifice,\(^8\) values that have been particularly integral to the ethos of traditional institutions of higher education. But it is the desire for efficiency and the belief in market forces to bring about those efficiencies that has been a primary driver of privatization, both in the eighties and in the new millennium, and it remains an open question as to whether profit motives and social values are mutually exclusive, or in what situations market forces can most effectively be used with a minimum of sacrifice to social values.

The new millennium has already been witness to several high-profile cases of privatization being called into question, including Enron and Blackwater. Enron is perhaps best known for fraud related to its energy schemes that led to its ultimate collapse, but Enron was involved in the privatization of water treatment, which has significant implications for public health, as demonstrated by Enron's failure to deliver on a water treatment contract with Argentina, leaving the citizens of Argentina with lapses in service and without clean water. The decision to default on


the contract was purely a financial one on the part of Enron, whereas a public entity 
would probably not have been able to simply drop a service area and move onto more 
profitable contracts. In the energy sector, there was such significant evidence that 
Enron manipulated prices through fraud, and even contributed to California’s 
infamous “brown-outs,” that its top executives were charged and convicted of 
criminal malfeasance.

The outsourcing of military security has also come under fire in 2007, particularly 
Blackwater, which supplies security services to the U.S. government in Iraq, and has 
paid Blackwater over $1 billion since 2001 for these services according to the Wall 
Street Journal. But Blackwater was involved in a shooting incident in September of 
2007 that left 17 Iraqis dead and created tensions with the new Iraqi government. 
There have been other incidents as well, including the shooting of a taxi driver by 
another firm outsourced to perform military services. These incidents have raised 
serious questions as to whether or not a public good such as military security should 
be outsourced and there is now enough political attention for a new bill to be put 
forward called the “Stop Outsourcing Security Act.” But even as this bill is being 
debated, Blackwater is bidding on a new $15 billion outsourcing contract to assist the 
U.S. government in fighting the narcotics trade. Presidential candidate John 
Edwards is also proposing to stop outsourcing when it comes to military operations in 
Iraq. In an October 3, 2007 press release Edwards indicated that his plan would

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9 Liquid Assets: Enron’s Dip into Water Business Highlights Pitfalls of Privatization, Critical Mass 
10 Cole, A. “Next Test for Blackwater: Can Firm Get New Pentagon Work After Iraq Incident?” The 
address a number of inherent outsourcing issues stating in his press release that his proposal will do this by “restoring democracy to our military decisions about the war, expanding the rule of law, ensuring accountability – and eliminating cronyism.”

Higher education may not have the same immediate “life or death” implications as military outsourcing, or the same health risks as water treatment, but higher education does have serious implications for the economic and social welfare of the nation, and the future dependency on “brain industries” makes the health of America’s system of higher education more important than it has ever been. The potential for goal conflicts with profit motives may be just as high with the higher education sector as it has been with water treatment and military security. Whether privatization results in higher education versions of Enron and Blackwater, or actually increases America’s competitiveness in the dynamic knowledge-worker based global economy is not yet clear, and is largely the focus of this study.

This research is important for four overarching reasons: 1) The national imperative for an educated workforce has never been stronger and therefore policymakers need to understand whether and how for-profits either adversely impact or enhance America’s ability to compete in a knowledge economy; 2) Given the billions of dollars spent on higher education in the United States, and continually rising costs of traditional institutions, policymakers need to understand the economic impact of privatization, including its impact on efficiencies, tax revenues and burdens, global competitiveness, and employment; 3) Policymakers need to understand how the
privatization trend impacts access to education and opportunity for various segments of the population; and 4) Policymakers need to understand the social cost or benefits of privatization beyond direct workforce impacts.

Given the uniqueness of American higher education and the potential vulnerability of many long established, and therefore harder to replicate, traditional institutions, the stakes for America of higher education privatization have never been higher, yet the current legal and political environment has helped to foster a period of unparalleled growth of for-profit institutions of higher education (see Table 1). Unlike the proprietary schools of the past that focused on small technical markets within confined geographic boundaries, the largest of today’s for-profits are publicly traded companies that have obtained licenses to operate in multiple states, and they are offering programs in areas traditionally dominated by public and nonprofit institutions, including the fields of business and education (Kinser and Levy, 2005). For-profits currently represented 22% of American degree-granting institutions in 2006, in contrast to 9% just ten years earlier. These new for-profits are also gaining regional accreditation and offer both undergraduate and graduate degrees.

The State of Massachusetts has approved three proprietary institutions based outside of Massachusetts since the beginning of 2005 (Devry, Webster, and Park). These institutions join the University of Phoenix that was given approval to operate in 2000. Phoenix is the largest private university in the country with 200,000 students.

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11 Based on statistics compiled by the U.S. Department of Education, Institute of Education Sciences online database.
worldwide and a valuation of $300,000,000.\textsuperscript{12} The resources available to these institutions could significantly alter the competitive landscape for the state’s public and nonprofit institutions.

Former labor secretary Robert Reich commented on the dangers of American higher education becoming too market-oriented. The BBC reported on Reich’s delivery of the 2004 annual Higher Education Policy Institute Lecture and his identification of several potentially negative consequences of the “\textit{marketisation}” of higher education in America. These negative consequences include “\textit{a loss of universities as centres of basic learning},” and “\textit{the corruption of the universities’ role in society of speaking truth to power. A university’s role as a centre of inquiry.}”\textsuperscript{13} Traditional colleges and universities have played a role of public good that has not yet been demonstrated by the for-profits, around areas such as research and access, as well as urban renewal.

It is not known to what extent this increasing privatization of higher education is a net societal positive or negative. Is higher education truly unique in how it serves the public interest or is it just another product in need of the kinds of efficiencies that might be brought about by market forces? It is likely that the answer is a mix of positives and negatives that need to be understood in order for public policy to best serve the public interest.

\textsuperscript{12} Numbers obtained through Hoovers.
\textsuperscript{13} This quote appears on page 13 of a BBC transcript which can be found at http://news.bbc.co.uk/1/hi/education/3564531.stm
Policy Issues and Implications

The political landscape has favored a general privatization of public goods for the past several decades (Morris, 2007), arguably beginning with the tax reform trend and Proposition 13 in 1978. There are lessons to be learned from the successes and failures of privatization within other industries that need to be applied to this latest privatization trend in higher education. While deregulation of the airline industry has long been touted as a privatization success, as supposedly evidenced by lower fair rates, it was not without significant costs, including the “cherry picking” of some routes, the failure of numerous airlines and the resulting lay-offs of airline workers. More recently, the push for a "passenger bill of rights" suggests that privatization does not de-facto result in providing consumers with what they want. The failure of Enron's water ventures, and the failure of Enron itself, should also serve as a warning to policymakers who see privatization as a panacea for perceived inefficiencies of public spending (Public Citizen, 2002). The more recent shift toward the use of private security forces in Iraq is yet another evolution of the privatization trend with associated consequences of higher incidents of shootings, and charges of cover-ups (Broder, 2007).

Ultimately, policymakers need to determine where on the continuum of privatization higher education should fall. Given the growth of the brainpower industries, it would seem unrealistic for policy makers to take a pure free-market approach to higher education in which there are no public subsidies of any kind. Even the current crop of for-profits would not favor this approach given that the majority of their students
receive some form of federal or state subsidized financial aid. Total reliance on a free market also runs counter to decades of public support for higher education. Even prior to the emergence of brainpower industries, an educated workforce was seen as having a larger value beyond the direct participants in higher education (Giamatti, 1981). Today, a country's investment in higher education is no longer an altruistic question, it is essential to the well being of the nation, as Lester Thurow puts it:

"In an era of man-made brainpower industries, if countries do not make the right investments in skills - and if they aren't willing to run macroeconomic policies that produce tight labor markets, they simply will have a lot of people at the bottom of their workforces with very low and falling wages. High wages no longer come automatically for the unskilled who live in rich countries."

(Thurow, 1996, p.170)

Public debate on the privatization of higher education appears to be limited at best, yet the face of higher education continues to change at an exponential rate. There is a need for policymakers to understand the implications of the privatization trend so that the long term economic well being of the state and the nation can be better ensured. Policymakers need to consider how best to safeguard the country from the potential of higher education's version of Enron, while at the same time infusing innovation and entrepreneurship into an industry that the OECD data suggests has been stagnant. Instead, what appears to be happening is an expansion of the privatization bandwagon to the higher education industry without any specific attempt to understand the
nuances of this sector, as evidenced by a recent push by the U.S. senate to decide how college-accreditation could be revised. But after being hammered at a meeting organized by the Council for Higher Education Accreditation, the discussions have been suspended. The Chronicle of Higher Education quoted one of the senator's aides as saying "I'm just not sure - what the big deal is."  

The multitude of policy questions and the speed at which privatization is taking place led the state of New York to decide to put a moratorium on the approval of proprietary institutions of higher education until there is a better understanding of the implications and consequences of privatization in that state. In a statement to The Chronicle of Higher Education, Merryl H. Tisch, one of New York’s state regents, said “There was a sense we needed to take a deep breath here and figure out what was going on.”

Very few empirical studies are available that systematically examine the social implications and impact of privatization within higher education, or that can inform policymakers on how best to determine the allocation of funds, ensure an adequate tax base, and protect the public interest (Kinser and Levy, 2005). This is particularly complicated in Massachusetts where higher education constitutes a significant part of the state’s economy. The quality and reputation of Massachusetts institutions of higher education attract significant numbers of students from around the world and

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the research conducted by these institutions contributes significantly to the knowledge economy, both nationally and regionally. For these reasons, understanding the implications of such a rapid change in the competitive landscape is critical to informing policy decisions (Cooper, Hinskon, and Sharp, 2002; Dill, 2005).

On the one hand, for-profit institutions represent an attractive revenue opportunity with the added benefit of supporting the training needs of state employers. Since for-profits are, by definition, not exempt from tax laws, they can provide a revenue base that public and nonprofit institutions can not provide. For-profits may also be appealing to state employers, given their history of focusing their curriculum on training employees; which in turn increases the likelihood of obtaining a job upon graduation, making it an attractive sell to prospective students (Baily, Badway, and Gumport, 2001; Farrell, 2003). This has been a common strategy among for-profits, but it ignores the value of education beyond immediate employment that has been inherent in the missions of most public and nonprofit institutions (Zappia, 2000; Mattoon, 2006).

Perhaps the most fundamental question for state policymakers is to define the role of higher education. This study is intended to inform policymakers and other interested parties of the impact privatization is having, and is likely to have, but this informs decision making if there is a general understanding as to what should be expected of institutions of higher education. How a state defines the goals for higher education may very well determine whether or not privatization is ultimately encouraged or not,
since its impacts will may be either positive or negative depending upon the specific goals. In fact, policymakers could establish very different goals for private and public institutions with correspondingly different strategies for each.

Barlett Giamatti offers a description of what the mission of American higher education should be. Giamatti’s description is one that assumes the public interest is core to higher education's purpose, this description reads as follows:

“The American university constantly challenges the capacity of individuals to associate in a spirit of free inquiry, with a decent respect for the opinion of others. Its values are those of free, rational and humane investigation and behavior. Its faith - holds that if its values are sufficiently respected within, their growth will be encourage without. Its purpose is to teach those who wish to learn, learn from those it teaches, foster research and original thought, and, through its students and faculty, to disseminate knowledge and to transmit values of civic and intellectual behavior.”  

While Giamatti’s description of the role and purpose of educational institutions within American higher education emphasizes the creation and dissemination of knowledge, Giamatti also speaks to the impact higher education should have within American society on providing opportunity to the diverse population of America and how it is critical to the “promise that diverse peoples with diverse origins and goals,

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can compete on the basis of merit.” (Giamatti, 1981 p.17) Land Grant and Sea Grant public institutions were created with this larger public interest in mind, which was the justification for the use of public funds. Private nonprofit institutions must also serve the public interest in order to receive the tax benefits that are associated with their nonprofit status. For these reasons, it is logical to assume that the public interest is more likely to be imbedded in the missions of traditional institutions of higher education than it is to be imbedded in the missions of for-profit institutions (Mattoon, 2006; Newman and Couturier, 2002; Allan, 1997).

Large for-profit institutions have both moral and legal obligations to their shareholders to generate a financial return on investment. The more successful a for-profit is at attracting students the more potential returns it can generate for its investors (Viscusi, Vernon, and Harrington, 1998). However, it does not necessarily follow that what attracts students is always in the best public interest and this study will examine the literature in an effort to better understand the relationship of for-profits to the public interest (Will, 2007). An essential part of the larger social mission of land grant institutions was the need for an educated workforce. The Morrill Acts focused the land grant institutions on specific areas of workforce need, including agriculture, military tactics, and the mechanic arts. But while the focus of public institutions can be shaped by larger public needs, for-profits will seek to offer programs most in demand by the students themselves, which will not necessarily align with the larger public interest.
There has been an onslaught of lobbying at the federal level aimed specifically at fostering privatization on the part of for-profits or limiting the privatization trend on the part of traditional institutions (Zappia, 2000). Policymakers can have a great deal of influence over the direction higher education takes. Unfortunately, objective studies aimed at understanding the positive and negative impact of further privatization in its current form are absent in the research literature (Newman and Couturier, 2002).

American higher education is dynamic, and the issue of privatization and the public interest has arisen in the past. Abraham Flexner published a report on the state of medical education in the United States and Canada in 1910. This report was largely critical of the proprietary institutions that dominated medical education at the time and resulted in substantial revamping of the medical education industry based on serious quality concerns. Proprietary education has made a comeback since the Flexner report, initially in the form of small trade schools and more recently as publicly traded corporations (Winston, 1998).

Whether or not this latest iteration of privatization in higher education will be marked with the same quality concerns is unknown. While today’s regional accrediting agencies can play a significant role in quality assurance, there are serious attempts to minimize the power of these agencies and there are a disproportional number of legal and questionable practice issues arising from these for-profit institutions. The
Department of Education Inspector General indicated in 2005 that nearly three quarters of institutional fraud cases were emanating from for-profit schools.\textsuperscript{17}

Policymakers must also decide how state and federal funds will ultimately be spent to support higher education. Public institutions rely directly on the funding provided to them through the state’s budget process. The Morrill Act that established “land grant” universities across the country signified the belief by policymakers that it was in the best interest of the public to offer higher education to the masses. The question could now be whether or not for-profit institutions can offer this same level of access and public good (Kelly, 2001; Mattoon, 2006). It does appear that for-profits are attracting a disproportionate number of low income and minority students, which may suggest that traditional institutions are not effectively filling a market gap (Farrell, 2003).

Ultimately, policymakers must decide where on the continuum of privatization for higher education the public interests are best served and both market and government failures are optimally addressed, or at least suitably satisfied. Defining the criteria for determining that point on the continuum is a matter of policy decision itself. Long-term versus short, economic vs. more amorphous social benefits, efficiency vs. effectiveness (and measured in what terms), are all points of debate. This study is not intended to answer all of these questions, but rather to gain a better understanding of

\textsuperscript{17} From the testimony of Inspector General John P. Higgins as reported by the American Federation of Teachers in “Questionable Practices Found at For-Profit Schools.” \textit{Higher Education News} July 13, 2005.
the impact moving along that continuum can have on the traditionals, and to examine the potential effectiveness of privatization as a mechanism for reform (and at what potential cost).

Beyond decisions regarding the funding and support of public institutions, policymakers also have control over regulations regarding the availability and distribution of student financial aid, which in its current form is largely funding the privatization movement in this country (Winston, 1998; Kelly, 2001). While nonprofit institutions have been the typical beneficiaries of federal and state financial aid, for-profits are now gaining significant access to these funds and are lobbying legislators for even greater access. Approximately 55% of all undergraduates receive some type of federal financial aid, while 85% of for-profit undergraduate students receive federal financial aid.\(^\text{18}\)

Given the extent to which for-profits ultimately depend on public funding of their students, the issue of privatization may be as much an issue about what kind of subsidized education America will have, and who will reap the most direct benefit of those subsidies, as it is an issue about whether or not public funding of education will continue (Kinser and Levy, 2005).

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Legal Issues

There are a number of state and federal laws governing institutions of higher education that have a direct impact on the privatization movement. Much of these laws are specifically geared to the access and distribution of Title IV federal financial aid. For an institution to be eligible to receive federal financial aid for its students it must first have permission to operate in the state in which it is located. Each state has its own specific guidelines. In addition to state approval, the Board of Higher Education also requires accreditation by a recognized accrediting body. All of the regional accrediting bodies are recognized by the Board of Education, but there are also a number of other organizations, some of which cater specifically to nontraditional career-oriented institutions.

There are very specific guidelines as to how institutions may apply financial aid and who is eligible. These specific guidelines can be found in the Higher Education Act and its most recent 2006 amendments. The amended version of this Act (HR 609) was the subject of intense lobbying since those specifics could either assist for-profits in gaining greater access or close the door on their access (Barlett, 2005). The dependence of for-profits on financial aid funds means that the specifics of any amendments to financial aid laws would be of great concern to for-profits and would likely have a direct impact on the bottom line of these institutions. Given their profit motive and the resources they have available to them, it is not surprising that there have been concerted lobbying efforts to alter the Higher Education Act so that it better favors for-profit institutions (Barlett, 2005; Zappia, 2000).
One of the most hotly contested amendments was an attempt to force traditional institutions to take transfer credit from for-profit institutions accredited by organizations other than the regional bodies (Barlett, 2005). This would have greatly benefited for-profits that either offer two-year programs or have poor retention. Since one of the fears students may have of attending a newer nontraditional school is the applicability of their credit to traditional institutions, it would be an important selling feature of these institutions to guarantee acceptance of their credit by more recognizable institutions. On October 19, 2006 the American Association of Collegiate Registrars and Admissions Officers released a legislative alert regarding the request by the chairman of the House and Senate Education Committees aimed at federalizing college transfer policies and prohibiting colleges from denying transfer credit on the basis of the type of accreditation, which was the apparent result of for-profit lobbying efforts.

HR 609 was passed by congress on March 30, 2006 and signed into law two days later by President Bush, but because of the last minute back and forth lobbying and negotiating that took place, the outcome of the transfer credit issue is not clear. The bill ultimately passed only after an amendment was put forward by two representatives (one Republican and one Democrat) to try to allay fears concerning the transfer credit issue. But the last minute change was only made in one part of the document when it actually appeared in two places. The end result is a discrepancy in
the bill regarding transfer credit that leaves the issue open to interpretation, and as a result the debate has continued beyond the actual vote of the amended Act.19

There were other aspects of HR 609 that placed for-profits and traditional institutions as a whole on opposite sides of the debate. One of these was what is referred to as the 90/10 rule, which requires institutions receiving Title IV federal financial aid to generate at least ten percent of their income from non-federal financial aid sources (Barlett, 2005). In testimony submitted to the U.S. House of Representatives Committee on Education and the Workforce, Representative Maxine Waters explains how the 90/10 Rule “was passed to combat rampant fraud, misrepresentations, and exploitive practices in the for-profit vocational education industry.” Representative Waters goes on to say, “The rationale behind the 85/15 or the 90/10 rule is that schools providing a quality education should be able to attract a reasonable percentage of their revenue from sources other than Title IV funds.” The concern expressed by Representative Waters is that, “Eliminating the 90/10 rule would allow problem for-profit trade schools to more easily continue to deceive and mislead low income students (often minorities) at a time when there are few other safeguards.”20

Juxtaposed to the testimony provided by Maxine Waters was testimony provided by the president of the Career College Association Nick Glakas, who described the for-profit students as being largely minority and not of the same profile as traditional

20 Testimony submitted to the Hearing Before the Committee on Education and Workforce U.S. House of Representatives, One Hundred Ninth Congress, First Session, March 1, 2005, No. 109-2
college students and suggesting that for-profits served a different need and market than traditional institutions by stating that, “this sector is more likely than the non-profit sector to serve students who are independent, have incomes in the lower quartile, have parents with education below the high school level, and are racial and ethnic minorities.” But Waters argued in her written testimony that, “the real motive behind wanting to enroll more minority and low income students is that they are the most profitable students since they qualify for the highest amounts of federal financial aid and the smallest expected contribution.” Glakas also pointed out that as a for-profit there are laws other than the 90/10 rule that are only applicable to for-profits such as Sarbanes-Oxley which requires publicly traded companies to have certain controls in place to protect investors form the kind of issues seen with Enron (Committee on Education and the Workforce, 2005).

Aside from the issue of the laws themselves that govern financial aid there is the issue of enforcement and there are a disproportionate number of violations being attributed to for-profit institutions (Symonds, 2005; Kroft, 2005). These violations tend to be issues for both federal and state enforcement agencies. ITT Educational Services, one of the four largest for-profit institutions in the country, was the subject of a raid by federal agents in 2004. The state of New York conducted its own undercover investigation of Interbo in 2005. Both of these actions were based on the possibility of fraudulent behavior related to the obtainment of federal or state financial aid funds. Phoenix, Devry, and Career Education are just a few of the other for-profits that have been under investigation for violations of financial aid laws (Burd, 2006; Blumenstyk
and Farrell, 2004; Symonds, 2005). Phoenix recently paid a multi-million dollar settlement, although they would not admit to the violations (Symonds, 2005).

The largest for-profits are also facing a disproportionate number of class action suits by students and employees. In addition to the potential lawsuits that nonprofit or public institutions may also face, for-profits are increasingly being sued by their shareholders for the stock devaluation that results when they are accused of, or found guilty of, fraudulent, deceptive, or other illegal or questionable practices (Blumenstyk and Farrell, 2004). Nonprofits on the other hand, must be concerned about maintaining their 503(c)3 status, which affords them tax benefits. In order to maintain their nonprofit status these institutions must continue to serve a public good, which may limit some of the ways in which they can respond to competitive threats (Kinser and Levy, 2005).

Accrediting organizations introduce another layer of guidelines and policies. While accrediting organizations have no direct statutory authority, they are empowered by the laws and regulations that guide both state approval and federal approval of institutions of higher education. For this reason, accrediting organizations have a great deal of influence on the practices and operations of institutions of higher education (Alan, 1997). For institutions operating in Massachusetts, the primary accrediting body is the New England Association of Schools and Colleges (NEASC). Their members essentially fund these accrediting agencies as a form of self-regulation.
Societal Implications

Is education an associative good in which the stakeholders include the public at large or is it just another product that is best regulated by market forces? Does higher education serve the public interest in a way that warrants public investment and protection, or is it simply an inefficient industry offering an outdated product? How these questions are answered could determine the long-term role and impact higher education has on society.

Higher education in America is constantly evolving and therefore its role and effect on society is also evolving (Allan, 1997; Giamatti, 1981). Today’s institutions of higher education impact society in a multitude of ways (Allan, 1997). The direct impact on the economy results from the people they employ, the products they purchase, and the students they bring to a particular region. The eight major research universities in Boston alone employ nearly 50,000 and represent overall economic activity of $4 billion annually, and direct expenditures by all Massachusetts colleges represent approximately $20 billion annually.

The economic impact of higher education on other industries is also significant. Higher education provides an educated and trained workforce, and also provides knowledge and innovation through its research activities (Dill, 2005; Cooper,

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21 The eight major research universities as defined by the Association of Independent Colleges and Universities in Massachusetts includes: Boston College, Boston University, Brandeis University, Harvard University, Massachusetts Institute of Technology, Northeastern University, Tufts University, and U-Mass Boston.

22 Statistics compiled by the Association of Independent Colleges and Universities in Massachusetts and disseminated in the 2004 Massachusetts Economic Impact Study.
Hinkson, and Sharp, 2002). The 2004 AICUM Economic Impact Study credits higher education institutions in Massachusetts with creating entirely new industries. Not all the societal benefits of education can be measured in economic terms. An educated citizenry with a solid understanding of social issues and critical and creative thinking abilities is better prepared to develop and embrace solutions to social issues (Allan, 1997; Giamatti, 1981), and there are also individual quality of life benefits.

The intrinsic value of a liberal education aside, America’s universal system of education largely came about for more pragmatic economic reasons and was initially supported by the “textile magnates of New England,” who sought to cultivate a skilled workforce to support their own economic agenda (Thurow, 1996). Specific individuals, such as Horace Mann, have been seen as both altruistic and as having pragmatic reasons for supporting the universal education approach. No matter the specific agenda that led to America’s mass education, the American system of higher education has historically been unique in the world because of the level of public support, Lester Thurow is very explicit by stating, “without government investments in education, education would undoubtedly have remained the preserve of the rich as it has in every country where the investments have not been made.” (Thurow, 1996)

The Futures Project, a higher education research initiative focused on the policy implications of a changing higher education industry, believes that state lawmakers should define the public and private benefits of higher education, however, the group
identifies what it believed to be the basic goals any state should have in mind as it wrestles with policy decisions. These basic goals include the following:

- Promote access and academic success
- Promote quality teaching and learning
- Protect the public investment
- Produce needed research
- Prompt fully open debate
- Provide teacher and school leader elementary and secondary preparation

What is not known is whether or not privatization will adversely impact the benefits of public and nonprofit institutions of higher education have within the state, or whether it will enhance, strengthen, or perhaps offer something not currently available. But unless for-profits are attracting an entirely unique audience and not using funds that would otherwise be distributed to public or nonprofit institutions they will be taking resources from established institutions (Winston, 1998). Whether or not those resources are better directed to for-profits or public and nonprofit institutions needs to be better understood, but there are differences in missions and a different mix of institutions will have different impacts on society (Newman and Couturier, 2002).

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For-profit institutions are inherently focused on profit and thus are more likely to “cherry pick” markets they believe will offer a higher return on investment (Winston, 1998). They also tend to be more focused on employer training needs (Baily, Badway, and Gumport, 2001). One national trend that has begun to become apparent is that for-profit institutions are attracting disproportionate percentages of minority students. For-profit institutions account for 8 percent of postsecondary enrollments in the U.S., but they enroll 16 percent of all black students in the U.S. This trend could be the result of attracting new populations into the higher education market or the result of pulling from community colleges and other institutions that traditionally attract higher percentages of minority students.

Catering to underserved populations could have very positive societal implications. It may be that for-profits have a place in supporting the access role currently the domain of public, and some nonprofit, institutions (Dill, 2005; Farrell, 2003; Kelly, 2001). However, while for-profits are apparently attracting minority students it is not known how well these students are being served.

An episode of the CBS television show 60 Minutes entitled, For-Profit College: Costly Lesson, raised a number of questions regarding for-profit colleges. The episode focused most on Career Education Corporation and its for-profit colleges operating under the names Brooks College and Katherine Gibbs College (Katherine

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24 Statistics from a report to the Business and Professions Committee of the California State Legislature written by Lisa K. Foster in July 2004 entitled, “For-Profit Postsecondary Educational Institutions: Overview of Accreditation and State Oversight.”
Gibbs has a branch that currently operates within Massachusetts). CBS reported that “the for-profit career colleges are one of the fastest growing areas in the field of education—it’s a multi-billion dollar business with most of the revenues guaranteed by the federal government. Now, it’s under scrutiny, with one of the biggest players facing allegations that it deceived investors, the federal government, and students.”

The 60 Minutes report included a number of interviews with students unhappy with their experience and expressing the opinion that they were misled and lied to by Career Education Corporation admissions staff. The 60 Minutes report also included an “undercover” investigation by Jennifer McDonald that supported the allegations of students. McDonald was told by admissions personnel at Katherine Gibbs College in New York that the graduation rate was 89 percent, when in fact, the Department of Education statistics for this particular college showed a 29 percent graduation rate. McDonald approached another Career Education Corporation college that focuses on health industry careers and was accepted in spite of representing herself as having poor grades, drug problems, and a problem with blood.

The 60 Minutes episode raised enough public concern to become the principle focus of a congressional hearing before the Committee on Education and The Workforce. But the report by 60 Minutes did not explore the issue of for-profit versus traditional in any substantive way. While the report suggested a number of reasons to be concerned about for-profit education, it did not indicate whether or not the problems found were unique to the for-profit institutions. However, the House hearing resulting
from the 60 Minutes episode included testimony from Thomas A. Carter, Deputy Inspector General, U.S. Department of Education who indicated that “we find fraud and abuse in all postsecondary sectors—our investigatory resources devoted to institutions of higher education are dominated by the proprietary sector.” (Committee on Education and the Workforce; No. 109-2)

Aside from the question as to whether or not for-profit institutions of higher education are providing adequate quality and are representing themselves accurately to prospective students and the government, there is another potential issue that can be associated with a corporate model, which is a “cutting losses” approach in which a decision to close an operation is made on the basis of the financial outlook of that operation without regard to the externalities of that decision (Porter, 1980). The largest for-profits have achieved steady growth for several years, but at some point any industry will run out of room for expansion (Symonds, 2005). What pressures will arise from stockholders’ desire for investment growth when these for-profits ultimately stop growing? Cutting losses by closing campuses or colleges would be consistent with the business decisions made in other industries, but in the case of higher education the impact on the public (and affected students in particular) could be quite significant.

As privatization changes the competitive landscape for traditional institutions there will likely be adjustments made by those traditional institutions which, in combination with the greater presence of for-profit institutions, could have significant
implications for society (Allan, 1997; Winston, 1998). These implications need to be better understood and should be taken into consideration by policymakers. This study is intended to help illuminate these implications, both those that have potential benefits and those that will have adverse impacts.

Over the course of America’s history, it has developed a comparative advantage through its unique mass approach to higher education, but the global dynamics are beginning to change with resulting global competition for an educated workforce. The central question here is whether or not America can best be served by its established base of traditional institutions or through the infusion of for-profit competition, or can some hybrid mix of for-profit and traditionals best serve the needs of society? The answer not only has implications for America’s overall comparative advantage, it also will influence American society in general. Who gets access to education? What career paths are associated with education? What is the overall standard of living for various populations? The answers will likely be shaped by the extent to which the concept of free-markets is reconciled with a communitarian view, or even democracy-based view, of education as a public good.
CHAPTER II: REVIEW OF LITERATURE

Education as a Public Good

John of Salisbury completed a manuscript regarding liberal education in 1159 in which he describes the function of education as teaching “the arts needed by civilized society.” John goes on to describe how essential the arts are to the essence of what distinguishes humans. This early perspective distinguishes the need for knowledge essential to survival from knowledge that enhances human existence. In other words, the role of higher education should not simply be one with solely a pragmatic focus, but one that enhances human existence through an understanding and appreciation of the arts (Allen, 1997). But while this altruistic vision of higher education has existed for centuries, America has stood alone in translating the larger public good of education to a system of higher education for the masses (Thurow, 1996). However, when one looks more closely at the history of higher education in the United States it becomes clear that the pragmatic need for an educated workforce was instrumental in bringing about universal higher education.

Measuring for-profits against Giamatti’s definition of the role higher education plays in American society is not easily done. On one hand, for-profits are engaged in the dissemination of knowledge, albeit limited in its original creation since very few for-profits are engaged in active research activities. But the more complicated question

may be to what extent for-profits are doing justice to their students in preparing them to compete on the basis of merit (Baily, Badway, and Gumport, 2001). Will those students attracted to the recruitment campaigns of for-profits truly be prepared to compete? The graduates of for-profits may be better prepared to compete upon completion of their program of study, but what is the opportunity cost they have paid had they chosen to attend a traditional institution of higher education?

A classic definition of public goods are those “goods or services that are neither rivalrous in consumption nor excludable in ownership.”26 The American public, as demonstrated through the enactment of the Morrill Act and the Higher Education Act among other legislation, has clearly viewed higher education as providing a public good (Giamatti, 1981). These acts have provided significant public resources to support both the education of students and research activities.

The growth of for-profits could lead some to believe that perhaps sufficient quantities of education could be supplied by the free-market, but this would be misleading since for-profits as a whole rely as much, or more, on the availability of federal funds to support the delivery of the services they provide as do traditional institutions (Kelly, 2001; Winston, 1998). Nonetheless, the perception of higher education as a public good may be shifting. Michael Moskow, the President and CEO of the Chicago Federal Reserve made the following statement on higher education:

“the perception of higher education as an important public good has eroded. Increasingly - higher education is seen as a private good with the benefits accruing to the student in the form of higher wages and quality of life.”

This erosion of the social compact of higher education is likely the result of many things. But Moskow suggests that colleges and universities take steps to restore the faith of the public in higher education by becoming more transparent about their operations, more explicit about how money is spent, ensure tuition is not a barrier to attendance, and address low graduation rates (Mattoon, 2006).

Public skepticism of higher education as serving the public interest may also be arising due to the rapidly increasing costs associated with higher education and the fact that tuition is “outstripping the Consumer Price Index.” (Mattoon, 2006, p.2) The Futures Project also identifies the disparity in rising tuition costs in relation to overall inflation as an issue that needs to be addressed by institutions or policymakers (Couturier & Scurry; 2005). Richard Vedder associates this disparity with the declining support from taxes for public institutions which then must make up the difference by increasing tuition. Vedder also points to declining productivity and an increase in non-teaching faculty ranks, pointing out that there are currently six non-teaching faculty per every one-hundred students in contrast to three per one-hundred thirty years ago (Mattoon, 2006).

There may be other reasons for the increasing gap between rising tuition rates and the general Consumer Price Index. David Dill argues that there is a kind of “arms race” currently underway in which institutions are battling for positions of prestige by investing in selectivity. As colleges battle to draw a more selective student body they must pay for that selectivity by offering greater financial aid awards. Dill also suggests that colleges are investing in those areas that are most visible to students, such as dormitories. But Dill also argues that increased selectivity does not equate to increased quality of educational delivery (Dill, 2005). The Futures Project describes the reasons behind the increasing cost disparity as a “war of amenities” (Couturier & Scurry; 2005 p.3) and suggests that colleges are enticing students to enroll with high-cost comfort features such as dorms, fitness centers, cafeterias, and technology infrastructure.

It is interesting that both authors use military terminology to describe the competitive positioning taking place, as opposed to more business references, which may be indicative of how foreign and aggressive market oriented approaches may appear to those within academe. But what might make that analogy appropriate in this case is that unlike most consumer products that may easily be priced out of the market, there is no true substitute for higher education, and therefore less price elasticity. In addition, a large proportion of the costs are not born directly by the consumer. The question that does not appear to be answered by the literature is whether or not these expenditures are at the sacrifice of investment in teaching and learning or are entirely supplemental to teaching and learning expenditures. Another question not addressed
by the literature is whether or not public institutions should even attempt to be competing in the area of amenities. In other nations, such as Japan, public institutions have very limited resources to spend on amenities such as dorms or other physical facilities.

While rising tuition costs may be increasing skepticism on the part of the public, this may be exasperated by a sense that traditional institutions of higher education do not change rapidly enough to keep pace with the current needs of society. Politicians may be sensing this frustration and therefore be open to addressing the public interest in new ways, and in fact, for-profit competition may be viewed by some legislators as a good mechanism for bringing about change and simultaneously controlling costs.²⁸

There have been industries whose products were at one time considered public goods which were ultimately privatized as a means of gaining efficiencies. The disparity in rising tuition rates certainly puts higher education on the privatization radar screen. But the benefits of higher education are not limited to the direct consumers (the students themselves or companies funding the cost of tuition) of that education (Allan, 1997; Giamatti, 1981). A public that is better educated is more likely to support the economy, be healthier, be more likely to vote, and participate in more volunteer work.²⁹ The Chairman of the Federal Reserve, Ben Bernanke, has expressed concerns over the current state of education in the U.S. and its potential adverse impact on the

Katherine Haley Will summarizes the public benefits of education and makes the argument for distinguishing American higher education from other industries:

“The real benefits of higher education are difficult to calculate: to learn how to learn and how to flourish as a free human being for a lifetime; to be a good citizen in a democracy. I believe that the benefits of America’s system of higher education far outweigh any simple calculation of costs.”

Deregulation, Privatization, and Free Markets

Tom Friedman writes about the forces at work which are flattening the world in his book *The World Is Flat: A Brief History of the Twenty-first Century*. These forces also have applicability to the changing playing field higher education exists within—“the new age of connectivity” and “the flat world platform” are factors that helped make distance learning as we currently know it a reality, and in the process catapulted schools such as Phoenix and Cappella to large national entities (Friedman, 2006). But just as Freidman was hit by an epiphany one day that made him realize how much change had taken place, there is a real lack of academic literature on the effects of for-profit growth on traditional higher education institutions and the general public. In a working paper published by the Program for Research on Private Higher Education

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the amount of current literature on for-profit higher education is identified as “paltry.”

The public stakes associated with a strong system of higher education have never been stronger. Emerging brainpower industries are stimulating other nations to emphasize the kind of mass approach to education that has been in place in America for decades (OECD, 2007). The raising of education levels among workers of other nations has a domino effect on America’s workforce. While the United States has long had a comparative advantage in terms of its workforce, the anticipation of a true knowledge economy is resulting in a concerted effort on the part of many nations to develop the same comparative advantage. Lester Thurow goes as far as to argue that an educated and skilled workforce is the only comparative advantage left (Thurow, 1996).

Thurow bases this assertion on a number of factors that have rendered the traditional comparative advantages of the past obsolete. For example, countries that were once the locus of production because of their natural resources have largely lost that comparative advantage due to the advances in transportation. The availability of capital as a comparative advantage has also diminished with the growth of global financial markets that can provide funding anywhere in the world. While Thurow’s assertion that knowledge workers are the only comparative advantage may be a bit premature, particularly given the political boundaries that remain barriers to entry and

transaction such as those associated with OPEC countries, it is clear that the global workforce is upscaling in terms of skills, and as Thurow puts it “the unskilled in the first world are on their way to becoming marginalized.” (Thurow, 1996)

In *Everything for Sale*, Robert Kuttner examines many of the economic arguments and theories that typically represent the thought process behind deregulation decisions and helps debunk the notion that pure competition and market models will inherently lead to a better allocation of resources and societal gains. Kuttner points to the work of Schumpeter and other revisionists that make the argument that perfect competition will lead to reduced investment in innovation and that the resulting loss in innovation could be a greater cost to society than the costs associated with imperfect competition. As Kuttner states, “Technological advance, not allocative efficiency, is the main long-term source of economic growth.”

While Kuttner does not specifically examine the application of economic and sociological theories to higher education, he does examine their application to a number of other industries that may be indicative of the implications for higher education. For example, just as there was a loss of service for certain populations as a result of airline deregulation, there could also be a loss in access to higher education if the application of a market forces model allows institutions of higher education to “cherry pick” student markets they serve (Winston, 1998). Privatization might also adversely impact the amount of resources allocated to research and other long-term

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activities not being emphasized by for-profits (Newman and Couturier, 2002; Kinser and Levy, 2005; Allan, 1997). The Futures Project raises some questions that have significance to this allocative issue, even within the realm of student learning, which is not only to understand whether or not learning is occurring, but is it the “right” skills and knowledge. The Futures Project identifies a general decline in quality of higher education as it becomes more privatized and market focused: “What we are seeing is nothing less than a great erosion of higher education’s long-standing commitment to advancing public priorities” (Couturier & Scurry; 2005 p.5).

The debate over how much government should be involved in various markets is a long standing, and ongoing one. As Thurow points out “Democracy and capitalism have very different beliefs about the proper distribution of power.” (Thurow, 1996 p.242) Thurow goes on to discuss these differences by describing the ethos of democracy as “one man, one vote,” and presenting a Darwinian view of capitalism in which society is expected to benefit by the fit driving out the unfit. While these two paradigms would seem to be at odds with one another, Thurow believes the two can coexist and even compliment one another. He presents a model whereby egalitarian expectations for society, and even an egalitarian distribution of wealth, could be established through democracy with a capitalistic model of production then being used to ensure the efficient distribution of resources. Thurow believes pure capitalism is destined to fail and provides examples of failures such as that experienced with the Great Depression, and goes as far as to say “individual greed simply isn’t a goal that
can hold any society together in the long run.” (Thurow, 1996 p. 257) At the same time, Thurow also acknowledges the deficiencies of the communitarian view.

Ultimately, Thurow argues for a mix of democracy and capitalism, and points to education as an industry that has the kind of positive externalities to society that warrants some level of subsidy, although from his perspective this should be limited. But Thurow also points to the value research has in terms of its benefits to private industry, even though those industries receiving the benefits of that research may not have been willing to invest in the cost of that research. As Thurow points out, this unwillingness to invest in research has to do with both the risks involved in realizing a return and the long-term nature of the return itself, which is counter to the natural tendencies of capitalism.

Adam Smith is often attributed with having popularized the notion of free market forces and the concept of the “invisible hand,”35 which suggests that the market itself will best sort out supply and demand issues. In other words, if governments do not interfere with market forces, the best mix of a particular product at the most appropriate price will be achieved by virtue of the natural inclination of human beings to maximize the business proposition. The invisible hand concept is often referred to by proponents of the free market approach, who generally favor deregulation and privatization. But Adam Smith himself recognized the weaknesses of a pure free

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market approach. In fact, Smith talks about the need for public expenditures in areas such as education in his fifth book in the Wealth of Nations series.

The principle criticisms of free markets include the lack of perfect information and the existence of externalities (Viscusi, Vernon, Harrington, 1998). Both of these issues are at play in the higher education industry. The most direct consumers of education, the students, frequently lack enough information to make informed decisions. The lack of information is even more pervasive for those individuals who are the first in their families to pursue higher education since these students do not typically have the benefit of parental guidance afforded to the majority of college bound students. As it happens, it is precisely this audience of prospective students that appear to be most often targeted by for-profit institutions. In turn it is the proprietary nature of information at for-profits that make them the most difficult type of higher education to obtain complete information from. There have been numerous instances of deceptive, if not fraudulent, information being attributed to for-profit institutions.

Poor decisions on the part of prospective students have a cost to the larger society, both in direct and indirect terms. Given that most students largely fund their education through direct government subsidy or through supported loan programs, the American public is paying a significant portion of the cost of higher education, even beyond the direct cost of public institutions. Therefore, there is a financial stake on the part of society that students make decisions regarding both the institution and the
specific program that will maximize the benefits to society. However, there are no mechanisms in place to ensure a distribution of majors that will best match the industry composition of the future. In fact, there are proportionally very few students pursuing majors related to biotechnology or material science, even though these are among two of the emerging industries likely to dominate the future, instead, there is a very high proportion of business majors (OECD, 2007). Whether or not this pattern is due to the actual interest of students or the successful promotion of schools and colleges offering these programs is not known, but in the absence of perfect information, or mechanisms that incent particular choices, students will continue to make choices that may not be in the best interest of society, or even the long-term career prospects of the individual.

There are also externalities, both good and bad, that do not get factored into the cost of higher education, or the particular choices of students. Higher education is not like other goods and services that have traditionally been privatized in that higher education is a “donative resource,” meaning that the cost of delivering higher education, at least as it has existed, costs more than what is charged to the student. Therefore, a pure market can not be sustained in higher education without significant breakthroughs in areas that reduce costs. In fact, some of these breakthroughs may be emerging in the form of virtual classrooms and libraries, which might raise a new question as to whether or not this is the same product or a substitute product (Kelly, 2001; Blumenstyk, 2006). Nonetheless, the current crop of for-profits is relying

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heavily on being subsidized through the application of financial aid awards (Winston, 1998).

Gordon C. Winston makes the argument that the tuition subsidies represent a barrier to entry. These subsidies not only come in the form of federal and state financial aid, it also comes from endowed scholarship funds, teaching assistant opportunities, and other awards. Therefore, not all colleges are on the same playing field. Smaller institutions with little ability to supplement financial aid awards will have a lower barrier to entry than will long established institutions with more endowed scholarships. In fact, some fields overall are likely to have larger subsidies available to students than others. Many traditional institutions will completely fund their doctorate programs, while providing little if any added tuition support to their professional degree programs that are commonly expected to generate contribution back to the larger institution and make up for those programs that are more heavily subsidized (Winston, 1998).

If Winston’s assertions are accurate, looking at tuition subsidies in this manner allows you to predict which colleges, and even which programmatic areas, are likely to be vulnerable in terms of being impacted by for-profit entrants or expansion since they would most likely enter those areas where the entry barriers were at their lowest. It would follow then that for-profits would avoid competing with the prestige institutions, focus on business and professional programs, as well traditional areas of continuing education (Winston, 1998). A review of offerings of the largest for-profit
institutions (including Phoenix, Devry, and Cappella) is consistent with this prediction.

Subsidies represent only one kind of barrier to entry and it would be overly simplistic to assume that this issue alone can be used to determine the behavior of for-profit institutions (Porter, 1980). Other barriers to entry include infrastructure, which may be one reason very few for-profits are engaged in markets for engineering or life sciences. Low infrastructure costs may be the reason for so many for-profits to have dominated the online market since its inception. Some barriers to entry are not as visible or easy to measure. Reputation is one such barrier in which well established traditional institutions will generally have an advantage over upstart for-profits, though that is not to say they could not create an image and reputation through marketing and public relations (Porter, 1980). Reputation is going to be a bigger factor in some fields, and at various levels of the market, than in others. Engineering and life sciences may be examples of fields where reputation matters and this could be as much a reason for these fields being dominated by traditional institutions as the cost of subsidies (Winston, 1998).

Accreditation and licensure approvals also serve as barriers to entry that may be difficult to quantify. The cost of meeting accreditation standards not only includes having sufficient numbers of qualified faculty and infrastructure, it also requires either in-house, or contracted expertise, in preparing submissions and visits. In addition, there may or may not be bias among those accreditation organizations and

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licensing agencies that are used to working with and reviewing traditional institutions (Kelly, 2001). The regional accrediting organizations are now gaining experience with for-profits, but national accrediting organizations such as ABET or AACSB may be less receptive, or at least less experienced, with for-profits, given that a review of their membership does not include any for-profit institutions within the state of Massachusetts.

As with reputation, accreditation and/or licensure are going to be more of a factor for some fields, and for some selective levels, than others. ABET may have explicit job requirement implications for graduates seeking to enter the engineering profession, but the value of AACSB may be more a prestige issue and a factor for the upper strata of business schools, as a review of job ads in the Boston Globe classified section had no ads that specified that business degrees needed to be from an AACSB accredited school. This discrepancy in accreditations relationship to job requirements between ABET and AACSB may be one more factor that explains why for-profit institutions are relatively absent from engineering education, but heavily weighted towards business education.

There are other entry barriers as well, including the cost and availability of faculty. But entry barriers are only part of the equation. New entrants must also be concerned with the size of the market, and potential to gain market-share. Even high barriers to entry can often be overcome with sufficient economies of scale (Porter, 1980). Market research could help for-profits identify those fields where the market size and
softness of competition would be most attractive and receptive to a for-profit entrant. But as with other industries, it should not be assumed that traditional institutions will not respond to new entrants, or even the threat of new entrants (Porter 1980). In other words, the market opportunity for proprietary schools should not be assumed to be static. Nor should it be assumed that traditional institutions will respond in the same ways they have in the past (Cooper, Hinkson, and Sharp, 2002; Dill, 2005; Keller, 1983). There is a lot of evidence in the literature that traditional institutions are beginning to adapt new approaches and strategies that should make it more difficult to predict competitive responses (Porter, 1980).

Winston explores the potential impact of for-profit entrants into the various markets of traditional institutions and identifies a number of possible outcomes from increased for-profit competition, which includes the possibility that traditional colleges might more aggressively combat this new competition by replicating some of the for-profit practices. Winston argues that if traditional institutions were able to obtain the operating efficiencies of for-profits they might have an added competitive advantage inherent to their donative wealth. Other possibilities include the potential of selling out to for-profits, but Winston raises concerns about the fact that many traditional institutions do not have a clear voice or beneficiary when it comes to negotiating their sale. Since there are no owners, who is the recipient of the proceeds? An approach that has been employed in other industries, such as health care, is to establish a foundation or trust to receive and disburse funds. However, the for-profit is likely to
have influence as to who serves to oversee these funds and could potentially influence their use in ways that serve other agendas (Winston, 1998).

One variation of privatization that is taking place among a number of public institutions is a movement towards independence and autonomy. This restructuring of the relationship between public institutions and the state is largely being driven by changes in state funding as well as the perceived need among these public institutions for greater flexibility to respond to competitive threats.\textsuperscript{37} The Futures Project describes this trend as a form of privatization and identifies a number variations on this restructuring, including what is referred to as charter colleges. The concept of charter colleges is similar to charter schools, where the schools mission is approved and accountability mechanisms established, but there is autonomy as to how those institutions achieve that mission. One example given by The Futures Project of this restructuring within Massachusetts is the Massachusetts College of Art, which agreed to level-funding in exchange for the ability to retain tuition revenues and have the ability to expand out-of-state enrollments. What is not clear is to what extent this restructuring is truly desired by the institutions or if it is simply seen as a means of trading funding for autonomy before the inevitable budget realities leave public institutions with no options and nothing to trade.

Between competing head on and selling out entirely, there are middle ground options that include partnering. Outsourcing activities to for-profit enterprises is nothing new

in academe. Most traditional institutions have long since outsourced certain aspects of their operation, such as the bookstore or food services (Winston, 1998). But this outsourcing trend has begun expanding into activities most commonly handled in the past by the college itself (Kinser and Levy, 2005). Distance education has really served to blur the line with most institutions engaged in online course activity outsourcing their learning platform needs to companies like BlackBoard. Other aspects of distance learning being outsourced include the hosting of online courses, technical support, technical customer service, and Web marketing campaigns.

Some institutions are going even further with the outsourcing of instructional design and even the actual content of courses in a way that is not dissimilar to the private label branding you find at the grocery store (it may have the stores name on it, but it is not the store that produced it).

Traditional institutions have also begun partnering with for-profits through associations and other collaborations (Winston, 1998). Eduventures has created a number of collaboratives that initially were comprised entirely of traditional institutions, but now include for-profit representation. The University of California at Irvine had a very explicit relationship with Capella University in which Capella would directly pay UC Irvine for every continuing education student referred to them by UC Irvine. But this arrangement is considered to have gone too far by some who question the legality (given the federal financial aid laws) as well as the ethics of UC
Irvine essentially acting as vendor for Capella. On the surface of it, the $500 per head fee being paid by Capella would seem a relatively inexpensive way to purchase the credibility that comes from the association with UC Irvine.

Winston predicts that the impact of for-profit competition will be “unevenly distributed” across various colleges, with the survival of some colleges being threatened, especially those with limited donative resources. The Futures Project is very blunt about the impact on some colleges, stating, “some institutions will have to close, particularly mid-tier institutions.” (Couturier & Scurry; 2005 p.5) Others may be forced to clarify and focus what it is they do, since for-profits will be selective about which markets they pursue and the competitive threat will vary by market (Winston, 1998). But at the same time, even the prestige institutions may be impacted on a programmatic or course level, with the potential of being stripped of professional programs. Winston references Sharon Oster who suggests that for-profits may be competitive with the prestige universities that rely on TAs to deliver professional courses (Winston, 1998). What Winston does not take into account that could have even greater impact upon prestige institutions than selectively targeting professional programs is the potential they have to influence the political and legal environment in which all institutions of higher education operate (Zappia, 2000; Kinser and Levy, 2005).

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The Alfred P. Sloan Foundation funded a study by the Education Commission of the States in 2001 which is one of very few studies that specifically examine the possible implications of for-profit degree-granting institutions for state policy makers.\(^{39}\) The ECS study was based on a series of interviews, as well as a review of secondary data and both state and accreditation policies. The study focused on the following six overarching questions:

1. Can for-profits be part of the solution?
2. Should for-profits be included in state higher education initiatives?
3. Should states be concerned about competition?
4. How should for-profits be regulated?
5. Are current regulatory processes appropriate?
6. To what extent should the market determine which institutions or programs survive?

The ECS report distills its findings into a number of generalizations, but these generalizations have imbedded in them a good deal of subjective commentary. The report attributes the growth of for-profits to the increased demand associated with the higher value of college degrees in general and the resulting increase in participation rates. Indeed, according to Paul Harrington from Northeastern University’s Center for labor Market Studies there is data that supports the notion that there exists a significantly bigger earnings differential in those that possess a college degree and those that do not today than there was a decade or more ago. However, the ECS

report also suggests that for-profit institutions have created “capacity that would require a significant investment to replicate.” (Kelly, 2001 p.3) However, this assertion makes a number of assumptions and fails to take into consideration the fact that whether provided by tax payers, state funds, or private funds, there is still investment.

There is no evidence presented in the report to suggest that expanding capacity through for-profit institutions is any more or less efficient than expanding capacity through new, or existing, public or private institutions. In fact, stimulating privatization in order to add capacity through for-profits may be a missed opportunity to assist publics or privates in building economies of scale. The strong recruitment efforts of public and private institutions, as demonstrated by their marketing visibility, suggests that traditional institutions in general have the additional capacity that for-profits are purportedly providing but are not entirely successful in their recruitment efforts to fill their institutional capacity (Kelly, 2001). However, whether or not gearing up fewer institutions for more capacity is more efficient than an increased number of competitors vying for the same increased demand for higher education is not addressed in this report and requires further study.

As with the ECS reports and its general assertions about demand and capacity, there are assumptions that appear in the studies attempt to answer its own questions. These assumptions appear to be heavily influenced by what for-profits had to say during the interviews. As for the question as to whether or not for-profits can be part of the
solution, the study answers that by stating that "whether or not they are considered in planning and policy development, for-profit degree granting institutions are providing access to high-demand programs and directly or indirectly contributing to statewide goals for higher education in several states." (Kelly, 2001 p.3)

The ECS report assumes that access was lacking in high-demand programs when there is no evidenced presented to suggest that students would not have otherwise been admitted to existing programs. This also inherently assumes that more students are enrolled in for-profit programs because a need exists, and ignores the possibility these enrollments could be the result of overly aggressive selling, misadvising, or miss-conceptions on the part of students (Symonds, 2005). More importantly, the assertion that for-profits are contributing to statewide goals does not take into consideration as to whether or not for-profits have adverse impacts that might diminish, if not entirely offset, the assumed contribution of added capacity. Nor is there any attempt to differentiate (positively or negatively) the value of education delivered by for-profits in comparison to traditional institutions. There is also no consideration given as to whether or not the state benefits from students being attracted to the so called "high demand" degree areas of for-profits as opposed to other potential areas of need (Winston, 1998). In other words, are for-profits creating a surplus in disciplines that are relatively inexpensive to provide at the sacrifice of areas of potentially higher need for the state that are not being addressed by for-profits?
The question as to how for-profit institutions should be regulated is addressed in the ECS report by identifying some of the controls and accountability already in place for higher education in general, and for-profit institutions in particular. The report points out the scrutiny for-profits are likely to face from investors who will be concerned about issues that negatively impact the value of their stock, such as problems in financial aid. However, there is no attention paid to the issues of stockholders versus stakeholders and the relatively short-term focus of investors (Blumenstyk, 2006).

The ECS report goes as far as to suggest that state regulators should be considerate of the fact that even routine evaluations or investigations can have an adverse impact on the financial well-being of for-profit institutions, although there is no explicit recommendation that state regulators refrain from investigating for-profits. The report’s inference does raise a question that either did not strike the authors as significant or was avoided, which is whether or not the potential stability issues that might be brought about by reviews and investigations is an inherent weakness of for-profits that should cause states to be concerned about expansion of these types of institutions.

The ECS report also argues that traditional higher education metrics used to make judgments about an institution may not be well suited to for-profits, making specific reference to electronic libraries, online courses, and an unbundling of faculty. While the report does point out that there are institutions other than for-profits that share some of the same innovations, it also makes the assumption that metrics should
accommodate these differences. Whether or not electronic libraries should suffice, or whether the “unbundled” faculty approach is equally legitimate to the traditional approach should not be assumed without either elaboration or further study (Winston, 1998).

The ECS report raises the question as to what degree the expansion of for-profits and the general composition of the industry should be left to market forces. Several observations and assertions are made in response to this question, including an assertion that there needs to be a balance between reducing regulation as a means to induce a greater level of responsiveness to the needs for an educated workforce and maintaining enough involvement to ensure some level of quality control. As the ECS report points out, higher education is not a perfect market. It functions because it is subsidized by the taxpayers through student financial aid and other sources. There is also a suggestion that the needs of the direct consumers of higher education may not necessarily align with the needs of the state. Students may be induced to choose one program over another on the basis of how fast, cheap, and easy the program is, which may not align with the state’s desire for an educated citizenry. (Kelly, 2001)

There is a difference between for-profits in general and traditional institutions identified in the ECS report, which is that for-profits tend to want metrics that relate to performance outcomes such as degree-completion and job placement, but, as pointed out in the report, the availability of this data is limited, and because it is self-reported its accuracy is also questionable (Loonin and Davanthery, 2005). The ECS
study makes a recommendation to for-profits that they better familiarize themselves with the metrics of traditional institutions and their standards of quality.

The concern raised in the report is that because many teachers and administrators of for-profits are likely to have migrated from other businesses, as opposed to higher education institutions, and therefore may measure student performance on the basis of effort, and that students will be given credentials for exhibiting a sufficient amount of effort as opposed to the attainment of knowledge. However, the study does not explain how it came to arrive at this assertion. There is no chain of logic beyond the belief that for-profit educators would be more likely to come from industry. But there is no evidence identified to suggest that those individuals with an industry background would be more inclined to reward on the basis of effort than actual accomplishment.

In sum, the ECS report seems to present a number of arguments that support the acceptance of for-profit institutions, while raising some questions. Yet there is very little evidence or chain of logic connecting the research with the assertions made. An earlier report generated by ECS, and again supported by Sloan Foundation funds, examined for-profits and their potential impact from the perspective of accreditors. That study concluded that “higher education must begin to acknowledge that the presence of for-profit institutions has had some beneficial effects on academe.”\(^{40}\) The

earlier report does make additional conclusions but none of them suggests any negative impacts, or potential for negative impacts, on academe.

Both ECS and the Sloan Foundation have been engaged in higher education research for decades and there is no clear inherent bias to suggest that the reports generated by ECS and funded by the Sloan Foundation are designed with an agenda of promoting for-profits, but the history of both organizations has been one of promoting change and innovation in education, with what might be characterized as a predisposition against the status quo. It may be that the interest in pushing legislators and others towards change has led them to be predisposed to highlight that which might be counter-intuitive. The ECS reports are interesting in that they raise a diverse set of issues that are the focus of this study while making a number of questionable assertions. However, there lacks a clear chain of evidence or logic in either of the ECS reports.

The National Center for Postsecondary Improvement published a paper which takes a more deterministic view of privatization. The paper is based largely on a framework established by Arimoto and elaborated upon by Zemsky. The framework is based on an evolutionary process in which a nation’s system of higher education moves from an elitist position to one of mass applicability, referred to as “massification”. From massification, the system moves through maturation to a state of “post-massification”.

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The paper identifies the period after World War II as the start of massification (based on enrollment patterns), and identifies the GI Bill of Rights and the expansion of Civil and women’s rights as the stimuli for this shift to mass education. The resulting enrollment boom led to a period of unprecedented creation of new institutions, but an even greater expansion of existing institutions. The paper also describes a shift in majors as the “professionalization” of higher education.

The NCPI paper identifies the mid-1970s as the end of the massification era and shift to the “maturation” phase, which would be characterized by entrenchment. NCPI identifies three significant shifts during this maturation stage, which include: 1) diversity of students (including age); 2) part-time enrollments; and 3) increased cost of tuition. NCPI describes a “new majority” that is older, working, and considers their status as students to be secondary. This period was also characterized by flattened growth of new institutions (with the exception of some non-traditional schools), but a continuing expansion of existing institutions.

The final state identified in the framework in the NCPI paper is referred to as “post-massification” and began with changing attitudes of the “new majority” which viewed higher education “less as a right of passage and more as a consumer.” (Gumport, Iannozzi, Shaman, Zemski, 1997, p. 20) NCPI also associates escalating tuition costs with both the maturation period and post-massification, citing the fact that tuition costs rose tenfold during the same period that the dollar only increased threefold, which in turn resulted in larger questions for higher education and the
premise of access for all. Post-massification is therefore characterized by increased public scrutiny, withdrawal of public support, and a shift towards “vocationalism”.

What is of most interest to the study at hand is that the massification framework relates the various phases to privatization, wherein massification itself is associated with a period of “publicization” and post-massification is associated with privatization. Based on the framework and evidence presented in the NCPI paper we can expect privatization to be taking place as part of post-massification. In addition, we should be able to examine the trends of other nations in order to anticipate what else to expect from post-massification. However, the framework only provides a very broad illumination as to why America may be in a period of privatization, and it can be a useful predictive tool for nations that are not yet in the post-massification stage. But the NCPI paper does not provide a lot of micro-level insight as to the impact on various types of institutions, let alone specific institutions, nor does it provide much guidance in and of itself to policymakers, other than to suggest that privatization may be inevitable.

One of the more conspicuous questions not addressed by the massification framework is what, if any, stage comes after post-massification? Does the cycle ultimately repeat itself? Is the model fully accounting for the current context of the knowledge economy? One of the issues raised by the NCPI paper is the possible need to revisit the social value of access for all, but in an age of knowledge industries, we are entering a period unlike any other in terms of the necessity of the workforce to be
educated and the need for mass education. Perhaps the real policy benefit of the massification framework is for institutions and policymakers to understand that for America to maintain a system of mass education it will have to be very deliberate, otherwise, the tendency in post-massification may be to deviate from that path as a reaction to concerns over costs. It may be that in order for America to stay competitive (as will likely be the case with other nations), a move toward “re-massification” will be necessary.

Given the current skepticism of the public and scrutiny of policymakers, a move toward re-massification will necessitate a better understanding of the rising costs of higher education. While the NCPI paper provides evidence as to a real cost gap taking place, it does not fully explain the reasons behind this gap, other than to point out the fact that large educational institutions have become increasingly complex as they have grown. But where are the economies of scale? What were the primary drivers of these increases? Was it a lack of accountability, the advancement of personal agenda, or an incompatible higher education ethos with cost containment?

In many respects, the massification framework has played out as predicted by the model. However, tuition rates have continued to spiral at rapid rates even since the post-massification period was believed to have started, which in turn, may be bringing about a new phenomenon not fully anticipated by the model, which is that the increase in tuition costs may have risen to a point where, not only are there social pressures for cost-containment, but it has actually made the for-profit alternative for
traditional education a feasible one. With a narrower focus and better cost containment, it is now possible to make a profit in traditional higher education markets, as evidenced by the number of new for-profit entrants. It also seems that both the general public and policymakers have been receptive to the for-profit alternatives. The NCPI paper does acknowledge the growth of for-profits and attributes this to “consumer orientation” of these institutions and the fact that they are “unfettered by the traditions of the academy.” (Gumport, Iannozzi, Shaman, Zemsky, 1997, p.28)

The massification phase, as described in the NCPI paper, was characterized by new entrants that totaled 520, but the post-massification phase has also been impacted by new entrants. The difference is that these latest entrants have primarily been for-profits, in fact there were more new for-profits entering the market between 1995 and 2005 than there were new entrants in total during the massification period (585 according to IPEDS data). In addition, it is also the for-profits that have experienced the greatest growth in terms of a percentage of enrollments. The question is whether or not the implications of this for-profit trend go beyond what was expected in the post-massification stage. The study at hand should help to illuminate whether or not for-profits are having a different kind of impact than was the case when new traditional institutions were added to the mix. The implications for higher education of for-profits may be just as significant as post-massification itself, and the compound impact of post-massification and for-profit privatization could permanently impact the role of traditional higher education in America. The result is likely to be either the
emergence and growth of a truly viable alternative to traditional institutions, or the adaptation and morphing of traditional institutions into a more competitive and market-oriented organization. This study will both examine whether or not traditional institutions are being impacted by for-profits, and if they are, whether or not they can successfully adapt to that competition.

**Higher Education as a Business Enterprise**

An examination of current literature suggests that for-profits are attracting traditionally underserved populations, which on the surface might lead one to conclude they are providing an altruistic service (Kelly, 2001; Farrell, 2003). However, this focus on underserved populations may have more to do with their aggressive and effective pursuit of federal financial aid funds than a sincere concern to expand access (Symonds, 2005; Zappia, 2000; Will, 2007). To what extent would these populations continue to be served in a purely competitive market?

There are currently a disproportionate number of class action lawsuits on the part of for-profit students so there is also a question as to how well those previously underserved populations are actually being served (Blumenstyk and Farrell, 2004). In fact, there is a higher percentage of for-profit students not completing their degrees, which may suggest that these institutions are actually paying a disservice to underserved populations by strapping those students with a heavy debt burden and sending them back into the same labor market pool without a degree, and even less
experience than they otherwise might have gained if they had directly entered the workforce (Burd, 2006; Kroft, 2005; Blumenstyk, 2006).

America has a long history of proprietary institutions of higher education. But until recently, the majority of this activity was focused on non-degree skills training. The larger investor backed institutions have rapidly moved into what was once the largely exclusive domain of public and nonprofit institutions (Winston, 1998). Many of the traditional institutions have been expressing concerns about this trend. In an article in Change the president of Northern Arizona University is concerned that the for-profits have an unfair advantage as a result of the state regulations that restrict public institutions while opening the door to for-profits.42

For-profits have lower operating costs which can provide them with a competitive advantage, but it may be at the student’s expense (Baily, Badway, and Gumport, 2001). For example, most lack traditional library facilities and depend far more heavily on adjunct instructors.43 The Apollo Group, which owns Phoenix, has grown annual earnings by 38 percent for each of the past five years.44 Moreover, Kiplinger’s reports that, “the company is now turning its sights on a younger crowd, 18-23-year-olds with little or no college experience.” (Dixon, 2005)45 Phoenix also now has approval from its accreditor to begin offering PhD programs. In addition, one of

Phoenix’s senior vice presidents (Jorge Klor de Alva) recently announced that the University of Phoenix would be launching a new research center to stimulate faculty research and address the criticism that for-profits do not produce new knowledge.46

The fact that for-profits are entering traditional higher education markets is not necessarily going to adversely impact public interest. K.S. Hughes attributes the dilemmas of higher education to a “lack of profit motive” and the “failure to recognize the undergraduate as a primary customer,” in his article Transforming Academic Institutions: Colleges and Universities Respond to Changes in Society,” (Hughes, 1995, pp. 21-28). But these business analogies are over simplifications that fail to fully take into account the complexities of higher education and do not account for the fact that the tuition dollars generated by undergraduate students are only a portion of what sustains a traditional college or university. Research dollars, alumni giving, and federal financial aid all play a role beyond what the undergraduate pays out-of-pocket (Winston, 1998).

For-Profit Practices

The actions and tactics of some of the largest for-profit education providers support the notion that for-profits do not serve the same public good as nonprofits (Zappia, 2000). An article appearing in The Chronicle of Higher Education entitled Promises

and Profits provided an exposé of one of the Career Education Corporation schools (the second largest provider of for-profit education in the U.S.). This article highlighted misleading recruitment tactics, unscrupulous admissions practices, and inducements of trips to Disneyland for staff to sign up anyone they could, all in an apparent attempt to obtain federal funds and boost stock prices.

Career Education Corporation is now being investigated and reviewed by the Department of Education, the Inspector General’s Office, and the Department of Justice. Another article in The Chronicle by Joshua Woods examined the recruitment practices of a range of for-profit institutions. Woods conducted an experiment in which he applied for several graduate programs, indicating a high school diploma as the highest level of education received. The five for-profits receiving the inquiry all indicated that their graduate program would provide an excellent opportunity, while the one public school in the study was the only institution to indicate that they would not be an appropriate fit for their master’s degree program. These two articles highlight the potential goal incongruity for-profit institutions are likely to face as they attempt to balance the educational objectives of their students with the short-term profit interests of their shareholders.

The U.S. Department of Education’s Office of Inspector General recently teamed up with the Federal Bureau of Investigations and local sheriff’s officers to raid a number

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of for-profit campuses in Florida in October of 2007. But this was by no means the first federal raid on a for-profit institution of higher education. The Chronicle of Higher Education reported numerous legal incidents and investigations over the past five years, including lawsuits brought by students, such as the one filed against Spencerian College that alleges employees lied about the accreditation of the institution. There have also been lawsuits brought by shareholders, such as the one brought against Career Education which accuses the company of misleading investors.

The Department of Education Inspector General has estimated that approximately 74 percent of institutional fraud cases involve for-profits. Aside from the Department of Education, other federal and state agencies have been getting involved in for-profit education issues. The U.S. Department of Justice and the Securities and Exchange Commission are both investigating Career Education, as are agencies in three separate states. Career Education and the Apollo Group are also subjects of several class action lawsuits being brought by students, employees, and investors. There is now an emerging concern regarding for-profits which is what will happen when growth slows down and investors are no longer seeing the returns they expect? Will students

be left with high debt and no opportunity to complete their degrees if for-profits decide there is no longer enough profit in serving a particular market?\(^{53}\)

Trace Urdan, an education industry analyst, was quoted in The Chronicle of Higher Education as saying, “There’s a very slight deceleration taking place – growth has to slow over time as these companies get bigger.”\(^{54}\) As for-profits encounter slowdowns in their growth rates they might be inclined to implement a variety of tactics that could include increasing average class size (something Phoenix has already announced it would do), raise tuition, or any number of other cost-saving approaches (Blumenstyk, 2006). In a worst case scenario, for-profits may be quicker to cut their losses when a program or campus is no longer profitable and leave students stranded. Ironically, one of the factors that may be hindering the pace of for-profit growth is the rising cost of marketing. The University of Phoenix has not only been increasing its marketing spending in real dollars it has been increasing this expenditure as a percentage of its revenues. According to BusinessWeek, Phoenix spent less than 16 percent of revenues on marketing in 2000 but increased marketing expenditures in 2005 to over 22 percent.\(^ {55}\) Phoenix has relied heavily on Web-based marketing and as it expands its demand for this medium it raises the price for itself, as well as other competitors.


Law and economics scholars such as Ronald Coase,⁵⁶ might argue that the loss to society in terms of innovation, or in services provided, that would result from privatization could be assessed and a transaction cost applied in order to provide an adequate offset. But as Kuttner concisely puts it, “In the real world, alas, bargaining by private parties does not reliably solve externality problems.”⁵⁷ The reality of assessing and assigning an offset (whether through taxes or other mechanisms) is likely to be too complex to be practicable in the case of higher education. Nonetheless, this is one approach that might appeal to policymakers since it further increases the revenue generating potential of for-profit institutions, assuming that externality costs (whatever model was used to estimate them) would be associated with the loss of public good delivered by public or nonprofit institutions. For-profits might argue that there is no net cost to society since they are serving other needs or that the applicability of existing taxes would be enough to cover the cost of any lost benefits to society (Viscusi, Vernon, and Harrington, 1998).

Just as there are numerous reports of questionable for-profit practices and a good deal of published criticism, there are also critics of traditional higher education that will point to the supposed efficiencies of for-profits and the failure of traditional institutions to adapt to a changing environment. The former chairman of the Massachusetts Board of Higher Education, James F. Carlin, has referred to American

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⁵⁶ Ronald Coase published an article entitled “The Problem of Social Cost,” *Journal of Law and Economics*, 1960, and proposed in this article a theorem which advocated the negotiation of transactions costs as a means of addressing the adverse impact of externalities.

higher education as “institutionalized insanity.” Carlin attributes this “insanity” to the fact that it is controlled by faculty and administrators who lack private sector management techniques. Carlin is particularly critical of tenure and what he believes to be a lack of accountability to any of the public interests they are supposed to serve. (Zappia, 2000; Carlin, 1999). Other critics, such as Richard Freeman, describe faculty as “vendors” who are not concerned enough with the interests of their customers and are “driven” by their self interests.

The debate over tenure is only one facet of operational differences between for-profit and traditional institutions. A stronger customer service orientation is another frequently cited area in which for-profits are believed to be excelling (Baily, Badway, and Gumport, 2001). For-profits are described as having “convenient schedules and locations,” and as “providing extensive academic and personal support services” in an Education Commission of the States report (Kelly, 2001 p.6). Indeed, there is evidence to support the notion that for-profits spend more on certain areas of customer service than do traditional institutions, such as having extended hours of operation for financial aid and admissions counselors, and that for-profits overall allocate a larger percentage of revenues to these student service activities.

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Samuel C. Mills has estimated the expenditures of traditional institutions on recruitment to be between one and two percent of revenue versus twenty-three percent for for-profits. However, increased expenditures on areas of operation such as admissions do not de facto translate into a “better” student experience (Blumenstyk). A closer examination of the specific expenditures and the resulting evaluation of customer service by students would be an insightful study that might either shed a different light on the for-profit experience or provide traditional institutions with additional evidence of the need to adopt different practices. The one caveat here may be that the for-profit audience, and the particular programs being offered by for-profits, may require a different approach than that of most traditional institutions (Blumenstyk).

The National Center for Postsecondary Improvement at Stanford published a comparative study of for-profit institutions and community colleges. This study primarily used a case-study approach to more fully understand the potential competitive threat posed by for-profits to community colleges. The study examined three broad arguments that included: 1) For-profits have greater flexibility and ability to be responsive; 2) For-profits provide a lower quality of education; and 3) For-profits are a competitive threat to community colleges and other sectors of higher education.

The fact that for-profits have fewer fixed costs and infrastructure would support the contention that for-profits are more flexible. The NCPI study also points out that for-profits have access to venture capital funds that could be used to support the development of new offerings that might require formal requests and state budget allocations at a community college, with a resulting delay in being able to launch new initiatives. In addition, most community colleges have a relatively permanent base of full-time faculty supported by union contracts that can have built into them restrictions on things such as course scheduling that do not exist for the for-profit institutions (Zappai, 2000). NCPI also found that community colleges are hindered by lengthy approval process as stipulated by their bylaws, which can result in it taking several months for course or program approval. However, the NCPI study also found that the for-profits had a built-in constraint to rapid development and flexibility in the form of their course development process.

Most traditional institutions, including community colleges, rely on faculty to develop specific course content (Winston, 1998). It is typical for a course to be approved on the basis of a paragraph description and then scheduled on the assumption that a qualified faculty member can build the necessary syllabus and specific lesson plan from that description. For-profits on the other hand, use a centralized development approach that is independent of the faculty member (Winston, 1998). In the for-profit scenario, a team of professional course developers create the actual lesson plans and lecture guidelines for each class session. Faculty, in essence, simply facilitate the developed course. The perceived benefit of this approach is tighter quality control and
consistency. However, at least one drawback is the fact that faculty are not hired and courses are not scheduled until the development cycle is complete, which, as with the community college approval cycle, can take several months (Baily, Badway, and Gumport, 2001).

The central development approach hinders flexibility beyond the initial development cycle as well in that courses and curriculum can not be easily updated on the fly. Whereas a faculty-based approach to development means that a faculty member can make continuous adjustments and fairly significant changes each time the course is taught. This provides community colleges with greater course-level flexibility, albeit at the potential cost of consistency (Baily, Badway, and Gumport, 2001). The course-level flexibility is likely to be a bigger factor in some fields than others, and is more conducive with providing students with cutting-edge research.

The issue of quality is more difficult to compare since it must first be defined. For-profits are likely to define quality in terms of consistency and in terms of employability. Community colleges (and other traditional institutions) are more likely to view the for-profit formula as “McEducation” and the short-term measure of employability as an occupational award that should be associated with training rather than education (Baily, Badway, and Gumport, 2001). The community college perspective on quality is grounded on this distinction between training and education.
Completion data is another measure that can be used to compare quality and here community colleges do not fair very well. Although there are a number of potential arguments used by community colleges to counter the poor completion numbers that include the fact that: community colleges have a higher percentage of part-time students; fewer community college students are seeking to complete degrees; community colleges are required by their mission to be open admission institutions. Part of the difficulty with these assertions is that community colleges have not as a whole done a very good job of collecting and reporting data that supports these assertions, particularly in regards to the tracking of their alums and stop-outs (Bailey, Badway, and Gumport, 2001).

The NCPI study also identified other differences between the approach of community colleges and that of for-profits. One of those differences is the sequence of courses. The community college approach is to have students begin with general education course like English composition. The concept is to build basic skills first prior to students taking more major-specific coursework. The for-profits take the opposite approach and have students begin by taking major courses before they get to the general foundation courses. The rationale for this approach is to get students excited about their program so that they will stay interested and motivated. Once students have invested in the program they are more likely to stick with their studies, even when they move into the general foundation courses. The NCPI study does not make any judgments as to which approach better supports academic quality, but for the at-
risk market both types of institutions are targeting, the schedule approach of for-profits may have something to do with their higher completion rates.

Another pedagogical difference is that for-profits that offer on-ground technical courses tend to integrate lab experience with each of those courses, while community colleges create a sequence of courses in which the latter courses only will include a lab. The for-profits capitalize on their heavy use of labs by investing in those labs that are very visible to prospective students, going as far as to put them behind glass walls (Bailey, Badway, and Gumport, 2001). The for-profit focus on prospective students can also be seen in the upfront availability of student services. The NCPI study found the community colleges tend to rely on Web site FAQs, and force students to make appointments with advisors, the for-profits have extended weekend and evening hours for walk-in advising and financial aid assistance.

Given the similarity of markets, there is little question that community colleges are competing with at least some for-profit institutions. There may be lessons for community colleges to learn from these for-profits that could help improve retention and completion rates. At the same time, there is little evidence to validate the long-term educational value of the for-profit approach (Baily, Badway, and Gumport, 2001). Nonetheless, for-profits are attracting students that might otherwise have gone to a community college and it is important for community colleges to understand what differentiates for-profits and serves as selling points to students, so that they can selectively adopt some aspects of for-profits and better counter others.
For-Profits as a Disruptive Technology

The introduction of for-profit competition might also be considered a “disruptive technology,” which is to say that for-profits are bringing what is, at least initially, an inferior product to market, but one which will likely gain traction at the lower end of the market and eventually impact existing mainstream competitors.\textsuperscript{63} The significance of this is that the effects of disruptive technologies have been documented in other industries and it commonly leads to some shake-out of traditional competitors and changes among those that survive. The end result is typically more widespread adoption of the inferior technology, although once there is mainstream adoption of that technology by traditional industry players there is also likely to be an improvement to that technology (Christensen, 2001). Certainly there are specific forms of education associated with for-profits that might be considered disruptive on their own. Distance education has only recently gained adoption by established institutions. But I would also argue that the business practices of for-profits themselves function as a disruptive technology.

Best Associates, a for-profit player in higher education, recently bought Barat College apparently with the intent of buying accreditation.\textsuperscript{64} Best did not acquire the physical assets other than the library collection and laid off most employees, including a

\textsuperscript{63} The term “disruptive technology” was coined by Clayton Christensen and is explained in “Skate to Where the Money Will Be,” Christensen, C., M. Raynor, and M. Verlinden. Harvard Business Review November 2001: 73-81. This concept can also be found in Christensen’s book The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fall.

\textsuperscript{64} Ashburn, E. “The Big Asset in This Deal Was a College’s Accreditation.” The Chronicle of Higher Education July 21, 2006: A1, A22.
number of tenured faculty. The “new” business model being employed by Best is to offer accredited degree programs as conveniently as possible to specific audiences. In the case of Barat, Best is focusing on teacher education and differentiating themselves by offering programs on site within school districts, emphasizing convenience. If such practices are disruptive, one would expect traditional institutions to follow suit.

In Massachusetts, Best Associates has already bought the New England College of Finance which had recently been accredited by NEASC. Another college in Massachusetts that is owned by a publicly traded company and has accreditation is Katherine Gibbs, which is owned by Career Education Corporation, one of the largest for-profit education providers in the country. There is currently nothing in place either in terms of state laws or accreditation policies that would prevent this trend from continuing and therefore the expectation should be that the trend will continue.

On the national level, the trend toward for-profit privatization, when measured in terms of new entrants (585 between 1995 and 2005 according to IPEDS data), has surpassed the expansion of traditional entrants during the height of the massification period (520 according to Gumport, Iannozzi, Shaman, and Zemsky, 2007), and it is likely that these new entrants will have a different impact on the higher education landscape than would an equivalent infusion of traditional institutions. The fact that so many for-profits have entered the industry suggests that the inefficiencies of traditional institutions, combined with the fact that a college education has become an increasing prerequisite to employment, has reached a tipping point where it is
perceived that significant profit opportunities now exist in higher education. But since
traditional institutions are not generating excessive margins, it can only be assumed
that for-profits will run differently and more cheaply, therefore making it highly
likely that they will act as a disruptive technology.

Change and Higher Education

There is very little research that is specifically aimed at broadening our understanding
of the impact privatization is having, or will have, on traditional higher education
(Kinser and Levy, 2005). However, there is a wealth of scholarship regarding the
general pressure on traditional institutions of higher education to change and become
increasingly market savvy and “business like.” There are a myriad of drivers of
change that get referred to in the literature that often speaks to a general belief that the
environment in which higher education operates will become more competitive.
These studies do not describe responses and change efforts that are occurring solely
because of the entrance of for-profits, but they can provide a basis from which to
anticipate some of the likely responses traditional institutions may have to new for-
profit competitors.

Institutions of higher education have traditionally operated in relatively stable
environments insofar as competitive and market forces have been concerned (Keller,
1983; Cooper, Hinkson, and Sharp, 2002). There are no true equivalents to the
“product” of higher education and the institutions themselves have tended to be long-
lived in comparison to most commerce-oriented organizations (Giamatti, 1981).
Large endowments and reputations steeped in tradition and history have aided in insulating these institutions from the market dynamics prevalent among other economic sectors. In their article *The New Competitive Arena: Market forces invade the academy*, Newman and Couturier state the following:

“Higher education in the United States has always viewed itself as competitive – In reality, however, the competition has been muted – more benign than ferocious, more focused on prestige than price. It has been mitigated by tradition and governmental regulation.” (2001, p. 11)

Business writings on change are generally compiled and disseminated by management consultants seeking to glorify their success and generate additional clientele. Academia, on the other hand, has begun a more collective effort of research and dissemination backed by both private and public funds. The National Science Foundation has provided financial awards in the form of grants to institutions addressing transformational issues. The Pew Higher Education Research Program (sponsored by the Pew Charitable Trusts) supports research into educational change and the dissemination of ideas. The W.K. Kellogg Foundation has also focused a great deal of attention on the issue of transformation.

In 1998, The Kellogg Forum for Higher Education Transformation (KFHET) arose as a mechanism for supporting and documenting transformational efforts. The American Council on Education (ACE) and The Higher Education Research Institute (HERI) are members of KFHET. There are also five colleges that comprise the Kellogg
Network on Institutional Transformation (KNIT). These groups have compiled a vast array of research on transformation and change. But it is the University of Michigan’s Work Group on Organizational Change and Transformation in Higher Education that has compiled the most comprehensive bibliography on the subject. There are 243 works included in this database that are specific to transformation. While this may appear to represent a comprehensive body of knowledge, my review of this literature identified several gaps. First, most of the literature currently compiled is narrowly focused on issues such as systems integration, total quality efforts, or core curriculum development. Secondly, there are areas of potential interest in which information and research is sorely lacking, such as the specific impact of for-profits and privatization.
CHAPTER III: RESEARCH DESIGN

Questions to Be Examined

The big question here is whether or not higher education should be treated by policymakers as just another industry better left to market forces or something that serves a higher public good best served by a regulated environment (Allan, 1997; Giamatti, 1981; Dill, 2005; Blumenstyk, 2006). The answer to this question is not likely an either/or, but a matter of degree. Not only is it a matter of identifying where on the continuum of public versus private the public interest is best served, but what are the specific interests that should be protected and what are the regulatory and statutory mechanisms that guide that placement? Can the competitive forces of a free market be harnessed by policymakers to bring about reform in the higher education sector, or will the for-profits have a unique place within the industry? Further, what steps or posturing should public and private nonprofit institutions engage in so that they can best carry out their missions?

Massachusetts regulators have continued to approve out-of-state for-profit institutions that have a primary responsibility to their stockholders. Unfortunately, there is very little in the way of empirical study that can inform policymakers and guide decision making in regards to this expansion of privatization and its consequences. How do policymakers balance competing objectives of protecting the public interest at-large and leveraging the fiscal benefits of private competition and tax revenues? Are the
two mutually exclusive? Some of the specific questions that this research is intended to illuminate include the following:

1. What are the current and potential adverse impacts and unintended consequences of privatization for the state’s public and nonprofit institutions, and should the public, as well as policymakers in Massachusetts, be concerned about these?

2. Are public and nonprofit institutions adopting more competitive and business-oriented practices? What are they giving up, or what is being gained, in order to remain competitive?

3. Is privatization a disruptive technology that will impact higher education just as it does traditional industries by forcing adoption of an inferior technology?

4. What are the factors that determine a particular response to privatization?

5. What is the impact of privatization on specific student populations?

6. What is the net effect on the public interest of privatization?

**Hypothesis**

In spite of a great deal of recent hype around the growth and expansion of for-profit institutions, the expectation of this study was to find only a modest level of competitive concern on the part of nonprofit and public institutions, at least as expressed through government relations offices. Exceptions to this will likely be those institutions that share a similar primary market segment with the larger for-
profits, such as community colleges, which typically cater to the lower-end of the market. However, it was also expected that the official position of the overall institution would mask a significant disparity among units within the institution, particularly those units that are most closely aligned with for-profit markets or practices, such as admissions offices, distance learning units, and continuing education units. In order to get at this disparity, the study included interviews with representation from government relations offices, distance education, admissions, and continuing education.

The anticipated net result was that there would be minimal effort on the part of traditional institutions as a whole to contain or reverse privatization through legislative means or influence. A unified institution-wide lobbying approach to privatization on the part of traditional institutions would likely be lacking, but individual units would likely be addressing privatization through market-oriented competitive practices. The danger of unit-based competitive responses is the potential sacrifice of larger institutional objectives and the public interest in order to maintain or grow the bottom line. The effect on traditional institutions would be that of a disruptive technology, where the offerings of traditional institutions begin to mimic those of the newer for-profits in areas that potentially sacrifice quality or traditional goals in order to be more market responsive and cost effective. Institutions and units that attempt to mimic for-profit institutions may also mimic some of the issues found in the literature concerning for-profits such as:

- Reduced emphasis on quality
• Sacrifice of non-bottom line oriented activity such as community outreach and access
• Adoption of aggressive recruitment practices and acceptance of ill-prepared students
• Poor persistence and graduation rates

Organizations will change in order to survive as their environment becomes more turbulent (Katz and Kahn, 1978; Tosi and Hamner, 1982). Adapting the two-dimensional model of organizational environments developed by Burns and Stalker, as depicted in Figure 1, it is possible to predict the overall impact of an industry moving from a stable environment to a turbulent one, which is primarily that organizations within that industry will need to shift from being mechanistic to organic. The manifestation of this shift should be seen in changes to the organizations’ strategy, processes, and practices, and this research will examine those shifts in strategy, processes, and practices that can be attributed to an environmental response.

Privatization is creating a more turbulent environment for higher education and to what extent this new environment, and its impact on traditional institutions, threatens the public interest is largely the focus of this research (Keller, 1983; Allan, 1997; Zappia, 2000). Referring to Burns and Stalker’s model of environmental conditions, if an organization operates within an environment that shifts from stable to turbulent it will need to become increasingly organic in order to adapt to that environment. In the

case of higher education, the expectation was to find that institutions entrenched in traditions which evolved over many years of relative stability will struggle to adapt to this privatized environment and that the resulting casualties could be costly to the public interest.

**Figure 1**

*Figure 1 depicts the impact of environmental forces on an organization (Katz & Kahn, 1978).*

It was further expected that the introduction of for-profit competition would be acting as a disruptive technology to the established institutions. In other words, for-profits would likely be focused on the lower-end of the market where it will have immediate impact on institutions specifically focused on low-end markets, but it will ultimately have a ripple effect on other institutions that are beginning to adopt the practices of for-profit institutions.

It is the hypothesis of this study that: 1) Competitive pressures on public and nonprofit institutions would be pushing many of those institutions to sacrifice the public good, or some other aspect of their missions, in order to mimic their for-profit
competitors; 2) Those institutions most likely to be sacrificing the public interest are those operating most closely to the increasingly turbulent area of the market (markets that have attracted the new for-profit institutions); 3) These affected institutions and units would likely respond through market approaches as opposed to political/legal channels, or would be responding through both means.

A simple matrix was used for initial categorization of institutions based on the type of institutional response they exhibit: 1) market-focused response – as indicated through responses to questions; 2) political/legal response – as indicated by responses to questions. These two dimensions are represented by the matrix in Figure 2. This matrix is based on an adaptation of a model created by Burns and Stalker in which organizations are categorized by the intensity of environmental forces (Tossi & Hamner, 1982; Katz & Kahn 1978). This adaptation takes an inverted approach where it is the reaction (or perception that a reaction is necessary) to these environmental forces that is being used to categorize organizations as opposed to the environmental forces. As with Burns and Stalker’s matrix, this dichotomy does not convey the continuum of responses and organizational variance, but simply serves as an aid to establishing a theoretical construct (Tossi & Hamner, 1982). Systems theory is the theoretical foundation underlying this framework.
Figure 2: Categorization Based on Competitive Response

<table>
<thead>
<tr>
<th>Legislative Concern</th>
<th>Quadrant A</th>
<th>Quadrant B</th>
<th>Quadrant C</th>
<th>Quadrant D</th>
</tr>
</thead>
<tbody>
<tr>
<td>high</td>
<td>Directly competing in for-profit markets with resources and knowledge to respond</td>
<td>Competing in for-profit markets, but lacking resources, knowledge, or will to mount a legislative effort</td>
<td>Not competing in for-profit markets, but perceive legislative initiatives as potential threats to quality, available funds, or autonomy</td>
<td>Very little concern or response</td>
</tr>
<tr>
<td>low</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Figure 2 depicts the scheme used to classify the institutions interviewed in this study, and is adapted from a model created by Burns and Stalker that was intended to categorize organizations on the basis of environmental forces. For the purposes of this study, this matrix will be referred to as the Competitive Response Matrix.

While there is a continuum for each of the dimensions listed above, for categorization purposes, a binary assignment was made to each respondent based upon which end of the continuum the unit or institution most closely aligns. Since the purpose of this study is to identify issues of privatization, the institutions likely to be most impacted would fall into either “Quadrant A” or “Quadrant B.”
It was anticipated that several factors would determine the type and level of response an institution would have towards privatization, including the following: market overlap and the extent to which there is recognition and concern for that overlap; institutional dependency on revenues generated by competing units; alignment of affected units to core institutional goals and lines of business; rigidity of the institution and/or units resulting from bureaucracy, culture, and codified traditions; and means and resources available to allocate towards a response (Porter, 1980). Where an institution falls in relation to these factors will influence whether or not that institution will respond through either legal or market means, or whether it responds at all.

Whether or not a legal or market response has taken place could be reflected in any combination of the following: changes to admissions practices and characteristics of admitted students; progression and completion rates; adoption of new budget models; migration to new delivery mechanisms and formats; changes in marketing efforts; changes to program mix; outsourcing of content or delivery; reorganization; efforts allocated to lobbying; and the adoption of new mission or goal statements. A summation of possible drivers and outcomes is portrayed in Figure 3.
The myopic and disparate responses of institutions and their sub-units are having varying degrees of success, and one question this study helps to answer is whether or not public or nonprofit institutions can successfully compete in a privatized market. However, even if an institution adapts to privatization in a way that ensures its survival, an increased emphasis on competitive practices can have adverse impacts on
the public interest aspects of an institution’s mission, and understanding these potential impacts was paramount in this study (Blumenstyk, 2006; Zappia, 2000; Mattoon, 2006). Adverse impacts resulting from an increased emphasis on for-profit strategies could manifest themselves in several ways that might be revealed through the interview process. Changes in student populations being served by institutions and persistence rates were among the topics discussed in the interviews. In addition to information yielded from the interviews regarding the impact of privatization on various student markets, key informants with particular knowledge of higher education will be used to provide additional insight and validity.

It is expected that privatization in the short term will likely be a mix of positive and negative impacts. Resources, via financial aid, could be diverted to for-profits less focused on the public interest, but at the same time many of the traditional institutions could be evolving into more efficient and consumer-oriented institutions. This study was largely about better understanding the net impact of privatization on nonprofit and public institutions. Should Massachusetts state lawmakers consider moratoriums or tighter regulations as they have in New York, or should further privatization be encouraged? This exploratory study was not intended to provide a definitive answer or a prescriptive path for lawmakers but it was intended to provide insight that could guide the decision makers within college administration and the state legislature.

To summarize, anticipated findings of this study were as follows:
• For-profit competition is acting as a form of disruptive technology that is forcing low-end competitors to mimic for-profit practices.

• Overall institutional responses on the part of larger traditional institutions will be weak with very little emphasis on either market or legal responses, but unit-based responses will be much stronger with an emphasis on market response.

• The public interest is being adversely impacted by the influence of this disruptive technology on traditional institutions, particularly those at the low end of the market.

• A market or legal response can be predicted on the basis of the factors identified in Exhibit 3.

Assumptions
This study began with the premise that for-profit institutions can be differentiated from public and nonprofit institutions in terms of their impact on society and that policy can be informed by a better understanding of how the expansion of for-profits will impact traditional institutions and the public they serve (Newman and Couturier, 2002; Dill, 2005; Winston, 1998; Burd, 2006). Additional assumptions of this study include the following:

• Institutions of higher education operate as open systems in that they respond to external conditions by making internal adjustments and changes
• As an industry’s environment becomes more turbulent and competitive organizations operating within that environment must become increasingly focused on survival and efficiency at the cost of other objectives

• There remains a knowledge gap regarding the impact of privatization within higher education

Colleges and universities as a whole may not appear to be particularly responsive to their environments given the trappings of tradition, but they are in fact open systems that scan the environment and respond to signals from various feedback loops. However, the immediacy and adequacy of response may not be enough to keep many institutions from failing (Keller, 1983; Zappia, 2000; Newman and Couturier). Past environmental changes have typically required incremental adjustments within a relatively stable environment. An examination of responses and reactions of traditional institutions to environmental changes of the past is not likely to yield an adequate understanding of the consequences of privatization taking place today. This study should ultimately help to inform the debate over privatization by providing empirical evidence as to the impact of privatization on established institutions and the student markets they serve.

Methodology

This was an exploratory study (Alreck and Settle, 1995) that used a preliminary survey as a means of identifying institutions that could serve as a select sample set for further exploration into the impact of privatization through more in-depth interviews,
as well as to refine an interview guide to be used for the in-depth interviews. The interviews themselves were of an open-ended design aimed at identifying the general themes, patterns, and nuances of the impact privatization is having on public and nonprofit institutions in Massachusetts.

A selective survey approach was used to determine which public and nonprofit institutions will be targeted for interviews, that included information gained from the preliminary survey. In order to obtain insight from both government relations professionals and administrators working in adult and distance education units, two distinct organizational membership lists were used.

The first list was obtained from the University Continuing Education Association (UCEA). This association is the largest association of institutions that compete in the primary markets of the state’s largest for-profits, as publicly identified by those for-profits, specifically, part-time adult education and distance learning. The list obtained from UCEA identifies the specific individuals at member institutions that have the most direct responsibility for those markets.

The second list was obtained from the Association of Independent Colleges and Universities in Massachusetts, which identifies the institutional point person overseeing government relations within member institutions. These government relations officers are at the intersection of educational practices and legislative issues and represent the official policy perspective of their institutions.
Fifty-five surveys were sent to government relations officers, continuing education administrators, and distance learning directors within these selected institutions. By soliciting responses via the preliminary survey from these two disparate groups it would be possible to use those responses to refine the interview guide, as well as to identify prospective interviewees with a willingness to respond. The survey questionnaire contained a minimal set of open-ended questions aimed at understanding the level of concern within an institution regarding privatization and whether the institution is experiencing, or reacting to, any impact. The specific questions were as follows:

1. In what way, and to what degree, are for-profit institutions of higher education competing in your institution’s marketplace?

2. To what degree are you concerned about for-profit competition? Do you anticipate any issues emerging or benefits arising from the expansion of for-profit higher education?

3. What changes, if any, has your institution made in order to adapt to for-profit competition (new offerings, reorganization, outsourcing, repositioning, etc.)?

4. To what extent has your institution engaged in legal or political efforts to discourage laws, policies, and decisions that impact for-profit privatization (direct or association lobbying efforts, lawsuits, legal testimony)?
5. Please provide any other thoughts you have regarding for-profit competition and its impact on your institution, the state of Massachusetts, or higher education in general.

Based on the results of the survey, a selective sample of ten institutions in which more in-depth interviews could be conducted was identified. The population of selected institutions most heavily represented “Quadrant A” and “Quadrant B” as depicted in Exhibit 2. These interviews included: executive officers that can provide a sense of the institutional perspective and response; government relations officers that represent the official position of the institution to legislators and can speak to the nuances of laws and policies impacting privatization; and heads of nontraditional units competing most directly with the current primary markets of for-profit institutions.

Interview questions were open-ended, but an interview guide was employed in order to ensure validity and the ability to compare information gathered within each interview. Questions were designed to get at the following four general areas: 1) level of concern for privatization; 2) response of the institution to privatization; 3) factors affecting response; 4) overall impact of privatization. General questions contained within the interview guide included the following:

1. Are for-profit institutions a current or potential threat to your institution?
2. How has your institution been impacted by for-profit competition?
3. How has your institution responded to privatization?
   Market positioning?
   Business practices?
   Budget allocations?
   Product shifts?
   Reorganization?

4. Will privatization have an overall negative or positive effect on the higher education industry in Massachusetts?

5. What, if any, for-profit practices have you concerned for either your institution or the public interest?

6. Do for-profits offer a superior or inferior product?

7. Are non-profits sacrificing anything in order to compete with for-profits?

8. Are for-profits affecting particular segments of your student population more than others?

9. Are current state and federal policies and practices sufficiently protecting the public interest?

10. Is there an institutional position or response from your organization to for-profit privatization?

11. Will privatization have any long-term negative or positive consequences for the general public?

12. Is privatization hurting or helping the quality of higher education overall?

13. To what extent do you believe legislators are adequately informed about the issue of privatization?
14. Are you concerned about state laws or accrediting standards being influenced by for-profit entities (transfer credit, outcomes assessment, financial aid distribution)?

15. What ultimately separates public or non-profit institutions from the for-profits?

Secondary data from the Department of Education’s National Center for Education Statistics (NCES) was used to provide context and a level of construct validity to the interview findings. Some NCES data is broken out by state, but given that large for-profits are a very recent trend in Massachusetts, national data was largely used to validate (or invalidate) assumptions and concerns that arose during interviews. While some “statistical generalizations” were used to identify themes, findings were primarily based on “analytical generalization,” as key informants represented distinct cases.

Limitations of the Study

This study is focused on the impact of privatization as seen through the lens of public and nonprofit institutions. Additional interviews with for-profit institutions would likely yield a different perspective. Not only might the for-profits argue that they were not having an adverse impact on the public good, but they could make several arguments as to how they were advancing the public good, even if it was at the cost of some traditional institutions. However, the proprietary nature of for-profit institutions

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would likely limit the availability of information and access to decision makers. In addition, this study is primarily qualitative in nature. A quantitative study focused on market trends and patterns of student enrollments could also inform this issue.

Another related study that might add a new dimension, or at least some further context to the issue, would be to study the perspectives, beliefs, and attitudes of policymakers. To what extent are they concerned, or even aware, of the issues of for-profit privatization? What, if any, bias exists among policymakers when it comes to for-profit or traditional institutions of higher education? What do they see as the priorities for their constituents?

Beyond the various constituencies that might be examined and the qualitative and quantitative methodologies that might be used, the long-term nature of higher education poses inherent challenges. The answers to questions such as whether or not differences in for-profit educational approaches will lead to graduates who are more or less adaptable to a changing society, or whether there will be an eventual collapse in the for-profit institutions that leaves students stranded can be predicted and a longer term study would be beneficial to the overall understanding of this issue.
CHAPTER IV: FINDINGS

Preliminary Survey

The preliminary survey was a series of open-ended questions as described in the methodology section. The survey was distributed via e-mail, and of the fifty-five surveys sent I received twenty-two replies. While this represents a nearly fifty-percent response rate, the depth of responses was limited. The brevity of responses was expected, however, and the preliminary survey ultimately served its purpose.

In matching the institutions associated with respondents against the four quadrants of Figure 2 there were no surprises with initial findings lending support to the initial premises, which included: 1) respondents from outside units specifically competing in the current for-profit markets did not perceive there to be any significant impact; 2) respondents within continuing education or distance learning units did feel there was an impact overall, but how negative that impact was perceived to be largely depended upon the overall positioning and strength of the institution (with larger more prestigious institutions being less concerned about for-profit competitors than smaller institutions dependent upon part-time markets for overall institutional support); and 3) those respondents who did identify any response on the part of their institution referenced only competitive responses as opposed to governmental/political responses.

The primary purpose of the preliminary survey was to identify institutions, and specific individuals within those institutions, that might be both receptive to a full
interview as well as informative. From this standpoint, the preliminary survey served its purpose. After matching respondents against the “response grid,” depicted in Figure 2, a sample set of eight to ten institutions would be selected that could provide both an appropriate level of depth and scope across the grid, with an assumption that not all those who responded to the preliminary survey would be willing or able to participate in a lengthier interview process. The narrowed list of institutions included prestigious research universities in the top 50 rankings of U.S. News and World Report, small private colleges solely dependent upon tuition revenues, and state colleges (including community colleges).

It is not known whether or not the 33 non-respondents chose not to respond for institutional reasons (a sense that they needed to protect proprietary information), philosophical or other personal reasons, or because they felt they had nothing to offer to the discourse. However, the pool from which to conduct the in-depth interviews represented a cross-section of the various types of institutions within Massachusetts, including “land-grant” public, community college, large private, small private, and a cross-section of the various ranking levels of U.S. News and World Report. Since all institutions chosen for the in-depth interviews were part of a subset of institutions included in the survey, then each of those interviewed met the prequalifying criteria of the survey.
Interviews

Once the desired sample set was selectively identified, a request for an interview was sent via e-mail. The script for this request asked participant candidates for an hour of their time at their convenience. The interview request referenced the earlier e-mail survey and made it known that this research was being conducted with the intent of partially fulfilling requirements for a Ph.D. The request also indicated that the time and place would be at their convenience. Of the 12 e-mail requests sent (10 institutions and 12 individuals) 10 individuals responded favorably (representing eight institutions). The majority of these interviews were arranged to take place at the respondent’s institution with two respondents preferring a phone interview, one respondent preferring to come to my office, and one respondent preferring to meet in a hotel lobby at a conference site.

All of the interviewees could be described as comfortable conversations based on an open-ended format. Most interviews lasted for one hour, with a few running longer. The open-ended questions served as the intended prompts for respondents to react to, with occasional follow-up prompts used to clarify or direct initial responses. Respondents frequently moved into areas of discussion on their own that would otherwise have been prompted by the interview guide. Every respondent was comfortable with the topic and spoke passionately about their experiences, observations, and thoughts related to the topic. Ultimately, the interviews clearly supported much of my hypothesis and assumptions, but there were also aspects that either ran counter to expectations or raised new questions.
In general, the categorization scheme selected for the study, as based on the “response matrix” was supported by information obtained in the interviews. None of the institutions included in this study articulated an institution-wide political response to for-profit privatization, but there were varying levels of concern regarding the political/legal influence and impact of for-profit institutions. Individuals whose primary responsibility was to the larger institution were generally aware of for-profits, but either did not see them as a threat or did not see the threat as an institutional priority, so no large scale political responses to for-profit privatization had as yet been mobilized by any individual institution.

Individuals involved directly in continuing education or distance learning units tended to have varying degrees of concern, largely dependent upon the drivers depicted in Figure 3, with some individuals indicating a very high concern in regards to the threat for-profits posed for both their respective institutions and the public at large. Those individuals within directly competing units that perceived the threat to be high were much more likely to be responding through competitive market measures than through political means, but the extent to which these individuals felt legislative responses would be appropriate also varied widely.

One universal finding was that respondents felt they themselves, as well as their respective institutions, could do little to influence for-profit privatization through political/legal intervention, even when their concern for the influence of for-profits on
legislation was high. Individuals either felt they did not have the resources available to them to mount a credible lobbying effort or that the involvement of legislators would lead to unintended adverse impacts on the traditional institutions. So while the study does categorize some institutions as either falling within Quadrant A or Quadrant C of Figure 2, this categorization was based more on the concern those institutions had for legislative responses as opposed to lobbying efforts currently underway by those institutions.

Interviews were based upon a condition of anonaminity so individual names, along with their respective institutions, have been excluded from this report. The respondents are plotted on the response matrix below (Figure 4) as individuals rather than institutions, since some individuals were more representative of a specific unit rather than the institution as a whole.

The respondents have been identified by an alphanumeric designation in which the first letter indicates the quadrant of the matrix they most closely fall into, the second letter indicates whether the respondent is primarily representing an institutional or unit perspective, although all respondents were able to speak to the larger institutional perspective to some degree (the letter “I” was used to define individuals most broadly representing the overall institution and “U” was used for individuals more narrowly representing a specific unit within the institution), and finally a number was assigned to each like respondent within a quadrant.
This diagram depicts how institutions represented by respondents in this study match to the categories of the response matrix (Figure 2), where “I” represents those individuals with an institution-wide role and “U” represents individuals with a primary role in a unit that competes directly in the primary market of for-profit institutions (adult professional programs and/or distance learning).

The Business Model

All interviewees were asked to differentiate for-profits from traditional private and public institutions of higher education, and in most cases the way in which the distinction was made was to contrast the “academic model” with the “business model,” some variation of this was true no matter where an institution appeared on...
the response grid. This distinction was not simply based on whether or not an institution or unit was concerned about generating revenue, but on whether or not generating profits (or contribution) was a primary or subordinate goal to providing education specific goals. All of the respondents either directly stated or inferred that they believed their institutions were more concerned with providing a quality educational experience than were the for-profit institutions.

The general belief among respondents was that for-profits spent resources on marketing, recruitment, and services but skimped on faculty and offered a “stripped down” educational experience in order to maximize profits. A number of respondents from Quadrants A and C also noted that financial pressures were not entirely limited to for-profits and that a number of nonprofits were also suspect when it comes to quality and suggested that there may be increasing emphasis and pressure in general on continuing education units to focus on generating contribution margins that support the larger institution, but that diminish the education objectives of the institution.

One individual summed up the distinction between for-profits and non-profits by saying, “The difference is in the name isn’t it?” And while it could be argued that the emphasis on returning contribution margins can lead to the same net result of compromised quality that a focus on short-term profits might have, there are nuances that need to be noted to understand the business model versus academic model distinction being made by respondents. Section 501(c)(3) of the IRS code itself helps
provide some insight into the differences respondents were almost universally describing, which go beyond the fact that for-profits simply pay taxes on the net income they generate and nonprofits do not.\textsuperscript{67}

Whether or not an institution is defined as a nonprofit or for-profit begins with that institution’s mission, but it goes beyond this, and has to do with what an institution can or can not do with the contribution it generates. A for-profit institution can choose either to reinvest those funds it generates or flow them out of the organization to pay investors. Traditional institutions of higher education do not have the option of distributing funds to investors, they must reinvest. This creates a stronger incentive for traditional institutions to reinvest in areas that, theoretically at least, could lead to improved quality. The difference may have been best described by one informant who put it this way, “It is the difference between having shareholders and having stakeholders.”

With shareholders there will always be pressure to produce a return on investment. The expectations of shareholders will be for continuous growth in equity and there is likely to be little reluctance when it comes to cutting losses if it appears those returns will not be forthcoming (Symonds, 2005). This does not necessarily mean that for-profits will always have less quality than nonprofits, but all other factors being equal, for-profits will have less resources to invest in quality by virtue of the drain on funds created by having to pay taxes and the pressure to produce returns for investors. Even

\textsuperscript{67} Department of the Treasury, Internal Revenue Service, \textit{Publication 557}, Cat. No. 46573C, Rev. March 2005
One hallmark of traditional institutions is the use of full-time faculty, and particularly tenure systems (Birnbaum, 1988; Winston, 1998). These faculty tend to have long-term (often a lifetime) commitment to the institution. The faculty, combined with students and decades of alums, form a strong group of stakeholders whose interest is managed by a board of trustees. This collective of stakeholders is more likely to put student and public interests above contributions (Birnbaum, 1988). So while one could argue that colleges have become more “business-like,” and there is much evidence in the literature as well as in this research that suggests this is the case, the sentiment of most respondents that there is a difference in the business model used by for-profits and the model used by traditional institutions is a logical one.

It does appear from the interviews that specific units within colleges are acting more business-like than others, but even in these cases it was indicated that the needs of upholding the larger institution’s reputation and mission were a constant consideration that was often kept in check by full-time faculty oversight. Based on conversations with individuals associated with for-profit institutions, as well as a review of open positions on their Web sites, for-profit institutions of higher education in Massachusetts do not as yet offer tenured or tenure track positions to their faculty.
ranks and it seems destined to be unique among the traditional institutions of higher education in Massachusetts.

An argument could be made by for-profits that they can actually improve the quality of teaching by having greater hiring and firing flexibility without having a tenured faculty. There is some evidence in the literature to suggest the faculty structure within traditional institutions, and the nature of faculty governance in general, limits organizational responsiveness (Baily, Badway, and Gumport, 2001). This argument merits consideration, but based on the interviews conducted it would seem that faculty governance can support entrepreneurial activity and offers more benefits than it poses barriers to institutions with educational missions. The lack of tenure does not preclude, as was evidenced by some of the smaller institutions that did not offer tenure faculty governance but still referred to strong faculty governance as a guardian of quality. Tenure does, however, remain a key attractor to high-end faculty.

In some cases, respondents indicated that, when they were charged with increasing contribution back to the larger institutions, they were able to balance those requests by arguing the need to maintain quality or support other core institutional values. One respondent indicated that he asked his president if he wanted a development officer or a dean. However, there was a concern expressed by some respondents that generating contribution was a matter of survival.
Nontraditional units are not necessarily core to the mission of most traditional institutions. The danger these individuals foresaw was the potential for the larger institution to decide to reallocate resources to core activities and either discontinue or outsource nontraditional activities. The general belief of these individuals was that their institutions did not feel for-profits would ever be a threat to their institutions’ core business, that of traditionally aged, campus-based student markets. At the same time, respondents who expressed this concern also felt there was a great deal of ignorance on the part of academics outside nontraditional units in regards to the long-term potential for for-profits to directly compete in traditional markets. In fact, more than one respondent indicated having to explain to their colleagues that for-profits are not entirely synonymous with online education.

The tax status of an institution not only limits how funds can be used by an institution, it also affects the flow of funds into the institution, which also has broader implications. For-profit institutions can raise money directly from investors by promoting potentially profitable ideas (Baily, Badway, and Gumport, 2001). Investors will want some assurance that they will see a reasonable return, but the money can potentially be raised very quickly through venture capitalists if the prospectus is favorable.

Nonprofits, on the other hand, can raise money through fundraising activities. Donors are less likely to be concerned with the profitability of an idea and more interested in the impact their investment will have on achieving the mission of the institution.
(Mattoon, 2006). The return donors will be looking for will not be measured in terms of contribution margin. These differences in raising funds have a direct relationship to the shareholder versus stakeholder distinction made earlier. While raising money quickly for profitable ideas helps for-profit institutions to be more competitive in the short term, it is less likely to result in improved quality than is raising money from stakeholders not expecting a financial return. A for-profit is not likely to raise new venture capital for tenured faculty positions (Symonds, 2005; Blumenstyk, 2006).

One final distinction worth noting is the ability of an institution to influence politics through direct campaign contributions and lobbying efforts. The IRS regulations put more limitations on nonprofit institutions than it does on for-profit institutions. This could ultimately influence specific legislation, and there is already some evidence to suggest that for-profits have been employing a legislative approach to enhance competitive position. Representative Maxine Waters insinuated in a CBS 60 Minutes broadcast that the House Education Committee, including Representative John Boehner, has been influenced by more than a million dollars of campaign contributions to its members from for-profit education providers. Indeed, statements made by Representative Boehner appear very supportive of for-profits. Whether his seeming support for the for-profit education sector was brought about by campaign contributions or genuine belief in the value of privatization can not be certain. But remarks at a hearing to investigate fraud on the part of for-profits made by Boehner certainly appear supportive of the arguments that continue to be made by those for-profits including the following:
"Traditional colleges and universities have not been able to meet this growing demand or respond to the needs of these students. Proprietary schools, or ‘for-profit’ schools, have been stepping in to fill this void – they are playing a critical role in providing college access for some of our nation’s most vulnerable students. And thus they are playing a critical role in carrying out the mission of the Higher Education Act." (Committee on Education and the Workforce, 109-20)

The proposed revisions to the Higher Education Act included a provision that would ensure the transferability of academic credit earned at a for-profit institution to traditional institutions of higher education. Lobbying efforts on the part of organizations primarily representing traditional institutions ultimately led to this provision being removed, but this particular issue was familiar to several respondents (Barlett, 2005).

The threat the transfer credit requirement would pose, as expressed by respondents, was that requiring the acceptance of transfer credit would have compromised the overall quality of the student’s education and the integrity of the degree, since the current ability to evaluate credit results in the rejection of coursework believed to be inferior on a routine basis. One respondent in Quadrant C indicated that their institution had reviewed the transferability of course credit from prospective students that had attended for-profits and had deemed these courses to be deficient in quality and disallowed them from the students’ transfer credit award.
Specific Impacts

There was a sense of immunity that came through in some of the interviews. This invulnerability was scattered across the quadrants, but seemed to correlate with the level of immediate concern respondents had about the direct competitive threat posed to them by for-profits. Respondents exhibiting this sense of immunity indicated one of two things, either their institutions had sufficient competitive advantage to keep for-profits at bay or that for-profits would not want their particular share of the market because it would not prove to be profitable enough. Respondents that felt for-profits would not be interested in their particular market noted particularly high barriers to entry.

Barriers to entry ranged from high physical infrastructure costs, associated with things such as engineering labs, to the high cost of accreditation for business programs or licensure for health programs. It should also be noted that respondents from residential colleges who were representing their larger institution indicated that they did not believe for-profits would move into traditional day markets in any significant way. But most of those individuals with oversight of nontraditional units expressed a general concern that their respective institutions and higher education in general had been lulled into a false sense of security. However, even among those respondents indicating the least amount of concern regarding the competitive threat posed by for-profits there were acknowledgements of either direct or indirect impacts.
Responses to the question as to whether or not for-profits were having an impact on their institution, whether positive or negative, yielded a variety of responses, but the majority of institutions indicated that for-profits were both negatively and positively impacting their institutions. The extent to which for-profits were most seen as negatively impacting institutions was most strongly correlated to the market factors. In other words, if an institution was competing in similar geographic and demographic markets they were likely to see for-profits as a threat, and indeed were also likely to see for-profits as a threat to higher education in general. The extent to which a respondent associated for-profit institutions as being among their competitors was not only dependent upon whether or not the respondent’s institution or unit was in adult or distance learning markets, but also was strongly correlated to perceived level of prestige in the marketplace, as well as whether or not these institutions were operating in niche markets.

Respondents associated with institutions top ranked by U.S. News and World Report were much less likely to perceive any threat from for-profits. Public institutions, with the exception of one top-ranked institution, seemed to express the strongest concern regarding for-profits. As one respondent conveyed to me, this may be because there is, in Massachusetts at least, a general perception that private institutions are higher on the pecking order than publics. Most top ranked institutions were very quick to indicate that they do not compete for the same students and do not feel threatened by for-profits. In fact, more often than not top-ranked institutions felt the competition was likely to benefit higher education. While many of the lesser-ranked institutions
also indicated that there would be some positive outcomes brought about through for-profit competition, they were much more likely to raise quality concerns and general concerns for the public interest.

While it was initially anticipated that public institutions to be less threatened by for-profits, given their distinct price advantage, it appears that for-profits have been very effective at reaching and promoting to lower socio-economic classes and offsetting the cost differential through financial aid. What some respondents also indicated was that the traditional market for public institutions was also very receptive to the degree-to-job connection for-profits are visibly touting. So while a traditional community college student may choose the community college alternative primarily on the basis of price, for-profit institutions are now successfully selling that student on their future earning power and reducing anxieties around financing that education (Baily, Badway, and Gumport, 2001). The other message that appears to be playing well with the target market of public institutions is time and ease to degree. This particular population appears to be looking at the value proposition from the standpoint of ease to credentialing. Some public institutions are noticing market decreases as apparently more students choose for-profit alternatives. Whether or not this is necessarily negative will be discussed further in the conclusions, but directly impacted institutions were consistent in their belief that they were offering a better educational experience than were the for-profits.
The fact that top-ranked institutions do not see themselves as competing with for-profits does not mean they are not impacted by for-profits, or that they will not ultimately compete head on with for-profits in the future. These top-ranked institutions did raise similar concerns and impacts in regards to four things: 1) for-profits have significantly raised the cost of advertising, both online and traditional print advertising; 2) for-profits were primarily associated with online education by academics outside continuing education or distance learning and it was resulting in online efforts by traditional institutions being painted with a broad brush in which online quality was automatically suspect; 3) the Higher Education Act was raising concerns over the potential of having to accept for-profit transfer credit, although most felt the threat had subsided; 4) the use of the term “university” by a number of non-research based for-profit institutions was cheapening the language of higher education.

Some institutions, particularly those in Quadrant A or B of Figure 4 indicated that they had become much more conscious of the need to contact applicants and be generally more aggressive about recruitment and financial aid. Virtually all of the respondents that were directly competing with for-profits felt they could not match the aggressive strategies of the for-profits either because of resource limitations or philosophical beliefs. Nonetheless, traditional institutions were more focused on recruitment, with some institutions adding or planning to add staff to financial aid.
The impact for-profits were having also permeated the actual offerings of institutions. Again, as is consistent with where competitive impacts appeared strongest, institutions in Quadrant A or B indicated the most significant changes. These changes took the form of curriculum, delivery, or both. While it did not appear that traditional colleges were looking to the for-profits for program innovation, there was an increased emphasis on career pragmatism in general, finding ways to make the curriculum appear more directly relevant to jobs. However, when it came to delivery models, there appeared to be a much stronger follower approach to for-profits, with many respondents, particularly those in Quadrant A and B, indicating that they were familiar with for-profit delivery models and were making adjustments in order to compete with them. These adjustments included such things as shorter terms, online delivery, hybrid models, and cohort models. A couple of respondents also indicated that they were being more aggressive about strengthening or establishing corporate relationships before they lost this market to the for-profits.

Some respondents representing Quadrant A or B units within the larger institution indicated that another aspect of their organizations for which they did not have control would likely be impacted eventually if their institution wished to survive long term. This issue was regarding their sense of bureaucracy and the general inability to change. This was largely attributed to their institution’s faculty governance structure and a general concern that this governance structure would not be able adapt to the changing environment until it was too late, either for their unit or the institution itself.
Whether for-profits will ultimately impact how traditional institutions are governed was not clear, since it appeared that only one institution had altered its governing structure in order to become more responsive to the market, and for-profit competition was not the driving factor. In fact, in this particular case, the institution created a new structure that emphasized faculty governance. In general, respondents expressing the concern over faculty governance did not appear to be ready to propose a solution, which suggests that the impact on structure and governance is likely to be minimal for the near future. The one significant exception would be the merger or acquisition of a traditional institution by a for-profit, in which case the overall structure and governance are likely to change rapidly and dramatically.

**Legislative Response of Institutions**

There was an almost universal sense among respondents that for-profit privatization was “a given,” that either should not be, or could not be, addressed through legislative efforts. Generally, institutions in Quadrants A and B felt there should have been some closer scrutiny by legislators, while institutions in Quadrant C or D generally felt it was best to keep the government out of higher education. The sense among Quadrants A and B respondents was that their respective institutions lacked the resources to conduct an effective lobbying or legislative campaign. Some felt legislators had not paid enough attention when something could have been done to more closely scrutinize institutions seeking approval to operate in Massachusetts.
There was also an overall sense that legislators were not nearly informed enough. Some state institutions indicated that they might be disadvantaged when it comes to the ability to formally lobby legislators since they would likely be permitted to fund specific lobbyist positions within their institutions. Those institutions that did have dedicated government offices indicated that keeping for-profit competitors out was not their highest priority. Even the larger institutions included in this study indicated that they could not devote the resources to fighting state and federal legislative issues concerning for-profit competition.

While state and national organizations exist to represent the interest of higher education institutions, there is little evidence that they have focused their attention on limiting for-profit privatization, with the exception of the issue of mandating transfer credit, which had been proposed within the Higher Education Act revisions but removed by lawmakers before final approval. National and regional accrediting bodies also seem to lack either concern or resolve when it comes to the issue of for-profit privatization. One respondent indicated that they were expecting the accrediting bodies to do a better job of weeding out for-profits on the basis of quality. They felt the standards were the standards and that these were sufficient, but that the fact Intel was no longer reimbursing for Phoenix courses suggested that the market may be doing a better job of regulating the industry than the regional boards were. Another respondent, who serves one of the committees of the regional board indicated that the board was getting up to speed on for-profits since they anticipated entertaining more non-profit accreditation requests in the future. Indeed, the accrediting agencies and
national organizations are likely to be increasingly comprised of for-profit institutions, which in and of itself is not necessarily a negative.

According to those interviewed who indicated a legislative concern, for-profits have largely been able to gain support from legislators by appealing to well documented workforce development needs in the state and they have established a perception that they are helping to solve the need for a more educated workforce. The question that respondents could not answer was whether or not the for-profit institutions were in fact contributing to a stronger workforce, but there was little hesitation on the part of interviewees to distinguish between educating and credentialing. The consensus was that for-profits are focused on credentialing, but whether or not these for-profits might also be adding to a skilled workforce could not be answered by these interviews. A longitudinal study on both placement rates, and the advancement of alums, would be a worthwhile undertaking, but it is beyond the scope of this study. Likewise, there remains the question as to whether or not students would have gained whatever skills or knowledge they obtained from the for-profits by attending traditional institutions had the for-profit option not been available to them.

Looking Ahead

All respondents felt for-profit higher education would be around for the long term, but there was a lot of variance with regards to what that landscape ultimately looks like. Respondents in Quadrants C and D, as well as one from Quadrant B, felt there was room in the marketplace for both traditionals and for-profits. The general sense
among these respondents was that the for-profits would ultimately be viewed as an alternative product. However, most respondents in Quadrants A and B did not see for-profits as an alternative product in the long run, but rather they were viewed as emerging competitors that would look increasingly like traditional institutions.

It was anticipated by most respondents that traditional institutions would adopt many for-profit business and service practices, although most institutions also emphasized their belief that their particular institution would not sacrifice its academic quality or integrity, and a few respondents were skeptical that traditional academics could ever become more entrepreneurial. Many respondents across all quadrants indicated that they were anticipating a shake-out of for-profits at some point, with only a few large survivors. One respondent from Quadrant A also suggested that for public institutions to survive they may eventually need to be divided by product niches as opposed to geographical regions, suggesting that it would take concentrated niche foci in order for publics in Massachusetts to be insulated from the growing for-profits or increasingly aggressive nonprofits.

Among other predictions that were not specific to a particular quadrant was the belief that international competition would eventually be as significant, or even more so, than the current for-profit competition. Both international and online markets were also widely viewed as areas of opportunity that were still available to traditional institutions, in spite of the strong presence of for-profits in online that currently exists.
Some comments on this topic suggest that traditionals are just entering this market and will be able to grow their particular share by virtue of their valued reputations.

In general, it seems respondents either felt for-profits would become more like traditionals or traditionals would become more like for-profits, if not both simultaneously. If for-profits are truly a disruptive technology, for-profits and traditionals will eventually look more like one another as traditionals are forced to adapt. In the long run, distinguishing for-profits from traditionals could be a bit like trying to distinguish what is “made in the USA,” with parts from one country, design from another, and assembly at yet another. In fact, some traditionals have already farmed out some aspects of their operations to for-profits, including at least two institutions in this study that have turned to for-profits for online delivery of their courses.

Summary of Findings

The data gathered through the interviews was generally consistent with both the literature and the IPEDS data, and supported the hypothesis of the study. The general findings of this study included the following:

- For-profit institutions are expanding both in terms of market and market share at a significant rate
- The perceived impact of this privatization trend among traditional institutions varies widely
- Privatization is perceived to have both positive and negative impacts
The level of concern regarding privatization not only varies among institutions but within institutions it varies between units most closely competing in for-profit primary markets and the larger institution.

Competitive responses lean towards market responses as opposed to political legal responses.

Most traditional institutions do not perceive for-profits to be a competitive threat to their core markets.

There is a difference between the academic and business paradigms that impact the approach and emphasis of the institution.

There are lessons to be learned by traditional institutions regarding the “wrapper of service” and delivery models, and lessons to be learned by for-profits regarding product innovation and the academic model.

Traditional institutions as a whole appear to be discounting the competitive threat posed by for-profits.

There are good and bad practices among both traditional and for-profit institutions.

State policies are myopic at best and there appears to be no comprehensive approach to privatization in higher education.

For-profits are likely to change the face of higher education for the long-term as it will become increasingly difficult to differentiate institutions based on governance alone.
For-profit institutions are having both a perceived and real impact on traditional institutions within the state of Massachusetts. This impact (both perceived and real) varies depending upon the alignment of markets and other competitive factors that result in more or less direct competition from for-profit institutions. There is also a difference in institutional versus unit response where specific units are competing in current for-profit target areas and the larger institution is not. The response from traditional institutions currently falls much more heavily on the competitive market side than on the legislative side.

Institutions most isolated from current for-profit competition do indicate a stronger legislative concern, but not enough to be actively engaged in anti-privatization legislative activity. All those traditional institutions included in this study, felt legislators were not up to speed on for-profits as a whole, but there were significant differences as to whether or not legislators should, or should not, get involved. Those institutions currently competing with for-profits tended to feel more strongly that the legislature should do more to restrict for-profits, while those who felt furthest from competing with for-profits tended to express concern over the quality of higher education offerings in general, without distinguishing between for-profit, public, or nonprofit. Figure 5 summarizes the concerns of traditional institutions by quadrant and type.
### Figure 5: Common Characteristics of Participating Institutions by Quadrant

<table>
<thead>
<tr>
<th></th>
<th>Quadrant A</th>
<th>Quadrant B</th>
<th>Quadrant C</th>
<th>Quadrant D</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Perceived short-term threat</strong></td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
<td>None</td>
</tr>
<tr>
<td><strong>Perceived long-term threat</strong></td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>None</td>
</tr>
<tr>
<td><strong>Types of impact</strong></td>
<td>Primarily negative</td>
<td>Positive and negative</td>
<td>Positive and negative</td>
<td>Not significant</td>
</tr>
<tr>
<td><strong>Perceived effect on public</strong></td>
<td>Attracting students to higher cost, lower quality option</td>
<td>Raising overall costs of doing business but also raising expectations for service and delivery</td>
<td>Students may not be getting what they are paying for</td>
<td>It is providing a different product that may fill a need</td>
</tr>
<tr>
<td><strong>Recommended legislative action</strong></td>
<td>Establish stronger criteria; invest in traditionals</td>
<td>Emphasize consumer protection and disclosure</td>
<td>Emphasize consumer protection and disclosure</td>
<td>Minimal</td>
</tr>
<tr>
<td><strong>Are legislatures sufficiently knowledgeable on this issue</strong></td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Don’t need to be</td>
</tr>
<tr>
<td><strong>Future of competitive landscape</strong></td>
<td>Shakeout will result in the loss of both for-profits and nonprofits and redefining publics</td>
<td>Shakeout will result in stronger and larger mix of for-profits and traditionals; real threat and opportunity will be international</td>
<td>Traditionals will lose market-share but not market to for-profits; real threat will come from internationals</td>
<td>Shakeout will occur among lower tier institutions with little difference left between lower tier traditionals and for-profits</td>
</tr>
</tbody>
</table>

### Validity Testing

There were several themes and assumptions that were consistently represented by the responses obtained in the interviews. While there was not a consensus as to whether for-profit competition was good, bad, or insignificant in terms of its impact on either the higher education industry or the State of Massachusetts in general, it was
consistently evident that respondents believed for-profit institutions were expanding their presence and market-share. This assertion is also consistent in the literature review. However, since there is nothing more critical to the conclusions of this study and the recommendations that follow than the base line assertion that for-profits are indeed expanding, some secondary data was examined for validity purposes.

Unfortunately, the data available for for-profits is limited. The for-profits, like most business organizations, are guarded about much of their data and treat it as proprietary and confidential. These are corporate secrets and information to be kept from the hands of competitors. Nonetheless, many of these institutions accept financial aid and for an institution to eligible to accept federal financial aid they must meet the information reporting requirements of the Title IV federal financial aid guidelines. This data is compiled by the National Center for Education Statistics (NCES) and maintained in a searchable archive known as the Integrated Postsecondary Education Data System (IPEDS). This archive provides data on all Title IV eligible institutions (the kinds of institutions that are of most interest in this study), including enrollment, tuition, and financial aid disbursement information.

The most recently available IPED statistics indicate that there were 4,263 degree-granting institutions in academic year 2005-06 (an increase of 47 institutions over the previous year). Of the total number of degree-granting institutions, there are 3,333 traditional institutions (a decrease of four from the previous year) and 930 for-profit institutions (an increase of 51 institutions from the previous year). This means the
number of traditional institutions fell from 79 percent to 78 percent while for-profits increased from 21 percent to 22 percent. Comparing data from 2000-01, when the number of traditional institutions was 3,393 and the number of for-profits was 789, it becomes clear that these percentage changes represent a long-term shift with traditional institutions having represented 81 percent of the degree-granting institutions and for-profits representing only 19 percent. This represents a significant shift in a short period of time. But this trend goes back even further, as evidenced by the numbers reported ten years earlier for 1995-96, when there were a total of 3,706 degree-granting institutions, of which 3,361 were traditional and 345 were for-profit. This means that ten years ago traditional institutions represented nearly 91 percent of degree-granting institutions and for-profits represented approximately 9 percent of the total. These changes are visually represented in Table 1.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Degree-granting institutions</strong></td>
<td>3,706</td>
<td>4,182</td>
<td>4,216</td>
<td>4,263</td>
</tr>
<tr>
<td><strong>Traditional</strong></td>
<td>3,361</td>
<td>3,393</td>
<td>3,337</td>
<td>3,333</td>
</tr>
<tr>
<td><strong>For-profit</strong></td>
<td>345</td>
<td>789</td>
<td>879</td>
<td>930</td>
</tr>
</tbody>
</table>

Table 1: Number of Institutions by Governance Type

Title IV eligible institutions defined as degree-granting by NCES within the United States, and as compiled and reported by the U.S. Department of Education Institute of Education Sciences IPEDS online database.

Breaking down this IPEDS data further makes two other trends apparent: 1) there is a shift away from the two-year market by the traditional privates; and 2) the for-profits
have rapidly expanded in both the two-year and four-year markets. The growth in the number of for-profit institutions is evident in the IPEDS data, but the growth in the number of for-profit institutions does not, in and of itself, confirm that for-profits are impacting traditional institutions or the public at large, since it does not necessarily correlate with enrollment shifts.

It could be that the for-profits to have merely spread their overall market-share across a greater number of institutions. It is also possible that traditional institutions have held onto their particular student market while for-profits have brought in an entirely new market. In order to validate the belief that for-profits are expanding and having an impact on traditional institutions it is equally important to examine enrollment and graduation patterns. As with the number and types of information, IPEDS is the official government archive of enrollment and graduation data.

The total number of degrees awarded in academic year 2004-05 by Title IV institutions was 2,850,556 (which includes 2,136,018 undergraduate degrees, 627,249 graduate degrees and 79,491 first professional degrees). For-profit institutions represented 7.1 percent of the undergraduate degree awards at 152,662; 5.8 percent of graduate degree awards at 36,418; and less than 1 percent of first professional degrees at 262. Comparing these numbers to IPEDS data from five years prior (1999-00) there is a definite increased presence of for-profit degrees, which represented only 5 percent of the total degrees awarded in 1999-00 compared to 6.6 percent in 2004-05, with the most significant increase being for graduate degrees which represented 5.8
percent in 2004-05 but less than 2.2 percent in 1999-00. Table 2 provides a summary of degree awards based on IPEDS data.

### Table 2: Degree Awards by Governance Type

<table>
<thead>
<tr>
<th></th>
<th>Traditional Undergrad</th>
<th>Traditional Grad</th>
<th>Traditional 1st Prof</th>
<th>For-Profit Undergrad</th>
<th>For-Profit Grad</th>
<th>For-Profit 1st Prof</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>1,712,596</td>
<td>490,956</td>
<td>78,982</td>
<td>90,212</td>
<td>10,908</td>
<td>509</td>
</tr>
<tr>
<td>2004-2005</td>
<td>1,983,356</td>
<td>590,831</td>
<td>79,229</td>
<td>152,662</td>
<td>36,418</td>
<td>262</td>
</tr>
</tbody>
</table>

Combined undergraduate, graduate, and first professional degree awards as defined by NCES for Title IV eligible institutions within the United States, and as compiled and reported by the U.S. Department of Education Institute of Education Sciences IPEDS online database.

In comparing the two data points represented in Table 2 it is evident that total degree awards in the U.S. have risen overall, but that there has been a disproportionate increase in degrees awarded by for-profit institutions for both undergraduate and graduate degrees, with first professional degrees being the only exception to the trend. But even given the obvious trend line, for-profits still represent a relatively small proportion of degree awards, particularly in comparison to the number of for-profit institutions that exist. In other words, for-profits represent a greater percentage of higher education institutions than they do percentage of degrees awarded.

It should be noted that the increase in for-profit degrees has not necessarily adversely impacted traditional institutions, given that the overall degree awards have risen,
although it would have limited the potential growth of traditional institutions during the period between 1999 and 2005 if nothing else. Conversely, this raw data alone may not be providing a full picture of the impact of for-profits. What the degree award data does not tell us is the financial impact the shift to for-profits had on traditional institutions. Given the nature of for-profits, it can be logically concluded that for-profits would have focused their attention on the most profitable markets (which was also conveyed in the interviews) and thus the impact of shifting graduates from traditionals to for-profits is likely to have a more significant financial impact than is suggested by the actual percentage change.

To better understand the marketplace impact we also need to examine enrollment data, since there is the possibility that completion rates between traditionals and for-profits differ (which is an indictment of for-profits throughout much of the literature, as well as many of the respondents interviewed for this study). Here again, IPEDS data was used to provide some reality testing of these assertions. Total degree enrollments for Title IV institutions in Fall 2005 were 17,613,749. Of the total enrollments, traditional institutions represented approximately 93 percent of enrollments and for-profits approximately 7 percent. While 7 percent of the market may not seem overly significant, this represents a jump of more 1 percent over the previous year and is more than double the for-profit market-share held in 2000-01.

The IPEDS enrollment data provides further evidence that for-profits are having an impact on the market and traditional competitors, but a further breakdown of IPEDS
Almanac punctuates the impact of for-profits by ranking college campuses by size of
enrollment in which the University of Phoenix’s online campus is the largest college
campus in the country with 115,794 enrollments. The number two campus in the U.S.
was Miami Dade with 57,026 (which had previously carried the largest campus title
for several years).

While IPEDS data can be broken out by state, the for-profit phenomenon is newer to
Massachusetts and it is the national data which indicates the overall for-profit trend.
However, it is useful to include some Massachusetts specific data as a reference point.
The largest campus in Massachusetts is Boston University, which is ranked 54 by size
nationally with enrollments of 29,596 (less than one-third the size of University of
Phoenix’s online campus). There are nine two-year and four four-year Title IV for-
profits in Massachusetts out of 134. Massachusetts has the highest ratio of nonprofit
private to public institutions of higher education in the United States, so it may be a
unique environment. For-profits certainly represent a smaller percentage of
institutions in Massachusetts than they do nationally. But given their late entry into
the Massachusetts market, the data does suggest the same growth trend may be taking
place in the Massachusetts market, particularly given that there were no four-year for-
profits in Massachusetts just five years ago.

The IPEDS data clearly shows a for-profit growth trend whether measured by number
of institutions, enrollments, or degrees awarded. This same trend is evident in the
Massachusetts data, though there is much less historical data to go by given that four-year for-profits have only recently entered the Massachusetts market. Nonetheless, both the national and Massachusetts data validates many of the assertions of respondents and would seem to disprove the null-hypothesis that for-profit institutions are not having any impact in the higher education market. The secondary evidence as to whether or not the impact of for-profits is positive or negative is less conclusive, although some assertions can be made by further analysis of available data.

The literature suggests that for-profits may be more effectively attracting minority populations, a number of respondents supported this assertion. A review of IPEDS enrollment data does indeed indicate that for-profits are serving a higher proportion of minorities, and Black students in particular. Interestingly, in spite of poor graduation rates overall, for-profits also do a better job of graduating Black and Hispanic students than do public institutions, although nonprofit privates do a better job of graduating four-year students than either public or for-profit institutions (two-year for-profits have a better minority completion rate than either public or for-profits for all minority categories). Table 3 represents minority graduation rates for four-year institutions.
Table 3: Minority Graduation Rates

<table>
<thead>
<tr>
<th></th>
<th>Public</th>
<th>Nonprofit Private</th>
<th>For-Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Black</strong></td>
<td>36.1%</td>
<td>44.5%</td>
<td>42.5%</td>
</tr>
<tr>
<td><strong>Hispanic</strong></td>
<td>41.5%</td>
<td>56.8%</td>
<td>50.6%</td>
</tr>
<tr>
<td><strong>Asian/Pacific Islander</strong></td>
<td>62.3%</td>
<td>73.9%</td>
<td>53.6%</td>
</tr>
<tr>
<td><strong>American Indian/Alaska Native</strong></td>
<td>32.5%</td>
<td>52.4%</td>
<td>50.7%</td>
</tr>
</tbody>
</table>

Table 3 is calculated on the basis of IPEDS data on four-year graduation rates as of Spring 2006 and based upon a 1999 student cohort. Race and Ethnicity categories are as defined by the U.S. Department of Education.

While for-profits seem to fare well with minority enrollments and minority graduation rates, their overall graduation rates are significantly lower than traditional institutions, which may be an indictment on the ability of public institutions to support the minority students they enroll, particularly if they are better able to bring non-minority students to completion (I will discuss this further in my conclusions).

The poor completion rates of for-profits are compounded by two other factors also found in the IPEDS data. One of these factors is the higher tuition price of for-profits, which is higher on average than both public and nonprofit institutions. When you combine the higher tuition rate with poor overall graduation rates, and a final factor, which is a much higher overall dependence on student loans for financial aid by for-profits, the likely result is more college dropouts owing larger amounts of money.

In 1999, the average percentage of students receiving federal financial aid of some sort was 39.1 percent, while for-profit institutions granting two-year or above degrees were obtaining financial aid for 80.4 percent of their students. The overall percentage
of students receiving these funds in 2003 was 46.4 percent, but for-profits remained considerably higher at 85.1 percent. Interestingly, overall institutional aid to students in 2003 was 18.8 percent, but for-profits were only providing their students with 7.6 percent.

The National Consumer Law Center has raised questions about the accuracy of data relative to for-profit institutions. The Center conducted a study into the issue of data accuracy, particularly for completion rates and job placements, and published a report in June of 2005 that concluded that there are serious problems with publicly reported and government data regarding for-profit completion and placement rates. The NCLC study found numerous misrepresentations of graduation and completion rates being made directly by for-profit recruiters and being reported in public data. The investigators even found that many recruiters did not provide completion data even when explicitly asked, though this disclosure is mandated by federal law.

Some of the specific flaws can be attributed to outdated and incomplete data. For example, an institution may report data that has been extrapolated for all of its campuses even though the actual data only came from a sample of its campuses.

Another area of interpretation, and therefore integrity issues, is in regards to exclusions. The government allows institutions to account for students who leave in

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order to report for military duty or students who become disabled during the course of their studies. But since all of the data is self reported it is nearly impossible to verify. Another area of exclusion that can give an institution wiggle room in its reporting is that of part-time students. In fact, the government is focused on full-time students and therefore it is possible that part-time completion rates in general for an institution could be out of line with its reported full-time completion rates (Loonin & Devanthry, 2005).

The report is skeptical of for-profit willingness to accurately report completion and placement rate data, suggesting that the impact of this data on profits will be an incentive to inflate the data since this data can influence student recruitment and stock prices. The report makes a number of suggestions for improving data accuracy that range from a tightening of exclusions to adding placement data to the NCES database. Insofar as this study is concerned, it is important to be conscious of potential data inaccuracies that may exist in the IPEDS data, but since the NCLC report suggests that the completion rate data would most likely be skewed in favor of the for-profit institutions, the only potential impact of the findings presented here could be to warrant closer scrutiny of the apparent success for-profits are having with minority completion rates (Loonin & Devanthry, 2005). However, the data is so overwhelming that it is doubtful that even taking a margin of error into account that it have any impact on the conclusions associated with these findings.
It can not be concluded from the secondary data that students are ill-served or whether or not there is a direct causal relationship between the expansion of for-profits and the impacts being felt by many traditional institutions. However, what this data does indicate is that there is validity to the respondents assertions that for-profits are expanding to the point that this phenomena is undoubtedly having impacts (positive, negative, or both). The secondary data does provide some validity relative to the phenomenon of for-profit privatization itself. More importantly for this study, there is nothing inherently contradictory about the qualitative interview data and the IPEDS secondary data, the combination of which support my hypothesis that for-profits are expanding and having an impact on traditional institutions, which in turn are having a mixed response dependent upon competitive factors.
CHAPTER V: CASE STUDY

The School of Professional and Continuing Studies

The interviews are consistent with the literature review in that they both suggest the need for traditional institutions to understand and adopt for-profit style business practices will persist for the foreseeable future. However, the interviews also illuminate the challenge of finding ways to adopt these business practices while maintaining the integrity of the academic model, a hybrid model of operation that effectively integrates the nimbleness, competitive strategies, and service orientation of the business model with the programmatic innovation, instructional integrity, and content validity of the academic model.

The interviews, coupled with a review of promotional and archival data associated with those institutions participating in the interviews, revealed that there are a number of instances where for-profit business practices appear to be effectively co-existing within traditional academic institutions, particularly within those units focused on nontraditional populations. However, the pace of adoption of new ways of operating overall, particularly on the part of the larger institution, might be described as lethargic at best. Nonetheless, there is a wealth of examples at the unit level that represent effective market-oriented practices, and more importantly, practices that are coexisting, or even leveraging, the academic model.
In order to understand what traditional institutions might eventually look like in the face of for-profit competition, we can drill into some of the unit-level examples that appear to be successfully melding an academic model, including such hallmarks as shared governance, with those practices currently being associated with for-profits, such as delivery innovations like online learning. While there are a number of institutions participating in this study that could serve as a case study of hybrid practices currently being employed by those nontraditional units on the frontline of competitive forces, for the purposes of this study, Northeastern University will serve as the case study of emerging and innovative practices that are proving their viability within a traditional institution of higher education.

There are number of reasons for choosing Northeastern University, and specifically the School of Professional and Continuing Studies, as a case study of emerging practices, including the availability and accessibility of data. But aside from having access to both primary and secondary data at SPCS, there are other reasons to more closely examine the School of Professional and Continuing Studies, including the fact that SPCS has been nationally recognized by the Chronicle of Higher Education for the success of its innovation and transformation.69

Northeastern began its part-time continuing education division in the mid 1960s, at which time it pioneered a model of satellite campuses that would prove to be successful for more than two decades. But the model that had made University

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College\textsuperscript{70} the largest provider of part-time programs in New England, and helped Northeastern University to be the largest private university in America (a title now held by the University of Phoenix), began to fail as market expectations changed and competition intensified. As students became increasingly consumer oriented they began to expect something more than plastic chairs in high school classrooms, and the added convenience of taking classes close to home began to pale next to online alternatives and corporate style facilities. These changing student expectations, combined with a market shift toward graduate programs, meant that the old University College was likely to continue experiencing long-term enrollment and contribution declines.

For well over a decade, University College experienced annual enrollment declines of five percent or more. Since the transition to a new model, operating as the School of Professional and Continuing Studies, the unit has experienced unprecedented success, whether measured by enrollment, revenues, contribution, new program launches, or student satisfaction. Some specific metrics include the following:

- Approximately 7,000 part-time undergraduate students
- Approximately 2,000 professional development students
- Graduate enrollments of approximately 2,400 (both full-time and part-time)
- Annual course enrollments (both credit and noncredit) of more than 36,000
- Eighteen master’s degrees and two doctorate degrees (all 20 graduate degrees were developed, approved, and launched within a four-year period)

\textsuperscript{70} University College was the part-time adult evening division of Northeastern University that began in 1964 and transformed into the School of Professional and Continuing Studies in 2003.
- More than 3,000 online students
- More than 12,000 online course enrollments
- More than three-quarters of the enrollment and revenue activity of SPCS is based on either new programs or new delivery formats that were developed within the past five years

As the largest provider of part-time undergraduate education in Massachusetts, SPCS has a vested interest in protecting its non-traditional markets and adapting to the changing competitive landscape. Prior to 2003, the pace of change at the former University College (as measured by new program introductions and shifts in product offerings) was on par with that of any of the day colleges at best. But given that University College was serving a much more turbulent market segment, this pace was not adequate to sustain market share and University College enrollments declined a predictable five percent annually. However, there has been no college in the university’s history that has launched more new programs in 10 years than SPCS has launched in four years. Today, there are more enrollments in the new (both curriculum and delivery format) than in the programs and formats that comprised the entirety of University College just four years earlier. Understanding what these changes were and how they were brought about is a lesson in both the dangers of traditional approaches to continuing education and the innovative alternatives that can be employed to create a hybrid academic/business paradigm.
A New Governance Model

The foundation of SPCS’s success was the introduction of a new governance model. Eduventures\textsuperscript{71} recently conducted a study\textsuperscript{72} aimed at classifying the structures used by various adult and continuing education programs. The 2005 study identifies three types of structures along a continuum of autonomy. The study yielded three major classifications of continuing education units based on the amount of autonomy continuing education units had. The three categories of structure include: standalone, standalone/distributed, and distributed. The study utilized phone interviews with the heads of continuing education units. The specific areas of control used to measure autonomy and classify CE units included four general functions: 1) control over program delivery (such as the scheduling of courses and design of curriculum); 2) control over faculty and instruction (including such things as specific course assignments and faculty evaluation); 3) the ability to set tuition and determine fees; and 4) control over student administration and marketing.

Eduventures found that high control in one area generally corresponded to high control in all areas. Standalone units were those that were generally free standing in that they consisted of unique programs, faculty, and operating policies.

Standalone/distributed units consisted of high levels of control over non-credit offerings, but credit offerings were separately controlled by academic units outside of the continuing education unit. Finally, distributed units were essentially responsible

\textsuperscript{71} Eduventures is a research and consulting company focused on the higher education industry.
\textsuperscript{72} Eduventures, Organizational Design of Continuing Education Units, “Custom Research Report, No. 19CPECRR0605.” June 2005.
for student administration and marketing, but all curriculum development existed in other academic departments. However, the study also indicated that there was one institution that it could not clearly classify, which was Northeastern University’s School of Professional and Continuing Studies.

Understanding what makes Northeastern’s model unique will help to explain some of the success SPCS has been able to achieve in spite of an increasingly turbulent and competitive environment. While Eduventures did not have a classification scheme that fit Northeastern University’s model, a one-word descriptor for it might be “integrated.” Prior to the change in governance in 2003, SPCS was a traditional Standalone/Distributed model as described by Eduventures. The integrated structure adopted by SPCS has several key elements:

- SPCS has the same degree standing as other colleges within Northeastern University and can offer unique professional degree programs
- A governing body called the Academic Council is made up of SPCS leadership members and full-time faculty across the university
- The Academic Council serves as the college’s faculty in conducting academic business, including the voting of degrees
- SPCS engages in collaborative joint curriculum initiatives with other colleges within Northeastern University
- SPCS follows the same approval processes as all other colleges
- SPCS has representation on all approval bodies comprised of college representation, including the Faculty Senate
The structure itself was taken through the same approval process that is required for
the creation of any new college. However, in the course of approving the resolutions
that created SPCS, additional resolutions were approved that recognized the need for
SPCS to be nimble and market responsive. In fact, the resolutions authorized sub-
committees of the graduate council to approve expedited processes for SPCS
programs. In the end, these resolutions served as the impetus to streamline the
approval process for all colleges so that all colleges could benefit from a standardized,
but expedited, approval process. The specific resolutions that created this new
governance structure were as follows:

“BE IT RESOLVED THAT the Academic Council for Lifelong Learning be
established and authorized to serve as the academic approval and oversight
board for all undergraduate and graduate degree credit activities of the
School of Professional and Continuing Studies.”

“The permanent members of the Academic Council for Lifelong Learning
include the Vice President for Adult and Continuing Education (ex officio),
the Associate Dean for Graduate and Professional Education of the School of
Professional and Continuing Studies (ex officio), the Vice Provost for
Undergraduate Affairs (ex officio), and the Vice Provost for Graduate
Education (ex officio). In addition, the committee membership shall include

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73 New colleges and schools within Northeastern University must be approved by the Provost,
President, Faculty Senate, and the Board of Trustees.
three Associate Deans, each from a different day college [including the Law School], selected by the Provost, and seven tenured faculty members appointed by the Faculty Senate Agenda Committee.”

“The Academic Council for Lifelong Learning shall be responsible for conducting the academic business of the School, including such matters as the evaluation and approval of new credit-bearing courses and curricula, the review of existing courses and curricula, the review and approval of new and existing degree programs, the permitting of academic variance, and other academic concerns. The Academic Council will be responsible for voting the granting of degrees, and as such it will review and approve the credentials of undergraduate and graduate students for the purpose of granting degrees.”

In addition to the resolution establishing the new governance structure, there were also resolutions to formally recognize the degree granting stature of the school, a resolution to change the name from University College to the School of Professional and Continuing Studies, and a resolution requiring SPCS to follow the university-wide approval steps for new programs, but authorizing the Undergraduate Programs Committee and the Graduate Council to develop expedited approval processes in recognition of the need for SPCS to be market responsive. All resolutions passed by overwhelming margins. What may be as significant for institutions seeking to

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\(^{74}\) Resolutions as they were presented to the Faculty Senate on the meeting agenda of March 17, 2004.
replicate the Northeastern model as the resolutions themselves is an understanding how support for the resolutions was brought about.

The concept of degree granting authority had been unsuccessfully discussed and championed in the past, as had the notion of graduate degrees. But until passing of these resolutions, University College had only been given approval for a limited number of graduate certificates that were jointly overseen by University College and a representative of one of the day colleges. The central issue from my own vantage point was a lack of trust in the ability of University College to ensure academic integrity. In addition, there was also no direct connection between the resources the lifelong learning market could generate and the resource needs of the day colleges. While the resources generated by University College certainly benefited the university as a whole, there was no explicit connection established. Finally, there was no significant effort being made to educate the day colleges in regards to the non-traditional markets and the changing competitive landscape and therefore there was an inordinate level of concern for cannibalization.

A new position of Vice President was established in 2003 and the individual recruited to fill that position cam with Ivy League credentials and experience. This provided a level of credibility and stature that had not previously existed. However, it was the ability of the Vice President to present a vision, educate, and build trust one faculty member at a time that generated support for the changes eventually proposed. Having accompanied the Vice President on numerous visits to department chairs, deans, and
faculty, I observed common themes that emerged and that resonated well with faculty. These themes included the following:

- An understanding of day college needs and concerns
- The differentiation of traditional and lifelong learning markets and the establishment of firewalls and protections to ensure that cannibalization would be a minimal concern
- An alignment of continuing education and the overall mission and goals of the university, such as access
- The establishment of a connection between the success of continuing education efforts and benefits to other units or colleges
- The ability to connect plans and initiatives to the successful activities of aspirational institutions

Successfully persuading faculty, chairs, and deans of the benefits to their units and the larger university in supporting the continuing education units required knowledge, competency, political savvy, and affinity with faculty. The Vice President might be described in some ways as the “majority whip” who understands the needs of fellow members and has the skills of persuasion and inside ability to make things happen for those members. Prior to accepting his position at Northeastern, the Vice President negotiated a Responsibility Centered Management (RCM) model that would allow him to reinvest resources that were generated in excess of agreed upon goals. This ability to reinvest meant that lab equipment, support staff, or faculty time could be
purchased to support new initiatives and if done correctly, these resources could also then benefit collaborating day colleges.

The Academic Council for Lifelong learning is the core component of the change in governance. The creation of the council put in place a level of faculty oversight that did not previously exist outside of the programmatic level. At the same time, the council provides a faculty sounding board and the opportunity to build faculty support among a small group of faculty with representation across all academic units. By selecting senior faculty who are both knowledgeable and respected, the continuing education unit gains a powerful voice within the various colleges at the university. Equally important is the fact that membership on the council establishes a sense of ownership and responsibility for the success of the continuing education unit. This investment in the success of the unit ensures that faculty will give careful consideration to issues that impact the competitiveness of the unit.

This shared governance model runs counter to the philosophy of many continuing education units which, as reported in the Eduventures study, are often concerned that the full-time faculty of traditional units will hinder their ability to compete. In fact, the biggest danger to the survival of continuing education units, as perceived by many of the continuing education specific respondents in this study, is the larger institution itself. For this reason many continuing education units attempt to separate themselves as much as possible from the traditional academic units. However, this approach has many potential costs associated with it. The Eduventures study identifies a number of
specific “limitations” of this Standalone approach that the Northeastern integrated model addresses, which include:

- Potential market cannibalization
- Limited interdisciplinary collaborations
- Limited ability to access some of the strongest faculty for consultation as well as teaching
- Limited access to larger university resources

The unique governance structure of SPCS provides the unit with a seat at the same tables as any other college within the university. But continuing education units have different competitive pressures, particularly with the emerging introduction of business practices, and often serve a different mission within the university. In the case of SPCS, it serves the access mission of the university as well as providing an essential contribution to the annual budget, which ultimately supports other academic initiatives. Having a seat at the table not only allows SPCS the opportunity to educate and influence support for new initiatives, it also lends itself to preparing more traditional units for possible changes in practices that may ultimately need to be considered across the university. The Academic Council in some ways serves as a training ground for day college faculty who can apply lessons learned by SPCS to their own unique market or competitive challenges.

The result of this new governance structure, and the ability of SPCS leadership to leverage it, has been an unprecedented number of new program approvals. There have
been more new programs approved for SPCS in a three-year period than there were for all other colleges within the university combined for the past ten years. This includes the introduction of five new bachelor degrees, 18 master’s degrees, 12 graduate certificates, and two doctorate programs.

A phenomenon that began to occur after achieving program approval success was that many units and faculty outside of SPCS began approaching SPCS about collaborating on programs they felt would have a better chance of obtaining approval and market success if they were done in conjunction with SPCS as opposed to going through their respective college process. Indeed, there were several factors that make it attractive for certain programs to be developed and offered through SPCS: 1) A differentiated tuition rate that is often more suited to particular markets, particularly professional market segments; 2) The ability to invest discressionary resources into the development and launch of a new program in anticipation of greater returns; 3) The ability of SPCS to play a coordinating role among multiple interdisciplinary units; and 4) An RCM model that does not threaten or compete over resources with other units that have representation on the approval bodies.

**Transforming Delivery**

The growth and market expansion achieved by SPCS is not simply the result of adding new programs and changing curriculum, but much of the success of SPCS can also be attributed to the changes made in program delivery. For-profit institutions were associated with online course delivery throughout the interview process and
have long promoted Web-based distance learning. Phoenix University in particular
gets associated with Web-based distance learning, and for good reason. The largest
college campus in the country is the University of Phoenix Online.

While for-profit institutions did not necessarily invent distance education, they are the
most visible online providers in Massachusetts, or the nation. A Google search of
online courses consistently brings up a majority of for-profits among the top hits,
such as Phoenix and Walden. There were some respondents whom believed that
Phoenix only offered online programs, or that had to clarify when asked to speak
about for-profits whether or not that meant online degrees. Many respondents
indicated that faculty at their institutions were hesitant to adopt this approach, or that
they were skeptical that an entire degree could be offered entirely online. But the
majority of traditional institutions in the state now offer some form of Web-based
distance learning, albeit with varying degrees of success. In many ways, it is the
delivery of programs most visibly being impacted by for-profits.

It was the Internet that made it possible for many for-profits to get started, since it
allows institutions to operate with very little infrastructure costs (Winston, 1998).
They do not need libraries, or classroom buildings, or even faculty offices, and a well
chosen name and online ad placements can rival the online presence of most
traditional institutions. An adult student market primarily concerned with
convenience was hard-pressed to find a traditional institution offering an equivalent
level of convenience and thus distance education became another form of disruptive
technology (Kelly, 2001). A cheaper, but more convenient, delivery model that would pressure traditional institutions to adopt this cheaper, and at least initially, inferior approach to education.

Northeastern University has been offering distance education programs for more than a quarter century, which started with satellite-based course delivery. Online course offerings were added in the late 1990s, but the technology was not yet ready to replace the satellite-based programming, and various groupings of courses and certificates were offered online until 2003 when the first completely online degree program was available. Online enrollments have grown dramatically since 2003 and there are now dozens of undergraduate and graduate degree programs being offered through this delivery mechanism. Generally public awareness and acceptance can account for some of this growth, but it is also attributable to very deliberate strategies and continuous improvement of processes, technology, teaching, and practices. The lessons learned from Northeastern’s online experience should have wider applicability to other traditional institutions.

By putting entire degree programs online, SPCS was able to attract an entirely new audience that would not otherwise have attended Northeastern. However, it was also discovered that over 90 percent of the online students are drawn from eastern Massachusetts and the bordering areas of New Hampshire, Rhode Island, and Connecticut. This geographical area is where Northeastern has the highest-level of name recognition. It is also the region in which SPCS most heavily advertises.
Online students are very consumer oriented. Unlike an on-ground student who enjoys and gets comfortable with physical facilities and an on-ground social network that act as ties to the university, online students are just a few clicks away from changing institutions, and there is a high degree of probability that the delivery platform being used by the new school will be very much like, if not exactly the same, as the platform being used by the institution they would be leaving. So many online consumer transactions now take place online that most consumer industries have invested a lot to ensure the online consumer experience is without incident. It is this standard that is now being applied to online education. The most basic expectation is that the technology will work 24/7 and that if there is a problem someone will be standing by to assist. In order to meet these consumer type demands, SPCS has put the following in place:

- High-end version of an industry standard learning platform BlackBoard is used for fully online courses
- Online platform, and the courses themselves, are hosted off-campus with redundant systems and security in place to ensure minimal, if any, downtime
- Technical assistance is outsourced to a company that can provide 7/24 customer support
- An SPCS team of instructional designers and technical personnel regularly monitors classes and responds to both student and faculty issues that arise
A coaching service is provided to all online students that ensures regular contact is being made and any issues or frustrations being experienced by students are being addressed.

Expectations are clearly stated up front in the faculty syllabus, particularly what students can expect in terms of faculty response time.

Being student-centered is imperative to maintaining a successful online operation, but the actual instructional experience must also deliver on expectations. Until four years ago, one of the largest for-profit providers of online education used Lotus Notes to deliver their courses. This low-tech approach worked because it was extremely reliable and because faculty were given lots of guidance as to how to structure and deliver an online course. The quality of the content may have been questionable but the expectations were clear and delivery on those expectations was consistent. If the policy was that faculty would return e-mails within 24 hours then students could count on it.

There are many nuances involved in teaching an online course that vary from the traditional on-ground course and as a result, many excellent classroom teachers struggle when it comes to achieving the same teaching results online. SPCS has put in place an online teaching certification process that includes a short course on teaching online followed by an online test. This process was put in place to ensure that faculty would be better prepared to succeed in the online environment and our students.
would ultimately have a better experience. Some of the specific points stressed in this training program include:

- Use a consistent course template so that students do not have to spend a lot of time trying to figure out how to navigate the course site
- Leverage the available technology to create experiences and benefits students might not have in an on-ground course (virtual labs, national and international learning communities, podcasts, etc.)
- Require regular postings and online activities that ensure students are engaged and provide the faculty member with an opportunity to gauge where each student is in the class
- Clearly state how fast and often they can expect a faculty response to queries, assignments, and discussions (the more frequent the better)
- Have a faculty presence (post a bio and picture, have daily announcements, draw-out nonparticipating students)
- keep the course current (particularly links and other Web resources)

Northeastern Online regularly receives feedback from students who have taken courses with for-profit institutions that suggest the Northeastern experience is a better one. At the same time dissatisfaction does occur, and the majority of time the complaint is over lack of faculty responsiveness. The initial online programs made heavy use of adjunct faculty, but the instructional model that is now emerging as the model most likely to have university-wide adoption, as well as provide a competitive advantage over for-profits that rely exclusively on adjuncts, is one that combines full-
time faculty on the cutting edge of their disciplines as master teachers with part-time facilitators focused on the daily interaction with students. Master teachers provide streaming audio and video lectures, podcasts, and online content, while facilitators lead discussion forums.

Aside from entirely online courses, Northeastern is also providing hybrid course offerings that combine periodic physical meetings with online course delivery. Hybrid courses reduce the travel time to campus while maintaining a significant amount of face-to-face interaction. In fact, depending upon the subject and particular faculty member, lectures and other preparatory work can be moved online in a way that allows the face-to-face meeting time to be more interactive and engaging. From a traditional college standpoint, hybrid courses offer another advantage in that they are harder for emerging for-profits with limited physical facilities to replicate. The model Northeastern uses either alternates meeting weeks or establishes monthly meeting times. Overall, the hybrid approach has a number of advantages of both online and on-ground classes, some of which are specific to traditional institutions including:

- The ability to leverage physical facilities, including lab capabilities that are either difficult to replicate virtually, or can provide distinction
- The opportunity to introduce and prepare faculty for fully online coursework
- Provide an added level of convenience while maintaining difficult to replicate social experience and live interactions
- An opportunity to showcase star faculty in both live and recorded media
- The ability to focus class meeting time on interactive activity
Another common delivery approach used by for-profits are the accelerated terms that are typically either six or eight weeks long. Just as online provides a level of convenience so does a shorter term, since it is easier for adult students to plan out the next six weeks than it is the next three months. In addition shorter terms also assist with more rapid completion and thus have more value to non-traditional students. Finally, these shorter terms make it easier for an adult student to take a term off without falling too far behind schedule or making re-entry difficult after too long an absence.

SPCS has shifted more than half of its course offerings to this six-week format after commissioning a study in which the adult student preference clearly favored courses between six and eight weeks in length. Given that SPCS runs on a 12-week quarter system it was far easier to split that quarter into two six-week sessions than to semesterize the entire calendar to accommodate eight weeks (federal financial aid guidelines mandate consistent terms that do not overlap).

The shorter terms proved very successful in that the average course load per 12-week period went up, particularly in the graduate programs. Students could now take two courses in one 12-week period by taking one at a time and attending campus just one night a week. This eliminated the problem faced by students in the past in which they either had to attend two nights a week in order to take two courses, or had to limit

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75 Based on Northeastern University Registrar report data taken at official audit periods.
their course selections to an early and late course that happened to line up on the same night. This also impacted average class size, since the lower-enrollment late-hour courses, which were not viewed to be as convenient by students, could now be eliminated.

One final mode of scheduling adopted by SPCS that has proven popular with adult students and is in utilization by many for-profits, are cohort programs. SPCS offers cohort programs at both the undergraduate and graduate level. The SPCS model is to base these cohorts on an “executive” model, which is a comprehensive approach that includes an all-inclusive tuition rate that covers course registration, books, class materials, corporate-style space, dedicated customer service, and food (breakfast and lunch on weekends and dinner on weeknights).

In the cohort approach, students sign up for the program and all students follow the same schedule, taking the same courses together. The downside to this is that students have limited ability to tailor their program and do not have limited exposure to the larger student population. However, there are also benefits that can be leveraged from this approach. Perhaps the most significant is that the student experience can truly be scaffolded by ensuring that each course and term builds from the previous experiences. To achieve this, SPCS holds frequent faculty meetings specifically for faculty teaching in a particular cohort. In addition, cohort programs will have an academic director overseeing the program as a whole who also teaches in the program. The academic director has content expertise associated with the program and teaches
in the program so that they are familiar with the specific student population participating in the program. It is the responsibility of the academic director to stay in regular contact with faculty and ensure that the program is maximizing the learning experience by and minimizing curriculum gaps or overlap. Participating faculty are carefully selected and go through an orientation that prepares them for the student expectations and familiarizes them with the nuances of the program.

Many for-profit institutions are also using cohort models, but traditional institutions can leverage certain advantages with this model. Traditional institutions can tap into their “star” faculty and leading-edge researchers for course delivery. These top faculty and scholars can also be used in shaping the curriculum or for the academic director roles. Students choosing to attend an executive program also tend to be achievement-oriented, which lends itself to the prestige reputations of traditional institutions.

**Curriculum Innovation**

As was clear from the interviews and the review of for-profit marketing collateral, for-profit institutions are primarily focused on professional markets and are generally staying away from niche markets at this time. For-profits are not curriculum innovators they are followers. The opportunity for traditional institutions is to advance curriculum through innovation. Four of the five largest programs by enrollment at SPCS are in programs that did not exist four years ago. Traditional institutions like Northeastern not only have a wealth of content expertise in-house that
can be tapped into, but they also have long reaching tentacles that give them high-level access to companies, professional organizations, and other scholars that can be tapped for insight on market trends and industry needs.

When developing new programs, SPCS will frequently recruit advisory and development assistance both internally and externally to provide a breadth of knowledge when exploring or generating new program ideas. One example of this is a program in regulatory affairs for the bioscience industry. The initial suggestion to examine the market for a program of this type came from an adjunct faculty member working in the industry. In order to further test the concept, an advisory group was pulled together that included key industry leaders, bioscience faculty, and representatives from the leading industry organizations in the state, such as Mass Medic. Based on their response and input, a proposal was developed and ultimately approved that had very little competition at the time of its launch. It is now the second largest graduate program within SPCS in terms of enrollment.

The ability to develop programs for emerging needs and be “programmatically” entrepreneurial is something that appears to be harder for for-profits to replicate than it is for them to be entrepreneurial around delivery and customer service. Traditional institutions may have an advantage when it comes to industries that are on the cutting-edge of research because there may be an inherent respect and credibility within these knowledge industries for research-based universities. The fact that it was Northeastern University offering this new regulatory affairs program probably carried
more weight to it than would be the case if an institution with little or no experience in biosciences were launching the program. SPCS commissioned a brand study of its name to better understand how it is perceived in comparison to potential competitors and the results of this study indicated that the major for-profit brand was viewed far less favorably than Northeastern and its closest traditional competition. Superior brand image is likely conducive with launching new programs in fields where institutional credibility is important.

**Student Focused Support**

The “wrapper of service” as one respondent put it, has been a hallmark of for-profits. As students become more consumer oriented this wrapper of service becomes more critical. As a colleague once put it. “You can have the best program and the best faculty but if you burn the cookies that you put out for the students, what they will remember is that you burned the cookies.” SPCS has taken a number of steps to improve the student experience that occurs outside the classroom beginning with the admissions process. For-profit institutions have a reputation for aggressive “hard sell” admissions, to the point where they have faced legal actions for recruiting students who were not a fit with the education they were selling (Symonds, 2005; Blumenstyk, 2006). There are also examples in the literature of there being no admissions standards whatsoever at for-profits. However, there are lessons to be learned from the customer approach to students being associated with for-profits that should not be written off because of the horror stories.
The traditional approach to admissions in the past, in which students are expected to feel privileged to be admitted and lucky if they do not wash out, does not mesh well with adult audiences seeking to advance or change their careers while maintaining full-time employment or family commitments (Winston, 1998; Kelly, 2001). This newer audience wants to know how their time invested will lead to them being better off (Baily, Badway, and Gumport, 2001). This is not to say that traditional institutions should admit anyone, or that everyone should be assured of completion, but the adult market today is viewing education as a purchase in which they have many options. These students are not going to spend a lot of energy jumping through hoops just to submit an application. A college that makes it difficult or complicated to fill out an application may end up limiting the number students they have to choose from.

The School of Professional and Continuing Studies eliminated its application fees and adopted a differentiated admissions approach for graduate programs that had higher GPA requirements for students coming directly from full-time undergraduate study than for those students with five or more years of work experience. Given the access mission of the college, an alternative pathway was established in which students could take two courses and prove their ability to perform graduate work and be reconsidered for admissions. Another important factor was to make standardized test grades optional. A $50 application fee may not seem a big barrier to submitting an application, but the adult-friendly changes to admissions helped account for a 30 percent increase in enrollment in a one-year period (within programs that already
existed). The larger pool of applicants also helped ensure that faculty reviewers could be more selective in the admissions process.

Open student meetings and questionnaires also revealed a number of issues with advising, in that students were often given inaccurate or conflicting information and also expressed frustration on endless phone loops and shuffles in trying to get answers. The student admissions office was professionalized with some personnel changes. However, the big change was to add a layer of coaching on top of the traditional advising. The coaching goes beyond what is commonly considered to be advising. Professional coaches assist students with any institutional or life-problem that might get in the way of their success at SPCS. Coaching is also proactive in that coaches reach out to students on a prearranged weekly basis and inquiry as to what is working and what is not. Coaches then navigate the university for the students so that they do not end up in a shuffle. Once the appropriate connections have been made the coach may work through the issue on the student’s behalf or they may simply ask the student to follow-up directly.

The kinds of issues coaches end up addressing range from assisting a student with an inaccurate bill to helping them mange their date time with their spouse. SPCS provides the coaching service for the first year and the student is given the option to continue on a fee basis after that. There is no evidence that for-profits have adopted these services to date and it is one way in which SPCS, or any other large traditional institution might be able to enhance the package of services available to adult
students. The use of this service is costly, but the evidence indicates that there is a positive impact on retention and persistence rates.

Technology is another means by which the student experience can be simplified and enhanced. An online application and registration process are minimum essential services that all of the major for-profits appear to offer. SPCS adopted an online application system that allows students to submit references and other materials electronically. Students may also check on the status of their application at any time via the Web. Course registration can also be done via the Web site and from the student’s standpoint, appears to be entirely automated, but the reality of graduate registrations is that a lot happens behind the scenes in the registrar’s office.

Traditional institutions can also learn from the emphasis for-profits give to obtaining financial-aid funds for students (Kelly, 2001). The IPEDS data makes it clear that for-profits historically have been much better at obtaining federal financial aid for their students than have traditional institutions. One reason for this may simply be the percentage of personnel and resources dedicated to this function. SPCS has more than tripled the overall amount of federal financial aid being received by students in just a two-year period. This can be directly attributed to the fact that there are now full-time personnel dedicated to serving the financial aid needs of adult students as opposed to this being an add on responsibility for existing financial aid staff.
Outsourcing and In-sourcing

The national for-profit institutions have the benefit of economies of scale when it comes to adopting support technology or adding service-related infrastructure (Winston, 1998). Traditional institutions, particularly relatively autonomous continuing education units, have limited resources to invest and may not be able to compete directly with the service and technology infrastructure of the for-profits unless they find other ways to gain economies, particularly if they already have higher faculty and physical plant costs.

SPCS used two means of obtaining greater economies than it could otherwise have done on its own. The first means it used, which is increasingly being done at other institutions, is to outsource. The distance education unit is a good example of outsourcing. SPCS has a fairly sizable distance education operation, one that is capable of supporting a fairly robust infrastructure but the challenge is to decide what the focus of that infrastructure should be, and what might be more efficiently and effectively performed by external vendors. SPCS has consistently emphasized a faculty-led approach to distance education, and given the significant faculty resources available to the unit, it was decided that the online content itself and instructional delivery of that content would be provided by SPCS itself. That meant investing in online faculty, faculty training, and instructional designers. What SPCS ultimately outsourced was the online platform, server hosting, technical support, and the student technical support.
Outsourcing not only allows you to gain economies by using widely distributed products and services that would be difficult to replicate internally, but the ability to change vendors keeps the pressure on those vendors to stay current and deliver on expectations (Porter, 1980). If the servers go down too frequently, then a different hosting service can be identified. If the hosting is internal, then you may be forced to deal with an overall infrastructure or personnel issues that can be complicated and drag out while the students suffer and ultimately choose another educational provider themselves.

Distance education is not the only place where SPCS has outsourced activities that make it more competitive. Given the large call volume for the unit, and the fact that many students complained about being unable to get through to a person or that they could not get their questions answered, call center activity has been outsourced for the past four years, originally to Sallie Mae and more recently to Inside Track.

The level of oversight and continuous management needed to run a professional call center would be hard for any traditional continuing education operation to replicate, given the infrastructure requirements in terms of both people and technology. Sophisticated metrics, constant monitoring, and the ability to access financial aid information (at least while using Sallie Mae) had a significant impact on the student experience. Open student meetings and the virtual elimination of complaints regarding the main number indicated a dramatic improvement in service. Since the
call center was located in Texas, and now San Francisco, there were a few added benefits, including evening hours of operation and a workforce that could answer the phones even when the university was closed due to inclement weather.

The call center services also extend to outbound calling. As a follow-up to every inquiry a call is made to ensure that the requested materials were received in a timely manner and that there were not any questions that could be answered. In addition, as part of an “enrollment capture” effort, before the start of every quarter, calls would be made by the call center to prospective students that had not yet enrolled, or to students who had been registered the previous term but were not yet registered for the upcoming term. The coaching services were also outsourced. As with the call center activities, the coaching services are highly specialized and it requires a very specialized level of training. The coaching and call center vendors touch base with SPCS administrators on a weekly basis, and whenever an issue arises. While outsourcing these services is costly, to internally replicate these services with an equivalent level of specialized capability would be both cost prohibitive and would require added managerial support to oversee them.

Not all improvements to services require the use of private vendors. SPCS was able to improve a number of aspects of its operation by in-sourcing to other arms of the university. The ability to support online registration has become a basic expectation of students but at the time SPCS had determined it could no longer wait for this capability the university itself could not support this capability. Outsourcing an
entirely independent registration system was considered, but not only is this a very costly approach, it can also create significant unintended consequences. The simpler solution was to create a virtual online registration site, with responsibility for pulling off those virtual registrations and manually entering them into the actual registrar system being assigned to a dedicated individual.

One of the questions to address when hiring additional staff who must be integrated across more than one unit, is where to locate this individual? If that individual were located in the SPCS offices there might be limitations to their access or their ability to resolve issues that arise with the registrar system quickly. If the registrar were to take on this responsibility it would likely be an add-on to other tasks and might not receive the level of priority desired by SPCS. The solution was to fund a position that would be imbedded into the registrar’s office. This provides the registrar with an added resource that can support the desired activity and potentially provide added capacity overall. It simultaneously provided SPCS with direct access to the registrar’s office.

A similar approach was taken with the financial aid office. While SPCS wanted to increase the access adult students had to federal financial aid, one of the real strengths of the for-profit competition, the financial aid office was already at capacity with the full-time student population. Financial aid personnel would assist those adult students that found their way to the office, but outreach efforts were minimal. As with the registration problem, it made more sense for SPCS to provide additional support to the centralized financial aid office as opposed to trying to create its own. Two full-
time people are now being funded by SPCS within the financial aid office and financial aid awards to adult students have more than tripled as a result.

There were several steps SPCS took to better ensure that its in-sourcing efforts would be successful. The first step was to discuss needs and expectations with the heads of those units to which activities were to be in-sourced. However, even if everyone is on the same page it is important to ensure that the line of responsibility to the sponsoring unit, SPCS, remain clear over time. To accomplish this, there is no budget allocation to the service unit. Instead, the added staff remain on the SPCS payroll and could potentially be moved elsewhere if the service arrangement were not satisfactory, or that individual might be rewarded (through raises or bonuses) or potentially replaced by SPCS depending upon their performance. In the case of the financial aid hires, the arrangement was for the new staff member to support both SPCS and university-wide graduate programs where there was also a growing need. Because the individual hired for this role has been so effective at serving other college graduate programs, SPCS receives kudos for providing that support. Since the individual is an SPCS employee, their e-mail address reinforces to the other graduate schools that SPCS is supporting everyone and provides another opportunity for goodwill.

The measurable enrollment and revenue-generating success of SPCS is counter to the experience many continuing education units have been facing in Massachusetts, but it demonstrates that a traditional institution can still be competitive in this part of the market that has been so much the target of for-profit expansion. However, to do so
required a melding of business-like practices with the leveraging of the strengths that exist in traditional academic institutions. There are other institutions and initiatives that can also serve as examples of adapting to a new competitive environment. What may be more of a struggle for traditional institutions than adapting their continuing education units to a business-oriented environment is adapting the institution as a whole to this environment, should the for-profits and their approaches expand in any significant way into the core activities of traditional institutions. Until then, traditional institutions can adapt their continuing education units or concede that line of business. The real downside to the latter may be the loss of learning curve opportunity for the larger institution.

**Transferability of the Model**

Most of the strategies and tools used within the SPCS model (accelerated cohorts, online technology, and student coaching) are being employed at other institutions, but few institutions have employed the collective innovations represented here. More significantly, no one else in the nation has achieved equivalent growth over the past four years as Northeastern’s SPCS. The one truly unique element of the SPCS model is the governance structure which capitalizes on the strengths represented in autonomous models (nimbleness, flexibility, reinvestment) while retaining the benefits of shared governance (vetting of ideas, vast content expertise, university-wide buy-in). Whether this model can be replicated, with the kind of success achieved at Northeastern by other traditional research universities remains to be seen.
Northeastern University began as a part-time evening school for the professions and achieved the status of being the largest private institution in the country in the 1980s based largely on the growth of its evening college. While Northeastern University repositioned itself during the 1990s (moving from primarily a commuter college to an overwhelmingly residential college) the university maintained its distinctiveness as a coop school, and this connection to careers has remained embedded in the ethos of the university. A number of trustees are alums of the evening school and are therefore supportive of its mission and success. Nonetheless, it is not likely that SPCS would have evolved as it has with the specific infusion of new leadership and the creation of a team of academic entrepreneurs. Ultimately, for an institution to replicate the model and success of SPCS it will need to not only have the ideas, but the persuasive ability and persistence to sell those ideas to both administrators and faculty. While not many research universities will have the culture of Northeastern, they may find in Northeastern the evidence to promote this model internally.
CHAPTER VI: CONCLUSIONS

Implications for Nonprofit and Public Institutions

Not a single college or university attended the open hearing regarding the petition to operate in the State of Massachusetts submitted by the University of Phoenix. This may have been due to a lack of concern, a sense that it would be futile, or general lack of competitive business strategy. In fact, all three of these factors played a role in the lax response exhibited by the traditional institutions of higher education within Massachusetts. But there is also something larger here that speaks to the core of traditional institutions of higher education. There is a paradigm among traditional institutions of higher education that exists which is at odds with the “business-like” competitive responses common to most any other industry. The higher education industry is unique in its emphasis on collegiality. The word “collegial” itself has its origins in traditional institutions of higher education (Birnbaum, 1988). This “collegial” paradigm runs counter to business strategies that view competitors as threats and enemies in the war for market share.

The collegial paradigm is rooted in years of collaboration and trust among traditional institutions, particularly those engaged in research activities. Many higher education activities are dependent upon cross-institution collaborations including research and exchange programs. Even grant funds have often encouraged or required institutions to work together. The accrediting agencies that police the industry are comprised of one’s peers from within higher education, as are the major journals that perform
critical publishing duties for faculty. Academic conferences are a place to share ideas and thoughts and even the Internet was seen early on as a means by which scholars at various institutions could collaborate and share findings. As a collective, traditional colleges and universities simply may not have it in them to participate in predatory or aggressive competitive strategies that run counter to the fabric of traditional institutions.

Whether or not the collegial paradigm can coexist with business-oriented competitive strategies in any given institution is likely to depend on a number of factors that define the strength of that institution’s position in the marketplace (how insulated from competitive forces they are). Factors such as barriers-to-entry, unique market niches, or the distinctiveness of the institution or its offerings, are all likely to impact whether or not that institution can afford to shun business practices in favor of being collegial.\(^{76}\) All institutions must evolve and adopt practices that will allow them to be more efficient or effective, even if it is to maintain their competitiveness with other traditional institutions.

For-profit institutions appear to be having the greatest impact on smaller and weaker (by virtue of their reputation or resources) institutions, but as those smaller and weaker organizations either collapse or adopt for-profit practices themselves, they will in turn have an impact on competitors within their sphere that may not otherwise be directly impacted by the for-profits.

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The ripple affect will ultimately have some impact on most traditional institutions in the state to varying degrees, either because they are forced to change in order to remain competitive themselves or because practices have emerged that they see value in adopting. Rising Web marketing costs represent one example of the inevitable impact of for-profits on all institutions of higher education in Massachusetts, even those not directly competing with for-profits (Symonds, 2005). Distance learning, on the other hand, may be an example of where traditional institutions have learned from the for-profits and have willingly adopted practices.

Some of the institutions interviewed probably do have the luxury of taking their time as they evaluate various practices and models due to their high donative costs (Winston, 1998), but other institutions simply will not survive if they continue at the evolutionary, as opposed to revolutionary, pace they always have, and it simply may be too late for some of these institutions to turn themselves around and be competitive. The fate of some institutions may no longer be in their own hands with the only hope of survival resting with any possible protections or relief from either accrediting boards or the legislature. Ironically, one of the possible outcomes that could result from an inability to respond to for-profits may be the acquisition of the traditional institution by a for-profit institution (Winston, 1998). Like corporate raiders of the 1980s looking for poorly run companies they could turn around, I expect there to emerge “education raiders” seeking to acquire poorly run colleges (at least from a business perspective) to turn around. Kaplan has acquired nonprofits in other states.
and Best Associates recently acquired the New England College of Finance, which is located in Massachusetts.

Traditional institutions can not afford to become too comfortable in their reliance on their reputations or other points of distinction, as college failures and acquisitions have already begun to occur (Kinser and Levy, 2005; Winston 1998). Instead, traditional institutions need to reinforce those areas of distinction they have and be sure they are fully leveraging them. While it may be difficult for a for-profit to build the kind of reputation most traditional institutions in this state have, they can buy one through the acquisition of “name-brand” faculty or even existing institutions themselves, as well as creating reputation through heavy investment in marketing campaigns.

Some market niches may initially appear unprofitable and “safe” from business-oriented for-profits due to heavy capital costs, but advancing technology and innovations, such as virtual labs, may make seemingly unprofitable fields opportunities. Likewise, licensure or accreditation standards may seem sufficient enough barriers to make some institutions comfortable, but effective lobbying could effectively lower these barriers as well.

Traditional institutions need to keep advancing their core advantages so that they remain distinctions that can not easily be replicated. It would be a mistake to assume that for-profits will stay out of markets that at the moment may not be the most
profitable niches (Cooper, Hinkson, and Sharp, 2002; Zappia, 2000). Once for-profits have cherry-picked those markets they believe to be the most profitable they will seek other opportunities for growth. Since the larger for-profits can leverage the resource base of a national corporation they may find solutions based on economies of scale that simply do not work for regional institutions limited to regional resources.

Ultimately, traditional institutions can not afford to be lax about this new breed of competitor, nor can they afford to be too comfortable in their current market niches (Keller, 1983; Winston, 1998; Newman and Couturier, 2002). The nontraditional markets for-profits have been focused on should only be viewed as starting points for the for-profit venture into the higher education industry. The collegial model that has served traditional institutions, and arguably the public, well for many years may need to be rethought (Birnbaum, 1998: Cooper, Hinkson, and Sharp, 2002). A clearer distinction for academics may need to be made between points of collaboration that are of benefit to the institutions and the academic community and those that have the potential of putting the institutions at competitive risk.

Thus far, the hallmarks of for-profits appear to be delivery and marketing innovation (Winston, 1998; Baily, Badway, and Gumport, 2001; Kelly, 2001). Traditional institutions need to prepare themselves to be increasingly entrepreneurial, not only because they can not afford to let for-profits have an exclusive on innovative delivery formats and services, but because traditional institutions also have strength of innovation they need to sustain, which is in program and content development.
Most for-profits are currently focused on the MBA and business offerings in general (Winston, 1998). As one respondent put it, “Do you want your MBA burger with or without cheese?” Traditional institutions, on the other hand, offer an array of offerings that include areas of emerging need or interest. However, the approval process of most traditional institutions is cumbersome and there is an opportunity for the for-profits to gain a competitive advantage here if they perceive it to make sense from a business standpoint. Traditional institutions should make a conscious effort to remain at the forefront of programmatic innovation.

The traditional academic paradigm needs to evolve and take into account “business-like” competitive strategy (Keller, 1983; Kelly, 2001). Businesses think about how their product mix supports the overall strategy. While traditional institutions have largely viewed their nontraditional student markets as revenue-generating activities that can support core activities, they have failed to fully embrace these activities and manage them effectively, which has led to a willingness on the part of many institutions in the state to concede these nontraditional markets. But traditional institutions should think carefully about holding onto, or even aggressively moving into, those markets that for-profits are most heavily going after for larger competitive reasons.

Many traditional institutions may consider adult and part-time activities as merely peripheral. But if managed well, not only can these markets provide an institution
with resources that support core activities, they can also force for-profits to continue focusing attention and resources into maintaining these adult markets. If traditional institutions concede these adult markets the net effect will be to free up resources within for-profit institutions that can then be spent on expanding into market segments that are core to traditional institutions (Zappia, 2000).

One common competitive strategy used in business is to attack a competitor’s main line of business when they feel threatened by that competitor (Porter, 1980). For example, when Bic Corp. decided to enter the disposable razor market they prompted a competitive reaction from Gillette, which decided to cut its prices on its disposable pen products rather than its razors in hopes of convincing Bic Corp. that it would be too costly to their main product line to go after Gillette’s razor market. Bic was ultimately able to survive the rivalry, but many companies that do not fully anticipate the retaliation ability and resolve of competitors do not survive. This type of strategic thinking and response is still foreign to traditional institutions of higher education, but needs to be anticipated on the part of expanding for-profit competitors (Keller, 1983).

It should be anticipated that for-profits will expand beyond their adult student markets at some point, and if traditional institutions have handed over the profitable adult student market they will be at a competitive disadvantage. Antioch College may be a good example of what can happen when an institution divorces itself from the activities on which for-profits are currently so focused. The traditional day college

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operation of Antioch has announced that it will close its operation in 2008 due to financial difficulties while its satellite-based continuing education units will continue to expand. Antioch College chose to spin off its continuing education operations to preserve the purity of its traditional school as opposed to taking an integrated approach that would have ideally provided the continuing education units with intellectual capital and resources and the traditional college with financial resources. Unfortunately, this would have required an acceptance of “business-like” practices for those activities rather than a disdain for them. Colin S. Diver, president of Reed College, was quoted in the Chronicle of Higher Education as saying:

“I mourn the loss of a school that was willing to buck the trend of a unifying, commercially driven, consumer-driven model of higher education.”

The majority of interviewees in this study felt their colleges needed to maintain a healthy adult learning unit, but, absent some larger governmental interaction, to do so is going to increasingly require the acceptance of business practices on the part of the larger institution. The question for many institutions in the state may be whether or not their product mix can be simultaneously bifurcated in how they are managed and integrated under a comprehensive strategy. This assumes that the traditional academic model can continue to function within the traditional core, but even within the traditional core the academic model as it has existed may require adaptation.

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Savvy colleges should view their adult and continuing education operations as a way to prototype new governance models and practices. There is the danger of a missed opportunity to overcome what could be a steep learning curve if the adult and continuing education operations are too distinct and isolated from the larger institution. Separation may prove an easy way to ensure greater short-term profitability, but like outsourcing distance education, it will mean that the larger university will be no better prepared for a changing competitive landscape than it is now. Antioch runs a very successful adult business but none of the lessons learned were influencing the traditional core activity.

Based on my interviews, most continuing education units in the state believe separation is important to their ability to act competitively. At the same time, in those institutions where continuing education activity is most separate from the core, interviewees indicated a real lack of understanding on the part of traditional academics when it came to market forces, distance education, or business practices. The best way for traditional institutions to benefit from both lessons learned and healthy contribution margins is to incorporate adult and continuing education activities into a comprehensive plan that manages offerings according to their particular role and market, such as might be represented by the BCG Growth Share Matrix,79 in which continuing education units would likely be categorized as cash cows by most of the state’s traditional institutions.

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79 The BCG Growth Share Matrix was developed by the Boston Consulting Group and plots an organization’s products in a four quadrant grid and categorizes them as cash cows, stars, dogs, and question marks, and is used to assist an organization in managing a portfolio of products.
Many deans of continuing or lifelong learning units may be resentful of their units being considered cash cows. However, if these units are truly managed the way the BCG model suggests, then they may embrace this designation. Cash cows in the business sense are given the resources they need to maintain their status as cash cows, which includes a reasonable reinvestment of resources. The danger, as represented by some of the adult and continuing education deans in this study, is that the home institution will bleed the cash cow of its resources and minimize reinvestment in a way that compromises their ability to compete with the for-profits, which may be a bi-product of the traditional institution’s history of treating adult education as an adjunct activity that could be run as a transaction business.

Some traditional institutions in the state have a history of offering stripped down adult education programs. As one continuing education professional put it, “You simply had to put a shingle out and students would put up with nearly anything to get the credential.” With more alternatives and higher student expectations, traditional institutions are going to have to more fully embrace adult education if they do not want to concede that market to the for-profits, and if traditional institutions are going to thrive long-term, most are going to need those adult markets. But the challenge will be to do so in a way that preserves elements of the academic model that make higher education different from other goods and services.
Another recommendation for traditional institutions is that they allocate more resources and energy to understanding, monitoring, and influencing the legal environment. Non-profit institutions have historically resisted the involvement of federal and state governments in the oversight of their activities. Independence is a core ethos of these private institutions and lobbying efforts are largely concerned with keeping the government out of private higher education. Unfortunately, the growth of for-profit influence will require nonprofits to better educate lawmakers on the public interest aspects of nonprofit institutions in relation to for-profit institutions that are now competing for the same federal financial aid dollars and are actively lobbying for laws that will take away some of the independence of traditional institutions, such as the efforts to harmonize transfer credit (Giamatti; 1981; Allan, 1997; Mattoon, 2006).

The sense I took away from the interviews was that traditional institutions are not proactively trying to influence lawmakers in regards to for-profit legislation. Most were aware of the transfer credit controversy, but indicated that it was no longer a concern, as though it was an obvious mistake that would not likely come up. Traditional institutions need to understand the extent to which for-profit lobbying efforts can ultimately impact their operations. They should expect the transfer credit issue to arise again, along with continued attempts to change the 90/10 rule and any number of other laws.

The March 1, 2005 congressional hearing of the Committee on Education and the Workforce heard testimony from several witnesses regarding the issue of for-profit
fraud, including one of the primary lobbyists of for-profit education, as well as the president of a for-profit school in New York. However, there was no lobbyist, or professional organization representation, or college president present to give testimony on behalf of traditional institutions of higher education even though several of the laws discussed might directly impact traditional institutions as well.

Representative Maxine Waters, who gave testimony at this hearing, suggested in the 60 Minutes episode that triggered this hearing that for-profits had influenced the education committee through campaign contributions of more than a million dollars.

The real assault on traditional private institutions may be an attack on their very status as nonprofit entities. Craig Swensen, provost and senior vice president of the University of Phoenix has been explicit about questioning the nonprofit status of traditional privates questioning, “Whether the time-worn distinction between for-profit and nonprofit institutions has outlived its usefulness – many proprietary colleges and universities have more in common with their nonprofit siblings than they do with other for-profits.” The Career College Association has also stated clearly that it wants to “level the playing field with traditional colleges and universities.” The chairman of the Committee on Education and the Workforce specifically raised the question in a meeting on for-profit fraud, “Do we have different standards for proprietary schools than we have for nonprofit schools?” (109-2, 2005), seemingly implying that there should not be a difference in standards and laws.

As the line between for-profits and nonprofits blurs both in the perception of legislators as well as in actual operations, the very status on nonprofit institutions could be in jeopardy (Kinser and Levy, 205). Traditional institutions may have unwittingly made themselves more vulnerable by virtue of their highly visible increases in tuition costs, increases that have regularly been outstripping the rate of inflation for over a decade. The rising tuition costs, coupled with increasing endowments at many institutions may be causing lawmakers to question the tax exempt status of private nonprofit institutions. An article in the Boston Globe reported statistics from the Center for College Affordability and Productivity that indicated university endowments rose 17.7 percent to $340 billion in 2006. The Globe article also quoted Senator Charles Grassley as saying the following (Bloomberg, 2007):

“Since tax breaks for charitable donations are supposed to contribute to the public good, it’s fair to ask whether the tax breaks that lead to big university endowments are serving the public.”

Traditional institutions should consider carefully the reasons for rising tuition costs and examine approaches to cost containment. New entrants, particularly those from the for-profit sector, are far more likely to enter markets where price is high enough to support attractive contribution margins. The more tuition outpaces inflation, the more likely it is that investors will see increased market opportunity. Some of the

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increased cost of traditional institutions can be associated with the growing significance of the US News rankings (Winston, 1998). As these rankings become a commonly used selection tool by prospective students, the position of an institution within these ranking becomes more imperative.

Unfortunately, there is no simple means by which to measure the quality of an education and advancing upward in the rankings can ultimately be influenced by investment. For example, one measure used in the rankings is SAT scores, but to raise the average SAT score, an institution can offer increased financial incentives to higher scoring students, which must then be offset by overall tuition rates.

The demographics at the moment may be such that traditional institutions can afford to price themselves out of the lower end of the market in order to raise their stature among peers (Kelly, 2001). But there is also a domino effect as institutions fight to hold their positions in the face of those institutions that want to rise in the rankings. In other words, no institution is going to willingly give up its place in the rankings. In the end, this battle over rankings, as well as other factors driving up tuition cost, may create such a bifurcated market that the student segments currently being pursued by for-profits will be priced out of private universities anyway (Winston, 1998). The real danger to traditional institutions, and possibly the public at large, will come as demographics shift and those traditional institutions that have raised tuition rates the most must recede to maintain market share. In the mean time, traditional institutions
as a whole may want to take steps to enhance public understanding and perceptions as to the public good traditional institutions serve (Zappia, 2000).

Traditional institutions need to anticipate that there will be an expanding influence through lobbying and campaign contributions on the part of for-profits, which likely lead to the introduction of laws that enhance for-profit activities at the expense of the traditional institutions, and that the passive approach to legislation traditional institutions have typically taken could result in a reshaping of the higher education industry (Barlett, 2005). More time and money will need to be allocated to government relations if traditional institutions do not want to leave the shaping of legislation and government policy to the for-profits.

In the long-term, for-profit competition will have very different impacts on institutions depending upon the particular segment of the market occupied by the institution, as well as the nuances of the specific institution. Those Institutions that fall into the prestige category are likely to be impacted the least. Even as for-profits move into traditional market spaces, their emphasis appears to be on delivery and convenience, not on the factors that impact prestige rankings. However, those institutions whose primary focus is on teaching (smaller nonprofits and state colleges) may be most at risk for survival if they are unable to match the convenience and market-orientation of the for-profits, particularly if they have difficulty with cost containment due to cost issues, such as tenure systems, associated with traditional
institutions, without donative offsets such as large endowments. A final category of institutions falls somewhere in the middle of the two ends of the spectrum.

The “middle” institutions are those that engage in research and both liberal and professional education. The challenge for this final category of institution may be more cleanly separating their activities and applying resources and cost containment strategies differently among the activities. Research-related areas may need the benefits associated with traditional tenure systems, while professional education areas may require greater levels of flexibility. Cost containment may also have greater applicability in teaching specific activities, however, institutions will have to allocate sufficient resources to “visible” teaching facilities, including labs.

All of these recommendations are predicated not only on the continued growth and expansion of for-profits, but the belief that these for-profits are in fact having a disruptive technology impact and that the pressures from change will come not only from the for-profit sector itself, but also from those traditional institutions that begin adapting to, and mimicking, the for-profit alternative. Traditional institutions need to monitor the competitive strategies of both the traditional and for-profit institutions more aggressively, and in a way that may be counter to the collegial paradigm. They must also resist the temptation to discount for-profit offerings. A tour of for-profit facilities, especially those with well equipped labs, could impact the perceptions of those individuals coming from lesser equipped traditional institutions.
Implications for For-profit Institutions

For-profit institutions will be part of the higher education landscape for the long term, but in what form, or exactly what role they will play, is still an open question. At the moment, for-profits appear to have positioned themselves to serve nontraditional audiences and modes of delivery. Their reputation among traditional industry players is one of lesser quality and suspect content. Nonetheless, traditional institutions have a general respect for the “wrapper of service” for-profits have apparently focused on and their emphasis on convenience. But just as many of the traditional institutions are scrambling to adopt more business-like practices, for-profits could benefit greatly from a greater understanding of the academic model and a concerted attempt to learn from traditional institutions.

The for-profit education world could change dramatically depending upon its ability to offer an affordable alternative. That ability is contingent upon access to corporate tuition reimbursement, student loans, and financial aid. Some companies appear to be rethinking their financial aid and the federal and state financial aid policies are susceptible to change, which leaves for-profits that lack a solid reputation vulnerable, since the market they have chosen to focus on is likely to be relatively price sensitive. In fact, a review of tuition rates for adult courses within Massachusetts places the major for-profits at the high-end of the range. But these tuition rates have been offset by reimbursement, loans, and financial aid, as well as one other factor, which is time-to-completion. The time-to-completion factor is currently being equalized by many of the traditional institutions that have recently introduced cohort, hybrid, and executive
models and is one more reason for the for-profit institutions to begin positioning
themselves on more than just convenience.

Those for-profits that are seeking to establish themselves as long-term reputable
institutions can do so without having to give up their ability to provide returns to
investors. There is an opportunity for one or more for-profits to establish themselves
as a high quality providers of education, equivalent to most any top-ranked institution
in the country. To do this, for-profits should consider investing in the one commodity
that truly differentiates most traditional institutions – their faculty. Some of the larger
for-profit institutions generate among the highest levels of revenue of any institutions
of higher education. Their capacity to invest in inputs that truly impact the quality of
the educational experience is unsurpassed and they do have the ability to dramatically
alter their market position.

A for-profit institution that builds a cadre of well known faculty pulled from the ranks
of Nobel Prize winners, famous executives, and other recognizable personalities and
supports its faculty with the best instructional designers and mentors can quickly
establish itself as a new alternative to traditional institutions as opposed to a lesser-
than alternative. Aside from attracting a faculty that could become a major draw of
students, for-profits could also take advantage of the lackadaisical way in which
traditionals have responded to new delivery and marketing approaches and take these
a step further.
For most traditional institutions in this study, delivery technology is not front and center in the institutions’ priorities. As one respondent indicated, “If for-profits adopt truly innovative gaming and animation technologies we will not be able to keep up.” In reviewing the distance learning Web sites of institutions in this study, as well as several for-profits, no one seems to have taken delivery technology much beyond what standard platforms, such as BlackBoard, provide. But it will be much more feasible that a national for-profit will have both the interest and inclination to raise the bar on distance education beyond what smaller players can afford to replicate.

The bigger question for the for-profits is whether or not they will be guided by a profit maximizing approach and forsake an academic model or will they adopt a hybrid model that will allow them to be efficient, flexible, content innovative, and supportive of cross-college collaborative efforts. Ultimately, the market may determine whether or not for-profits continue with a stripped-down strategy, take on the look and feel of traditional institutions, or morph into a new type of institution that may, for example, position itself at the high-end on the basis of concierge service and features not normally associated with the traditional institutions. The market and traditional institutions are forming their perceptions of for-profits and the longer these major for-profit institutions stay with their initial strategy, the harder it will become to reposition them on the basis of quality, especially as traditional institutions learn to be more competition savvy.
For-profits may also want to begin considering how to distinguish the various segments of for-profits within the public arena. Among traditional institutions, prestige institutions are perceived very differently by the public than are bottom tier institutions. For-profits have gained a good deal of lobbying strength by having a unified front on any number of legislative issues through organizations such as the Career College Association, but there is also a danger of being permanently bundled together in the public’s mind. Given the resources of many of the larger for-profit organizations, it is feasible for these organizations to set themselves apart and it may be worthwhile for this sector to break away from the smaller proprietary schools that will continue to be viewed with skepticism, in a way not unlike the ivy league schools. These stronger for-profits may want to consider closer alignment with traditional institutions that occupy aspirational positions within the market. Corporate America is not used to policing itself, but it is a practice within higher education that could have dividends for the stronger of the for-profit institutions.

**Implications for Accrediting Organizations**

The corporate marketplace may be doing as much to shape the quality standards of for-profit institutions of higher education as either legislators or accrediting agencies. The fact that Intel has begun excluding the University of Phoenix from its reimbursement lists not only calls into question Phoenix, but might also be viewed as an indictment of the higher education industry’s reliance on accrediting boards. Either the self-policing approach is truly failing, or there is a perception that regional
accreditation does not ensure a high enough standard to justify the applicability of
tuition benefits, at least from Intel’s perspective.

According to CHEA, accreditation should ensure that institutions are competent
across five core areas: threshold levels of academic quality; value for the money;
efficient and effective in the use of public resources; protecting students from
substandard education; and public transparency. While these five “core” areas may
appear to be laudable goals, accreditation practices and regulations have not
dramatically changed over the past one-hundred years and the actions of Intel suggest
that accreditation as a whole is not scoring well from the public’s point of view.
There may at least be some level of self awareness regarding this, as the article cited
above also includes the following quote from the Secretary of Education’s
Commission on the Future of Higher Education final report:

“Accreditation, once primarily a private relationship between an agency and
an institution, now has such important public policy implications that
accreditors must continue and speed up efforts toward transparency as this
affects public ends.”

Whether or not accrediting agencies are prepared to go far enough and fast enough is
not yet clear. CHEA does recommend what it refers to as a “Public Interest Audit,” in
which they suggest accreditors pay attention to the following:

83 CHEA. “Accreditation, Professional Interest and the Public Interest: Conflict or Convergence?”
Inside Accreditation Volume 1, No. 6, October 31, 2006.
Structure reviews such that they address the five core areas (academic quality, value, efficiency and effectiveness, student protection and public transparency)

Engage the public

Maximize transparency and avoid financial and governance conflicts of interest

Explicitly and strategically align with public interest needs

Strengthen public confidence through evidence and performance-based measures and indicators

While the CHEA recommendations do clearly identify the need to take public interest into account as part of the accreditation process, it does not provide a level of specificity as to how an accrediting agency can achieve this. There are also no clear mechanisms for dissemination and reporting to a broader public either the standards or the specific reviews performed by accrediting agencies. In other words, even if accrediting organizations take a more deliberate approach to addressing the concerns of the public, the larger mass media outlets are not likely to find this newsworthy enough to disseminate in a way that can dramatically alter public perception. And if the public and the legislators that represent them do not feel a sense of confidence in the role of independent accrediting agencies, then we may begin to see more regulatory mechanisms put in place. As in the case of traditional institutions of higher education, accrediting agencies have not had a history of active engagement with shaping legislation through sophisticated lobbying efforts.
Accrediting agencies should anticipate that for-profits will employ their increasing lobbying strength to shape legislation in ways that better fit the for-profit model, and conversely, may be at odds with the traditional measures and standards used by accrediting agencies to determine quality. The typical focus of accrediting agencies in the past has been on inputs, such as the number of courses taught by full-time tenured faculty. Most for-profits will not fair well in regards to these traditional metrics. What for-profits as a collective appear to be pushing legislators to look at is outcomes.

The concept of measuring on the basis of results has broad appeal to corporations and the general public, and this mantra of focusing on results appears to be gaining acceptance. Thomas Carter, Deputy Inspector General, U.S. Department of Education provided congressional testimony in which he was critical of accrediting agencies and their lack of “meaningful standards” (109-2. 2005). Carter specifically recommends that regional agencies establish graduation, placement, and licensure rates. Conceptually, outcomes would appear to be the appropriate means by which to measure the effectiveness of an institution of higher education. Accrediting agencies themselves have already begun to move in this direction, albeit with a continued simultaneous emphasis on inputs as well. The difference may be in the details. What constitutes an effective outcome of higher education and how do you measure it? As much as one might argue that education should not simply be measured on the basis of quantitative outcomes, the proponents of accountability on the basis of measurable outcomes appear to be winning the rhetorical arguments in the public arena.
Carter is echoing the chants of for-profits (whether intended or not) when he specifically identifies placement and licensure rates. These are favorable ground for for-profits which are primarily focused on career specific disciplines. The majority of for-profit students are specifically preparing for jobs. In addition, many for-profits have invested heavily in job placement services as that becomes a competitive advantage that can be successfully promoted. A review of for-profit advertisements suggests that the connection of degree to work is the most prominent advertising approach taken by for-profit institutions. But the battle will not be over the larger question as to whether or not outcomes becomes a primary means by which to judge colleges, but rather the details as to what outcomes are and how they get measured. This is where accrediting agencies need to be engaged in the discourse.

The Career College Association represents about half of the for-profit institutions in the U.S. and has been one of the more vocal lobbying groups on behalf of for-profits. CCA arranges an annual event it calls “Hill Day” in which it describes its activities as “fighting for a place in a slew of new legislation” and stating that on Hill Day “Career College Association descended on Capital Hill.” (Kuzma, 2007, pp 1) Of the four major topics identified by CCA as most important, two of them have direct implications for accrediting groups. The first was the harmonization of transfer credit, which for-profits would like to have mandated. The immediate implication for accrediting agencies would be the devaluation of any one particular agency’s accreditation. The second CCA major issue directly impacting accreditation institutions is what it terms “ensuring institutional accountability.” What CCA is most
strongly lobbying for here is for for-profits and traditional institutions to have “universal” standards.

What will ultimately be important is not whether an institution is for-profit or traditional, but whether or not the institution meets appropriate standards, and whether or not those standards are adequate to fulfill the obligations that a self-monitoring body has to the public at-large and its members. These are very turbulent and dynamic times and, given the information obtained from respondents, I am skeptical that accrediting boards and their standards have adequately adapted to this new environment. Accrediting boards have long been comprised of individuals with backgrounds from traditional institutions. This approach may have served the industry and the public well in the past, however, the pressure for change is not coming from traditional units within traditional institutions. It is coming from those units and colleges overseeing nontraditional markets and activities. For accrediting boards to continue serving the self-policing role they have, they will need to be familiar with actors from an entirely different paradigm and way of operating.

One respondent I spoke with who serves on a regional accrediting board indicated that the regional board was speaking with for-profits in order to get a better sense of how they differ. It is important for accrediting bodies to become increasingly familiar with for-profit organizations since, if current trends continue, they can anticipate an increased for-profit membership. However, how these accrediting bodies learn about for-profits is an entirely different question. Given the national backing many of these
for-profits have, it should be expected that they will have polished their presentations and refined their arguments. Accrediting groups should anticipate more aggressive lobbying and public relations efforts than what they are used to.

Accrediting agencies are not likely to be familiar with aggressive lobbying and campaigning and it is incumbent upon the accrediting agencies to become familiar with the perspectives of those in nontraditional units within traditional institutions and not come to rely on for-profits to provide the only insight into nontraditional markets. On the surface, this could seem an unnecessary exercise given that the likely composition of accrediting boards will continue to come from traditional institutions for the foreseeable future. But the interviews revealed a vast disparity in perspectives among traditional institutions in regards to for-profits. And to fully ensure that the interests of its membership and the public are sufficiently safeguarded, accrediting boards should ensure that the variety of perspectives is solicited from members who do not typically serve on the board as well as from for-profits.

The danger here is for board members to assume that the perspectives they themselves hold are representative of traditional institutions, and even their individual institutions, as a whole. If this is the case, then the arguments used by the for-profits to gain approval to operate from legislators, such as the need for workforce development and adult education, may influence decision making at the expense of schools, such as community colleges, who are already focused on these markets but do not have a strong voice on the accrediting boards.
The challenge for accrediting boards will be to encourage, or at least accommodate, a sufficient amount of entrepreneurial activity on the part of its members while simultaneously safeguarding the security of its members and the public. While most of us in higher education are focused on the large national for-profits, there are a number of smaller proprietary schools that, at least according to some respondents, have been taking some market share from traditional schools by virtue of not being hampered by accrediting rules. At the same time, one of the respondents expressing concerns for small for-profits also indicated that they were grateful that the accrediting board was slow to adopt new standards since it meant that some of their proprietary competitors would not have the same benefit of financial aid.

As one respondent put it, “The standards are the standards and will not be adjusted for for-profits.” This suggests that accreditation does serve as an equalizer, but it does not address whether or not those standards are sufficiently doing their job. Accrediting agencies need to ask serious questions about their role and the standards they employ to achieve their mission. Accrediting bodies themselves may be in jeopardy of becoming obsolete or irrelevant and can not afford to make the mistake of reacting too slowly to the changing environment. Just as for-profits are becoming an alternative, albeit a disruptive one, accrediting bodies are not immune to competition.

For-profits have created a number of accrediting bodies. It might be argued that the self-created accrediting bodies of the for-profits are largely for show, since the federal
government has not as yet recognized these groups for financial aid purposes, but that does not mean a successful effort could not be made with a strong lobbying effort. Accrediting boards should anticipate that for-profits will use the legislators to apply pressure on accrediting boards to make changes that will better accommodate the needs and desires of for-profit institutions. The arguments used will likely be very sophisticated, such as using the benefits of an outcomes approach to justify the standardization of transfer credit. In fact, the U.S. Education Department is engaged in revamping accreditation guidelines under the guise of strengthening those guidelines, but the issue of standardizing transfer credit is part of what is being explored.  

Accrediting agencies and their standards have evolved over the years, but they have not always kept pace with competitive and technological changes. While regional accrediting boards now seem to be familiar with the issues of distance education they will need to understand how traditional institutions are likely to be impacted so that they do not inadvertently harm their membership by failing to accommodate the need for change these member institutions are likely to have. The most difficult challenge accrediting boards may have is becoming proactive in regards to legislators as opposed to reactive. It should be anticipated that for-profits will push for significant changes and that this push will come from legislators that for-profits have the ability to lobby, as opposed to direct lobbying of accreditation boards.

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The arguments that resonate with legislators are going to be different than the arguments that resonate with academics. So while most academics still value inputs, perhaps because academics would find it difficult to measure the true value of an education, for-profits are going to want to focus on outcomes. If outcome measures are based on job placements and career advancement, as the U.S. Education Department is discussing, then colleges solely focused on professional programs as opposed to the liberal arts or academic career paths, will inherently have an advantage. If accrediting agencies wish to maintain their relevance they can not ignore the lobbying efforts of for-profits. Regional boards also need to recognize they are now dealing with national entities as opposed to regional entities and should consider what, if any, implications this has for them.

**Implications for Legislators**

There appears to be no coherent plan or strategy, no fundamental philosophy, and no overarching vision for the higher education industry on the part of the Massachusetts legislature. While there are certainly policies guiding public institutions and financial aid, there is little evidence that the legislature understands the privatization trend or that it is attempting to shape what the future of the higher education industry looks like. The legislature is perceived by those interviewed to be largely ignorant on the issues of for-profit privatization, though there are different views as to the level of involvement by the legislature that would actually be beneficial to the industry. There is no consensus among institutions as to whether or not the legislature should increase the level of regulation or take a free-market approach. At the moment, policy in this
regard seems to be inconsistent and myopic. While there are potential negative consequences to increasing regulation or to relegating the industry to market forces, the current state of half decisions will likely lead to the worst of both approaches.

The legislature has available to it a number of mechanisms and tools by which to shape the higher education landscape that include: state licensing, grants, resource allocations to public institutions, public tuition rates, tax policies, and financial aid. By adjusting these variables, the legislature could encourage or discourage the expansion of for-profit activity. But the current climate in Massachusetts and decision making of legislators has facilitated the expansion of for-profits without the addition of any safeguards for either the traditional institutions or the public. While this study did not survey legislators, the belief among interviewees was that legislators do not have the knowledge or expertise to understand how an academic model differentiates traditional institutions.

Whether or not the legislature should take steps to protect those institutions currently being adversely impacted by for-profits is a debatable issue. Even among traditional institutions there is no consensus as to the level of engagement desired of the legislature. But without a clear plan and direction for higher education within Massachusetts, it is largely the publicly funded institutions that appear to be most impacted. The legislature needs to ask itself why it has encouraged competition to its own entities, and whether or not it is achieving a desirable outcome. At one end of the spectrum, the legislature could take a protective stance and limit the type of degrees
awarded, majors offered, and available financial aid for for-profits and ensure that they do not encroach upon the community college and state college turf. On the other end of the continuum, the legislature could view for-profits as an outsourcing opportunity for workforce development, weighing the cost of operating community colleges against any potential gaps in service or quality.

Community colleges have been under attack for their apparently poor persistence rates, but whether or not the for-profits would offer an improvement is debatable. The legislature could also expect a fierce battle with the various unions involved as well. However, a cynical observer might believe that a free-market approach could ultimately lead to a shift of workforce development education from community colleges to for-profit institutions by virtue of market forces, particularly if financial aid is sufficient to equalize tuition rates and have the de-facto effect of eliminating community colleges and their associated expenses. But cost efficiencies may largely reflect the heavy reliance on non-union adjunct faculty, and the legislature would have to consider whether or not unionized (or tenured) faculty add value, as well as whether or not these cost savings are going to be long lived.

The literature does suggest that for-profits may be doing a good job of attracting and serving minority populations. In fact, the IPEDS data clearly indicates that for-profits not only attract higher percentages of minority students, and Black students in particular, but that these for-profits are far more successful than public institutions in regards to minority completion rates. Interestingly, traditional privates also fare much
better than publics in this regard. If the intent of public education is to provide access for underserved populations then the legislature would be well served to spend resources on better understanding these findings and examine the following questions:

1. Why are minority students being attracted to for-profits?
2. Why are completion rates for minorities higher at for-profits when their overall completion rates are very low?
3. Are minority students ultimately better served by for-profits or publics?

Minority completion rates at public institutions are abysmal, and given the mission of public institutions and the public funds they require, this issue warrants further investigation by the legislature. There may be explanations not visible in the IPEDS data itself, such as whether or not public or for-profits are attracting audiences with a different level of preparedness. There is also the question as to whether minority students that complete a degree at public institutions are in fact better off than those that complete at for-profit institutions. One caution for legislators here is that they not view one complete the same as any other complete.

Just as it has become harder to differentiate between domestic and foreign built automobiles (with design happening in one country, components manufactured in another place, and assembly in yet another location) differentiating between for-profits and nonprofits may become increasingly difficult as nonprofits adopt for-profit practices or contract with for-profits for services. Some traditional institutions may be bought, or transformed into for-profits, and essentially purchase accreditation and
reputation, making it hard to distinguish for-profits from traditional institutions. But the difference is significant and there does not appear to be any deliberate cohesive strategy on the part of legislatures to manage the state’s myriad of institutions and offerings.

There is no question that for-profits are having impacts of various kinds on traditional institutions within the state of Massachusetts, however, it is less clear as to whether or not there is an overall negative impact on the general public as a result. By leaving the strategy to market forces, legislators have been facilitating a growth in for-profit providers, which on the surface may appear to be having a positive impact: more students in college programs, a higher educated workforce, more student choice. However, while the short term may look positive on the surface, the legislature should pay attention to issues such as: persistence rates, student loan defaults, and the collapse or acquisition of traditional institutions, and the abandonment of students by failed for-profit ventures.

One immediate impact for-profits have is that the cost of doing business is now higher for all institutions, particularly those offering programs best promoted through the Web. These costs are ultimately passed on to the consumer in the form of higher tuition rates or, in the case of public institutions, absorbed by the taxpayer. In fact, these costs have risen to the point where many traditional institutions have substantially cut back or eliminated much of their Web advertising. It could be argued that perhaps public institutions should not compete in markets that require such heavy
Web advertising, but there is an issue of access to public education that legislators should consider as well. If public education, and many nonprofits for that matter, have an access mission to serve, online course offerings help to serve that mission, and Web advertising, in turn, makes that access available to a broader audience through awareness.

While individual institutions have indicated that the increased cost of doing business is significant, from the legislative point of view, it is probably more than offset by the net increase in tax revenues generated to the state by for-profit institutions. The larger concerns for the legislature should be in regards to students, employees, and the general public. The track record of poor persistence rates among for-profits should be alarming, particular when viewed in the context of the overall amount of student debt attributable to students choosing to attend for-profit institutions. While Massachusetts community colleges may have similar persistence rate issues, students are exiting with far lower tuition debt than they do from the for-profit institutions. Some form of consumer protection seems in order, particularly given the high pressure recruitment tactics described by the traditional institutions. While the description of the tactics provided by interviewees in this study may be skewed by their affiliation with traditional institutions, it is an area that should warrant some concern by the legislature, just in terms of consumer protection.

There are currently no state policies in place specifically designed to ensure that for-profits will not abandon students who attend their institution should that for-profit
determine that closing their operations or programs makes good business sense. Certainly, traditional institutions have collapsed and left students in the midst of their programs, but the academic model is likely to ensure that all efforts are made so that students may complete their programs. In fact, in the interviews where this issue was discussed interviewees indicated that their institutions had policies in place to protect students should a program be suspended or terminated. As one respondent put it, “In bad times traditional institutions will want to survive while for-profits will want to cash out.”

Employee protection is another area in which the legislature should take notice. While many traditional institutions (both private and public) offer long-term job security through tenure, employee unions, and multi-year contracts, for-profit institutions have a history of using a short-term contract labor approach. In fact, none of the major for-profit institutions operating in Massachusetts has a system of faculty tenure. The question certainly could be asked whether or not this matters. Certainly, the legislature would prefer to see the state’s labor force in positions of job security for the purposes of economic stability, but it is also the heart of the academic model. For an academic institution to attract leading researchers prepared to devote their life to narrow topics of inquiry, that in turn provide richer content to students, then secure faculty positions become important.

Not only does a secure full-time faculty become important to students, but the research innovation generated by a traditional research faculty creates a general
atmosphere of innovation and vibrancy that stimulates the larger economy beyond the higher education industry. At the moment, the preeminent research institutions for which Boston is known are not in immediate jeopardy of failing because of the entrance of for-profits into the market. However, supporting research activities is an expensive proposition that is partially funded by grants and partly funded by the institution’s willingness to invest in a full-time research-oriented faculty, as well as supporting infrastructure costs that help to sustain research activity. If the legislature permits for-profits to continue cherry-picking markets that do draw resources from research institutions then it should be anticipated that less profitable research activities will eventually be sacrificed by institutions feeling the need to offset a drop in resources that would otherwise be provided by adult and continuing education offerings.

It is conceivable that for-profits might establish their own research capabilities and compete for grants and funding normally associated with traditional institutions. If for-profits were to take this approach, then it should be anticipated that unrestrained they will cherry-pick those research opportunities in the same way they cherry-picked student markets. Unfortunately, given the findings of this study, I believe there are very few, if any, institutions anticipating this potential issue. Nonetheless, given the enormous dependence of the Massachusetts economy on the higher education industry, and the research and innovation that comes from that industry, it would be worthwhile for the legislature to proactively plan and guide the higher education landscape in order to ensure the long-term health of the economy.
In spite of my contention that Massachusetts would benefit from some level of proactive strategic planning of higher education, I would also caution the legislature to avoid being too prescribed in influencing the shape of the higher education industry. Higher education is a creative industry that needs room to evolve. At some level, for-profit competition is having positive influences, but there is a danger in treating higher education like any other consumer product. Higher education is a very complex product not easily evaluated by the consumer. One credential may look the same as another, but is it? I would concur with the recommendation of some individuals in this study that there should be a focus on consumer protection and the means by which students can compare options, and can be armed with answers such as: How many students complete the program? What are there student abandonment policies? What is the total debt students are likely to have by the time they complete the program?

Perhaps the biggest concern the legislature should have about for-profits is not their business practices but the proprietary nature of the information they keep (including their policies and effectiveness of their programs). There is currently a federal law, The Student Right to Know Act, which mandates that Title IV institutions disclose completion rates. Augmenting this Act with further disclosures could be a powerful consumer tool.
Concluding Thoughts

The question that emerged from this study was whether or not the “business model” and “academic model” are mutually exclusive. At the moment, it is the for-profits that are impacting traditional institutions. For-profits are acting as a disruptive technology in that they are making an educational experience that is based on a stripped down content model (offered in an “easy” package) a viable enough option that it is taking business from select segments of the higher education market and forcing some traditional institutions to increase their emphasis on convenience, marketing, and customer service. Administrators at traditional institutions of higher education are split on the issue as to whether or not this shifting towards a business-type model is being done at the expense of quality. But this study suggests that either quality and curriculum innovation will be sacrificed as resources shift from faculty to marketing and customer service, or costs will rise even further, resulting in even greater incentives for for-profits to offer an alternative.

If traditional institutions are losing market share to the for-profits then it stands to reason that more Massachusetts residents are being educated at for-profit institutions, which may not be providing the same product as would have been provided by traditional institutions. Even if you accept this premise however, in and of itself, this does not mean that for-profits are a net negative, since another dynamic to be considered is whether or not there is a net increase in the number of residents who are obtaining an education that they might not otherwise obtain, and whether or not that “different product” is truly inferior to the specific institutions away from which
students are being drawn. Of the students who choose to attend a for-profit institution, how many of them would have opted out of higher education as opposed to attending a traditional school? And which specific traditional institutions would have attracted these students, since not all traditional institutions provide the same educational experience?

As much as for-profits may currently be acting as a disruptive technology, they have the potential of raising the bar among select market segments. This may be counterintuitive to the current thinking among higher education professionals, but there were a few respondents in this study who felt that academia may be asleep at the switch and resting too comfortably on the caché of its established market position and reputations. The “business model” and “academic model” are only mutually exclusive so long as there is no business advantage to the academic model. The new type of national for-profits have largely focused on the higher education fringe markets. The markets that well resourced traditional institutions would not protect with the same level of ferocity that they would their main line of business. But by building a successful business model, they have also built a resource base that will allow them to diversify into more traditional education markets and compete head-on with long established institutions. Whether or not they will see these higher-level market segments as lucrative is not yet known, but this does fit with the stated intentions of some of the largest for-profit institutions.
The move by for-profits into higher-end segments may bring about a convergence of sorts, in that, it may make good business sense to adopt an academic model, or at least some hybrid of that model. In fact, in the long run it may become difficult from a market standpoint to differentiate between for-profits and traditionals, particularly as traditionals outsource and spin-off and for-profits continue their acquisition of traditionals. But is this the long-term outcome legislators should be seeking?

Thus far there seems to be no overall higher education strategy in regards to for-profit privatization on the part of legislators. The casual observer might view this lack in policy as a reliance on a free-market approach. But the reality is that higher education isn’t like other consumer products. It is an associative good that has impacts beyond the students themselves who are purchasing an educational experience. In fact, the state and federal government have a direct role in the purchase of this product through student loans and grants, as well as paying to create and support its own infrastructure of institutions. It is also the kind of product for which consumers (particularly those at the lower socioeconomic end of the market with little family history of college) may be lacking the means and ability to make fully informed purchase decisions.

The ultimate issue is not really whether or not to take a free-market approach. Higher education can not be considered a free market, and will never truly be a free market as long as the government provides support to higher education through financial aid and public subsidies. Ironically, for-profit institutions would likely be the first to fail if a true free-market approach to higher education were taken for two reasons: 1)
higher education is a donative good and therefore the true costs are higher than the ability of most students to pay and very few for-profits have the benefit of endowments that many traditionals would be able to employ to drive down the actual costs to students; and 2) Those individuals that do have the ability to fully pay are far more likely to pay for a prestige institution. But it is highly unlikely that the current governmental expenditures for higher education will be rolled back given the economic and social imperative for a highly educated citizenry. At the same time it is incumbent upon the legislature to not only fund higher education, but to maximize efficiencies and public benefits (which includes market responsiveness). And this is where a measured amount of competition could have positive impacts. But the stakes are very high and the issue too complex for the legislature to be haphazard in its approach to this issue.

A myopic policy approach, the lack of consumer safeguards, and the use of public funds to subsidize for-profit entities, all jeopardize both the public and the established traditional institutions that have invested in a more expensive academic model that may offer more associative benefits than the products being offered by many for-profits, yet even the self-policing accrediting agencies have failed to establish themselves as a true public safeguard. At the same time, public institutions in particular need to understand why they seem to be failing minority student populations in regards to both recruitment and completion. If traditional institutions want to argue the higher-ground of public interest they need to understand and address this failure.
Traditional institutions themselves seem unable to defend their own interests in those markets which have been penetrated thus far by the for-profits, and there is a general lack of concern that will likely result in traditionals being vulnerable down the road when for-profits begin turning to markets closer to the core of traditional institutions. The fact that for-profits have entered the higher education arena and expanded at the rates they have also suggests that traditionals have either not been paying enough attention to various market segments and their needs, and/or they have allowed themselves to become inefficient enough that the for-profit world sees inefficiencies that can be capitalized on. The rankings race, combined with a faculty productivity model weighted heavily toward research, which has less high costs associated with it, may need to be rethought. Perhaps there is a hole in the market, not in terms of discipline niches, but in terms of a focus on teaching and learning. Most of the traditional institutions included in this study are based on models that generally mimic the major research institutions in terms of faculty tenure and promotion, whereas the for-profits tend to avoid tenure, but put more resources into faculty tools such as student labs.

While traditional institutions should be figuring out how to evolve the academic model such that it can be competitive with the business model of the for-profits, for-profits should be focused on adopting aspects of the academic model that can translate into long-term success, including ways in which to bring about curriculum innovation. They must also prepare for the fact that high profile lawsuits and
complaints against for-profits will likely result in closer scrutiny by both legislators and consumers. And while traditional institutions need to be careful about the race for rankings spiraling costs, for-profits may need to figure out how best to differentiate themselves. In fact, the irony may be that one of the best ways for for-profits to gain credibility could come from gaining a significant place in traditional rankings.

The answer to privatization in higher education is not as simple as privatization being universally good or bad. Higher education has many segments and serves many needs. Perhaps the traditional model has evolved to a point where it can no longer serve all of the various segments and needs of the population, but unlike other markets that have been privatized, the current system of higher education in America stills stands out as the best in the world, and some caution on the part of encouraging a further privatization of this industry may be warranted. But just as there are too many market failure issues in higher education to preclude the use of a true free-market approach, a truly protectionist policy would only delay market pressures and could result in American institutions of higher education being less able to compete as the onslaught of international higher education marches on. Traditional institutions must ultimately be prepared to compete with for-profits, whether or not they are U.S.-based.

The United States can not be complacent about the current stature of American higher education, and thus far the for-profits have proven their ability to resonate with segments of the population that traditional institutions seem to be failing, or leaving behind. The solution, therefore, is not an all or nothing choice. Hybrid models are
already emerging and should be better understood. The higher education industry is likely to become increasingly segmented, with institutions more specifically tailoring themselves according to those segments. One size, whether traditional or for-profit, is not going to fit all segments. This diversity of missions should be encouraged, and simplistic solutions that either depend on a non-existent free-market, or that take a purely protectionist view are not likely to serve the long-term interests of this society.

There is also the possibility that for-profit institutions will simply become part of the “massification” cycle. For-profits have expanded higher education to new masses, but as their growth inevitably slows down, it is conceivable that we could see publicly traded for-profits morph into proprietary, and ultimately even non-profit, private institutions. What does a for-profit do when there are no longer expansion possibilities? The future traditional institutions could emerge from for-profits.

What a more informed legislature should be focused on, regardless of whether they are supportive of privatization or not, is better protecting consumers. Consumers may be free to choose an institution of higher education, but they may not have easy access to information that allows them to differentiate among institutions and prevent them from being taken advantage of through the state’s own complicacy in providing easy loan access to institutions that do not have a good track record of student persistence and completion.
Consumers, and taxpayers helping to fund financial aid, should know what they are paying for and what they can expect for that investment, which might include information on the percentage of funds spent on instruction; the average salary of graduates in particular fields in comparison to alternatives; the mission of the institution; and the average amount of debt with which both graduates and non-completers leave. Until the legislature better understands the higher education industry and the distinction between the academic and business models it will be caveat emptor for the student.

The failure of traditional institutions to contain costs and be responsive to market needs has given rise to the new breed of publicly traded for-profits. In order to justify the continued tax benefits associated with nonprofit status, or the subsidies necessary to sustain public institutions, traditionals must effectively argue to policymakers and the public that they offer something of different and unique value that benefits the larger citizenry. Unfortunately, the public mission that many advocates of traditional institutions point to is to some degree a fallacy. The origins of public “higher” education are routed in agriculture and other practical applications, in some ways the original missions of public institutions are more closely aligned with the emerging for-profits than with the current incarnation of most traditional institutions. Certainly, there can be a great deal of benefit to a citizenry of a liberal education, but the question is whether or not the public, through its policy representatives, can be convinced that the benefits of a more traditional liberal education are of significant
enough value to warrant investment above and beyond what the stripped down pragmatic approach of the new for-profits can offer.

Ultimately, policymakers need to ask some difficult questions as to how best to support higher education models that meet the needs of the citizenry and traditional institutions need to be prepared to provide difficult answers as to issues of efficiencies, student needs, and missions. With the exception of prestige institutions, the ability of traditional institutions to survive may depend more on their own ability to adapt than on their ability to persuade. The new “hybrid” institution that effectively combines the academic and business models is still emerging and it is not yet clear whether it is the for-profits or current traditionals that will most effectively create this hybrid institution. I will refer to the evolving new institutions of higher education as “academic enterprise,” as opposed to academic institutions. The term institution connotes an established organization that is set in its ways, while the term enterprise on its own connotes business activity.

The emerging academic enterprises will merge the academic paradigm with the efficiencies and market responsiveness of the best run businesses, but not all traditional institutions will be able to make this transition. In fact, not all traditionals will need to, but those without the benefit of a prestige reputation or significant endowments capable of offsetting donative costs, may not have a choice. This study found that there are various levels of concern and awareness that this merger of needs is inevitable. Ironically, it was the prestige institutions in this study that were most
vocal about this merging of paradigms being inevitable, but this may have been due to the fact that they felt the most insulated from these changes that allowed them to view this issue from an objective lens.

From a policy standpoint, the danger to traditionals in this transformation of the industry may come more from the attempts of policymakers to regulate the market than the environment that has been encouraging privatization. For-profits do not truly want a free market, they simply want access and will leverage policy, perhaps more effectively than traditionals, to gain competitive advantage. The attempt to regulate transfer credit is perhaps the best example. The other danger to traditional institutions comes from within. The inability to adapt to a market-driven approach, or even recognize the need to do so, along with the inability to contain costs are threatening the social contract that established public institutions, and provide the nonprofit status that many private institutions enjoy. The world is changing rapidly and the economic and social well-being of America rests on the ability of the higher education industry to meet these emerging challenges and not simply to be opportunistic. But traditional institutions may have already lost the luxury of shaping that future, and it may now be a fight for a seat at the table.

Questions for Further Study

This study should add new information and perspective to the discourse regarding the issue of for-profit privatization, but it also illuminates the need for further study on
this topic and raises additional questions. Some suggested topics of further inquiry include the following:

1. To what extent are for-profits truly different from traditional institutions that target similar audiences?
2. Are there for-profit institutions currently evolving and adopting an academic model?
3. What level of awareness is there of for-profit privatization among policymakers?
4. To what extent are policymakers being swayed by for-profit arguments?
5. How can the experience of higher education privatization in other countries inform U.S. institutions and policymakers?
6. Are there examples of comprehensive higher education policies among states outside of Massachusetts, or outside the U.S. that can serve as a model of effective practices?
7. How do the actual outcomes of for-profit institutions compare with traditional institutions?
8. Will for-profit privatization contribute to a more significant tiered system of education in America as a result of non-prestige institutions being more highly impacted than the prestige institutions?
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