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What Is For-Profit Education Really Like?

By Andrew Kelly

From the beginning, Frontline's new documentary *College, Inc* seems tailor-made to scare the living daylights out of the series' presumably progressive audience. Viewers are first introduced to Michael Clifford, an "educational entrepreneur" without a college degree who buys up struggling colleges and resurrects them as for-profit companies. Clifford is not only making a fortune off of low-income minority students. He also happens to be a born-again Christian, and he is looking to turn a bankrupt college in Oakland, CA into "Dream Center College," an offshoot of a Christian mega-church and rehabilitation center in Los Angeles by the same name. Indeed, viewers are introduced to Clifford's born-again faith almost as soon as they learn anything about his profession. And the introduction to Clifford comes right before correspondent Martin Smith interviews legendary profit-seeker and hard-edged capitalist Jack Welch, who talks about his investments in higher education and "widgets" in the same sentence.

Given the variety of companies and individuals involved in the for-profit sector, particularly the number of founders, faculty, and senior administrators who have PhD's and experience at world-class universities, Clifford seems like an odd place to start. Perhaps it's a nod to the idea that the regulation of college acquisitions is too lax, a worthwhile point to make. But to the discerning viewer, using Clifford, and then Welch, as narrative anchors signals a definite perspective on for-profit higher education: it is full of greedy profiteers, is woefully under-regulated, and is run by outsiders who believe that education is a business.

Predictably, *College, Inc* goes heavy on the "profits," and the methods used to reap them, but this leaves little room for the "education." As a result, viewers are introduced to many of the sector's warts and excesses, which are real and must be acknowledged, but never get a sense of how these innovative institutions are changing the way higher education is designed and delivered in the twenty-first century.

For instance, viewers are told that students from for-profit colleges have higher debt loads than those from non-profit or public institutions, but do not hear that for-profit colleges have exceptionally high rates of degree-completion, given the students they serve. We hear that Clifford, the former rock star and cocaine addict, admits he is under-qualified to manage a college, but never learn that most instructors at the largest for-profit colleges and universities have advanced degrees and are evaluated and promoted based on how well they educate their students. While Martin Smith tells us that regional accreditors are cracking down on the practice of "buying accreditation," he fails to explain how accreditation is a coarse and often ineffective quality control mechanism. Observers lament online education's lack of meaningful interpersonal interaction, but fail to cite high-profile research by the Department of Education which shows that online education is just as effective as in-person instruction, and that hybrid programs are superior to both.

The picture of for-profit institutions of higher education is neither all good nor all bad. Unfortunately for those institutions that are operating in good faith, zeroing in on the sector's blemishes is admittedly easy. As *College, Inc* outlines, the story of fraud in the for-profit higher education world is almost as long as the story of the sector itself. In the 1990s, Congress embarked on a series of high-profile investigations of student aid fraud at proprietary colleges, and the revelations were not pretty: some for-profits enrolled anyone off the street, including the homeless, to capture student aid dollars. More recently, *BusinessWeek* reporter Daniel Golden (who appears repeatedly in the documentary) **found** that for-profit schools across the country were paying homeless individuals to enroll in courses, flush with loans from the federal government.

Smith's reporting is particularly hard-hitting when it takes on the aggressive marketing tactics used by some for-profits, and how these tactics have led to several federal and class-action lawsuits. For-profit institutions have incentive to grow by enrolling more students; growth in enrollment, coupled with lower costs from economies of scale, make these companies more profitable and attract investors. *College, Inc* argues, to good effect, that growth imperative has led to some decidedly unscrupulous business practices. Recruiters and enrollment managers are often told to create a sense of urgency, prey on personal insecurities, and push "hot buttons." Just last December, the University of Phoenix paid \$67.5 million in fines to the federal government to settle a lawsuit that revolved around the enrollment incentives it provided to recruiters, which constituted a violation of the False Claims Act. These types of behavior are clearly not in the public interest, and they point out the need for more fastidious investigation and enforcement of proper business practices.

What's Missing

While important, these excesses are not the full story. For those in search of a more thoughtful and comprehensive picture of the for-profit question, Smith's effort falls short. Three particular issues stand out.

First, outside of a few stories about students who were bilked out of their money and given a shoddy education, the documentary says very little about how for-profits have rethought the core business of most colleges and universities--- the teaching and learning of undergraduates. Though the for-profit sector is exceptionally diverse, some of the largest

providers have provided innovative new models of how to train, allocate, and reward faculty. The University of Phoenix does not have tenure, and its instructors are trained to work with a set curriculum. Unlike traditional universities, however, faculty at Phoenix must go through a training program that is designed to help them to become effective instructors. Once they start teaching, advancement and continued employment are largely based upon student outcomes and satisfaction, calculations which are rarely at the center of tenure decisions in public or non-profit colleges. Linking professor promotion to student learning in the courses they teach is anathema to traditional academics; for professors at many for-profit institutions, it is a way of life.

For-profits are also rethinking the way that credits are offered and earned. Rather than forcing students to complete a certain number of hours in a lecture hall, courses at many institutions are asynchronous, meaning that school work can be completed at times that are convenient for working adults. More radical efforts like StraighterLine, a company that offers courses for \$99 a month, enable students to move as quickly as they would like in reaching the competencies needed for each course. A recent [article](#) by Kevin Carey featured a working mother who finished four courses in less than two months by working up to 18 hours a day. These are radical departures from the traditional undergraduate experience that could be offered at any type of institution, and they will become increasingly critical if the country is to "double the numbers" of degree-holders by the year 2020. Outside of a handful of visionary institutions like Carnegie Mellon and the University of Minnesota at Rochester, traditional colleges have shown little effort to experiment with new approaches.

Second, the documentary seems to suggest that for-profit schools are subject to less accountability than traditional colleges and universities, and that these institutions should be subjected to additional regulatory burdens because of their profit motive. Barmak Nassirian, a lobbyist for the American Association of College Registrars and Admissions Officers interviewed in *College, Inc*, is only half right when he argues that "one requirement for all of their practices to ensue is that billions of dollars of federal money flow with no accountability, no oversight, and minimal regulations." Many non-profit colleges and universities, some of which are of exceptionally low quality, also reap benefits from billions in federal aid; but, outside of the restrictions inherent in their tax status and some licensure requirements that vary across states, they are rarely subject to much more stringent accountability measures than these for-profit institutions. In order to receive federal student aid dollars, institutions must be accredited by the regional bodies, but accreditation is a sorry substitute for meaningful quality control (see [here](#)). The idea that the patchwork system of higher education accountability is only lax vis a vis for-profit institutions, but ensures quality and good faith among all public and non-profit colleges, is a fallacy. Surely, the profit motive can lead to severe problems when educational quality cannot be mandated, but the same goes for traditional schools that offer little by way of return on the federal investment.

This is why the Department of Education's proposed "gainful employment" regulation, which *College, Inc* discusses at length, is problematic. If the goal of a college education, and of federal aid programs that facilitate the choice to enroll, is to produce graduates with employable skills that will be successful on entering the labor market, why should an accountability mechanism focused on post-college employment only apply to one set of institutions? For years, traditional colleges and universities have thwarted federal attempts to collect crucial student-level data with which consumers and policymakers could evaluate the quality of the education on offer at different schools (see a description [here](#)). A well-devised requirement that obligated schools to show evidence of their students' labor market success could only help to improve quality across the board, especially when compared to what we have now. Armed with these disclosures, the federal or state governments could calculate reasonable estimates of "return on investment" and make those findings public for individual schools. Consumers could then avoid those schools that have low returns on investment, regardless of their tax status. Because of their checkered history, for-profits certainly have something to prove in this regard. I would argue that traditional four year and community colleges do as well.

Finally, Martin and his interviewees often discuss the cost of for-profits, their spending on marketing and recruitment, and how these "costs" often accrue to the "taxpayer." Clearly, these for-profits benefit from public money, and their tuitions are almost always greater than their public four-year and two-year counterparts. They also spend much more money on marketing and recruiting than traditional schools, and the marketing budget at some of these giants does rival what they spend on instruction.

The Hidden Costs

What this discussion ignores, however, is that the true "cost" of public community colleges to "the taxpayer" is much larger than the cost to the individual community college student because of the state subsidies that are "baked into" public colleges' operating budgets. In other words, public four year and community colleges do not charge tuition that equals what it actually costs to educate their students, because public subsidies make up the difference. Indeed, a recent [look](#) at total funding per "positive outcome" by the Parthenon Group found that, once state and local funding was included, outcomes at public two-year institutions cost \$25,300 a pop, while for-profit two-year institutions were barely higher at \$26,700 per outcome. Moreover, the argument that for-profits spend as much money on recruitment as they do on instruction, while accurate, ignores the fact that while traditional schools have jacked their tuitions, increases in revenue have rarely trickled down to the classrooms. [Research](#) by the Delta Cost Project has found that the growth of "institutional" expenditures—things like executive management, legal services, and financial management—at traditional four-year institutions has far outstripped the growth in instructional expenditures. For-profits may be spending as much on marketing as they are on instruction, but they are not alone when it comes to spending gobs of public money on non-instructional purposes.

Like most business ventures, for-profit colleges are filling a void that existing providers are leaving open. As Smith points out in the documentary, community colleges are unable, or perhaps unwilling, to fill this demand themselves. Clearly, these public schools are under incredible fiscal pressure, and many must often turn students away. However, these traditional institutions, and their four year brethren, have shown little inclination to search for innovative ways to

serve more students and leverage their best faculty by harnessing technology. The for-profits have done so with gusto, and may provide lessons to these traditional institutions on how they might create and implement such practices.

There are multiple messages to take away from *College, Inc*, but one is more subtle than the others. When it comes to making the case for the niche they fill, the for-profit colleges and universities must be more proactive about showing us that they do add to the common good, and they must be more transparent about how they do so. When your main spokesman on a PBS documentary is a Washington lobbyist, this poses a credibility problem. Opening up their data on student success, internal operations, and instructional innovation to outside researchers would help to close this credibility gap. At the end of the day, whether these institutions are good for higher education, and what might make them good, is an empirical question, and one that we should answer before jumping to hasty conclusions.

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