



## Globalization and the emergence of for-profit higher education<sup>☆</sup>

ANN I. MOREY

*Center for Educational Leadership, Innovation and Policy, San Diego State University,  
San Diego, USA*

**Abstract.** Globalization and the revolution in technological communications are major forces of change in higher education. This environment, when coupled with the needs of adult learners and the rising costs of tuition at traditional colleges and universities, has stimulated the emergence of for-profit, degree-granting higher education in the United States. This paper examines the growth of for-profit higher education, provides a cost/profit analysis, and gives examples of for-profit universities that are increasing international in scope. The paper concludes with a discussion of the implications of these developments for traditional colleges and universities.

**Keywords:** For-profit higher education; adult education; nontraditional students; diversification of higher education; postsecondary education

### Introduction

A major force for change in higher education is the globalization of economic, cultural, political and intellectual institutions, along with the increasing interdependence of nations. The revolution in technological communications has accelerated this transformation by bringing about a real time, globally connected world. There has been an explosion of virtual or on-line courses that reach across state and national borders. Furthermore, a developing trend toward the globalization of higher education is apparent with a number of institutions moving toward truly global operations, such as the University of Maryland, the British Open University, Monash University of Australia and the University of Phoenix (Newman and Couturier 2001).

This environment, when coupled with the needs of adult learners and the rising tuition at traditional colleges and universities, has stimulated the emergence of for-profit higher education in the United States as a viable sector of postsecondary education. The rapid growth and financial success of these institutions has focused discussion and debate around this expanding segment of American higher education. Earlier

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for-profit companies' involvement in higher education targeted vocational programs and/or ancillary and support services, whereas the new entrants into the market focus on higher education's core, the curriculum. Supporters of for-profit education point to the benefits that accrue from competition in a free market scenario, most importantly education improvements and potential reductions in cost. Educators argue that public colleges and universities play a critical role in a democratic society by providing education for citizenship and access to opportunity – functions not often addressed by for-profit firms.

This paper examines the recent growth of for-profit, degree-granting higher education in the United States. It discusses the reasons for the growth, provides a cost/benefit analysis, and gives examples of for-profit universities that are becoming increasingly international in scope. The paper concludes with a discussion of the implications of these developments for traditional colleges and universities.

### **The growth of for-profit higher education**

From their modest beginnings during the colonial period over 300 years ago, proprietary (for-profit) schools in the United States have had a vocational orientation (Honick 1995). In the nineteenth century, the commercial schools became more formalized and business was the main curricula. In the early twentieth century, progressive era reformers attacked the legitimacy of private vocational schools due in part to their reputation for dubious practices and the growth of vocational education in public schools. Organized labor groups and manufacturing companies put further pressure on the private, for-profit trade schools. In response, the schools secured their future by forming their own regulatory agency and lobbying body and making some reforms. Significant growth occurred after World War II when the Serviceman's Readjustment Act (G.I. Bill) provided returning veterans with federal funding to subsidize postsecondary education, including the for-profit schools. In the 1970s and 1980s, proprietary school lobbies again exercised their power and became eligible to receive state and federal student financial aid. A key condition of eligibility was and continues to be state and professional accreditation. It should be noted that the two primary accreditation bodies for proprietary schools, the Accrediting Commission of Independent Colleges and Schools and the Accrediting Commission of Career Schools and Colleges of Technology, are not associated with the regional accrediting bodies that focus on traditional

colleges and universities. When the for-profit schools received significant federal subsidies through student financial aid, it allowed them to shift their environment from being purely market-driven to one of being partially federally subsidized (Clowes 1995; Hawthorne 1995; Honick 1995).

Today these schools, sometimes referred to as career colleges, are major providers of entry-level skill training beyond the secondary school level. They offer occupationally oriented certificates and sometimes even associate and bachelor's degrees. By the late 1980s there were approximately 4000 recognized proprietary institutions enrolling an estimated 1.8 million students (Lee and Merisotis 1991). By and large, these institutions did not compete with traditional, non-profit colleges and universities and remained on the periphery of higher education.

However, in less than a decade, there has been an emergence of for-profit, degree-granting institutions of higher education offering programs traditionally under the purview of non-profit higher education. Numbering over 650 in the US, many of these for-profit colleges and universities are seeking recognition by regional accrediting agencies and several are now fully accredited. This development has the potential of providing real competition and altering some segments of non-profit higher education. Within a very short time postsecondary proprietary education has transformed itself from a small sector of the economy mainly offering specialized trade training to a \$3.5 billion a year business in 1998 (Strosnider 1998) and over \$5 billion today that is dominated by companies building regional and national franchises. Among the major players is the Apollo Group, which offers certificate programs as well as associate, bachelor's, master's and doctoral degrees through its subsidiaries: the University of Phoenix, Inc. (including the University of Phoenix Online), the Institute for Professional Development, the College of Financial Planning Institutes Corporation, and Western International University, Inc. Currently, Apollo offers educational programs and services at 71 campuses and 121 learning centers in 37 states, Puerto Rico, and Vancouver, Canada. Its combined degree enrollment is approximately 200,000 students, about one third of whom are graduate students ([http://www.apollogrp.com/About\\_Apollo](http://www.apollogrp.com/About_Apollo)).

DeVry University specializes in business and technical education and has over 44,000 undergraduate and 8000 graduate students in business and technology at sites spread across the United States and Canada (<http://www.devry.com/inc/about.html>). DeVry measures itself by its job-placement rates and has an employment assistance program that places 93% of its students within 6 months of graduation. In addition to

its 25 campus sites, DeVry offers its degree programs online and draws many international students.

Jones International University also specializes in business, offering college courses, certificate programs, and bachelor and master's degrees in business, education and communications. Its curriculum is exclusively on-line and Jones International prides itself on its programs being designed by faculty from leading universities such as Columbia, Stanford, University of Pennsylvania, Thunderbird, and the London School of Economics. While its students come mainly from the US, it draws students from 70 countries. Jones gives up to 15 undergraduate and 9 graduate credits for prior learning. The university opened in 1995 and in 1999 became the first online university to be fully accredited by the North Central Association (<http://www.jonesinternational.edu>).

*What has fueled the growth?*

One major force for change is the globalization of economic, cultural, political and intellectual institutions, along with the increasing interdependence of nations. The revolution in technological communications has accelerated this transformation by bringing about a real time, globally connected world. As markets become more global, economic development is linked to nations' abilities to acquire and utilize scientific, technical and socioeconomic knowledge, and medium to high levels of technology content now characterizes over half of international trade (Salmi 2000). Yet, many corporations are having difficulty in recruiting the skilled workers needed for these markets and there is a growing demand for accessible and career-oriented adult education at the postsecondary level to fill this need (Lips 2000).

Thus, emerging technologies and changing market mechanisms are stimulating new opportunities for for-profit education and training organizations. Green (1999) argued that information technology increases access to higher education and the growing numbers of adults engaging in lifelong learning are fostering an evolutionary event in American higher education:

“Technology brings new, rich resources to the learning of content; creates new contexts for interaction between and among instructors and students; and can fundamentally change the way students and institutions approach assessment and certification. (p. 14)”

Distance education and distributed instruction have freed education from being time and place bound, making it more flexible and attractive to adult learners. It has also challenged long held conventions, such as that course credit can be measured by the number of class hours. Changes in modes of instruction and delivery mechanisms occur daily. This evolution is slower at higher education's traditional center and faster on the perimeters. While it is well documented that information technology changes the learning experience, research examining its impact on enhancing academic achievement and learning outcomes is not consistent (Green 1999).

An important factor in the growth of for-profit institutions is their ability to cater to adult students. Undergraduate college students today no longer fit neatly into the 18–24 year old, fulltime, living on-campus image. In fact, only 16% of college students today fit this traditional profile (Levine 2001). Over 60 % are working, over half are female, and nearly half attend college part-time. About 45% of college students are 24 years of age or older, and this market is growing (Levine 1997).

In his study of undergraduate attitudes and experiences conducted between 1992 and 1997, Levine (1997) found that older, part-time, and working students, especially those with children, wanted a different type of relationship with their college – a relationship that is more like those they have with their bank, supermarket or gas company. They want their colleges to be convenient, accessible, high quality for low cost, open during the evenings and on weekends, and have helpful staff, available parking, and no waiting in long lines. Many are likely to prefer distance education so they can study at home or in the office. They do not want to pay for services they do not use, such as recreational facilities and student extracurricular activities. For these students, higher education is just one of many activities in which they engage every day and they value convenience, quality, service and cost.

Added to this are student preferences for active modes of learning and for concrete or practical methods. This contrasts sharply with the prevalence of the lecture mode of teaching and faculty orientation toward concepts, ideas and theory (Schroeder 1993). This general context of the changing college student makes a ready market for institutions that are 'no frills' and offer programs with active instructional strategies and at times and locations convenient to students – just what the for-profits offer.

For-profit institutions focus on students as customers, and provide services for them that minimize the amount of bureaucracy through which a student must navigate. While many adults enrolled in for-profit

institutions recognize that they are not receiving a degree from a 'brand name' university, convenience and shorter time to degree attract them. Their objective is to enter a career. Courses in the evening and on weekends suit their needs, the practical orientation serves their career objectives, and the cost of attendance, while above that of the public institutions, is usually lower than traditional private universities and colleges in their region.

Another reason that many students enroll in bachelor degree programs at for-profit institutions is that they would not be accepted elsewhere. The award of credit for life experiences is not unusual, can be an incentive to enrolling in for-profits, and can have a significant affect on time to degree completion.

Recently, some for-profit institutions have witnessed rising minority enrollments. At least half of the students at DeVry University, ITT Technical Institute and Strayer University are from minority groups. The reasons given for this increase are several, including targeted and aggressive marketing, convenience-centered student services, useful and readily available information about financial aid and the narrow focus on professional training (Farrell 2003).

The success of the for-profit sector in meeting consumer needs has fueled the rapid growth of these institutions. They have expanded through mergers and takeovers, aggressive marketing, expansion into other states, and contracting with other corporations and universities to provide services (Soley 1998). For example, Apollo has been aggressive in lobbying states to allow it to offer programs within their jurisdictions. In 1996, it successfully persuaded the Pennsylvania Legislature to revoke its ban on for-profit universities (Bronner 1997). In 1999, the University of Phoenix obtained experimental status to offer teacher credential programs in California and is currently offering a Master of Arts in education also. Their expansion has not been without resistance. The University of Phoenix's request for a license in New Jersey was strongly opposed by the Association of Independent Colleges and Universities. The Association claimed that insufficient library holdings, over-reliance on part-time faculty, and teaching too few hours for the credits awarded should bar the University of Phoenix from licensure (Soley 1998). In 2001, the University of Phoenix submitted a 2000-page application to the New Jersey Commission on Higher Education asking for another review and Phoenix now offers programs in this state.

*An example: the University of Phoenix.* The University of Phoenix (UOP) is the foremost example of this new breed of education provid-

ers. Headquartered in Phoenix, Arizona, it is now the nation's largest private accredited university. The University of Phoenix began as the Institute for Professional Development in the mid-1970s under John Sterling, and the North Central Association of Colleges and Schools accredited it in 1978. Today UOP serves 174,900 students and has more than 47 campuses and 87 learning centers in 29 states as well as Puerto Rico and Vancouver, British Columbia (<http://www.apollogrp.com>). It also serves students via the Internet with the University of Phoenix Online, enrolling 79,300 students worldwide. It offers various certificate degree programs, bachelor's, master's and doctoral degrees in several areas, including business, administration, accounting, management, technology management, information systems, education, counseling and nursing. Its explicit mission is to serve working adults who wish to retrain for new careers or to advance in their current field. The average age of their students is about 35 years and special permission to enroll is required for students under 23 years of age. Over 75% of the students receive some form of tuition reimbursement from their employers ([www.phoenix.edu/students/1.1a.text.asp](http://www.phoenix.edu/students/1.1a.text.asp)). Unlike most traditional colleges and universities, UOP also gives academic credit for life experience. It accepts about 90% of its applicants for bachelor degrees.

The University of Phoenix has no tenured faculty. They employ about 285 full-time faculty members and about 17,000 adjunct (part-time) faculty members, including 4000 faculty members for UOP Online ([www.phoenix.edu/factbookweb](http://www.phoenix.edu/factbookweb)). Experienced faculty members at UOP mentor new instructors. All instructors receive ongoing in-service training in teaching methods favored by the university, and in subject matter content areas. Faculty members who do an inadequate job are simply not re-hired.

Education at the University of Phoenix is 'streamlined' and 'no frills'. Classes meet weekly for four hours and are five to six weeks in length. Courses have a standardized, centrally developed curriculum and are sequenced, rather than held concurrently. Students are given schedules for their entire program in advance, including all homework and assignments. Students progress through a program as a cohort. Part-time faculty members are professionals who work fulltime in their fields and hold at least a master's degree. This practice is consistent with UOP's approach to education that places emphasis on practical experience rather than theory (Raphael and Tobias 1997; Stamps 1998, [www.phoenix.edu](http://www.phoenix.edu)).

People active in their fields teach classes. Lectures are not the mode of teaching at the University of Phoenix; rather, the instructor is seen as

a facilitator of student learning. Students and faculty are encouraged to draw upon their workplace experience.

The University's campuses and centers are located in store fronts, malls and office buildings close to freeway off-ramps. It uses both on-site and distance education modes. UOP's library has no books and consists entirely of journals and articles that are accessible on-line. Students can ask staff to do library searches for them and can make use UOP's links to some free and low-cost websites. These students also have access to public libraries, including those at public colleges and universities.

The University of Phoenix's small classes, all-adult cohorts, group work instead of lectures, and efficient approach to the training of its instructors underlie its claim that it does a better job of teaching its target population than equivalent public and nonprofit universities. Like other for-profit institutions, the University of Phoenix places emphasis on preparing its graduates for job placement, and the fact that many professors are local practitioners assists in this endeavor. UOP also tends to be more responsive in meeting demands for new programs. Unlike public colleges and universities, it can expand its programs without the trouble of awaiting state appropriations and campus allocations.

While established in 1989, University of Phoenix Online only has been fully operational for the last several years. It has served 13,700 students and last year enrolled 4000 new students. UOP Online offers programs in business, management, education, technology and nursing. The entire curriculum is delivered via the internet and does not require on-campus attendance. UOP Online advertises that their students can earn a degree in 2–3 years ([www.online.phoenix.edu](http://www.online.phoenix.edu)).

#### *Corporations and higher education*

In the 1970s, higher education was slow to respond to the need for training within corporations so many corporations formed their own universities. Nearly all of these universities, now about 1600 of them, are not accredited and therefore cannot offer degrees. However, some have sought approval for their classes to carry college credit and have entered into partnerships with for-profit and nonprofit institutions for this purpose. Several corporate universities do offer degree programs often in partnership with traditional colleges and universities. Many of these, however, are no more than new labeling for training departments (Stamps 1998).



For-profit institutions have been responsive to corporate needs for trained personnel and adults' needs for career mobility. They have been successful in attracting an increasing number of students from business and industry. For example, Corporate Educational Services, a subsidiary of DeVry, has AT&T, GTE and Philip Morris among its clients. US West and Intel Corporation have agreements with the University of Phoenix (Soley 1998). These for-profit institutions have capitalized on the fact that companies will at least partly reimburse their employees for tuition costs.

### *The economics*

Higher education is a \$231 billion annual enterprise in the United State (Lips 2000). In 1998, Gerald R. Odening, vice-president of Salomon Smith Barney in New York, predicted proprietary institutions would increase from about 2% of the market to between 15% and 20% over the next two decades (Strosnider 1998) with the for-profit segment of postsecondary education accounting for about \$5 billion in 1999 (Moe et al. 1999).

Winston (1999a) outlined reasons for this projected growth:

“The vision – or specter – is simple. New information technologies and the organizational efficiencies of privatization can lower the cost of producing higher education enough that for-profit schools can compete with existing nonprofit and public colleges and universities by offering students a better deal and still making a profit. Or they will produce an education that students deem more appropriate, improving quality from the consumer's point of view. So, costs and prices will be lower, or the education will be different and better, or both. (p. 13)”

Thus, a for-profit firm will either have lower costs than traditional higher education, deliver a product that students find more attractive, or both. For proprietary institutions, price less average cost equals unit profit (Winston 1999a). But, as Winston points out, the structure of higher education is unconventional as nonprofit higher education has a cost-price-subsidy hierarchy structure. That is, in public and nonprofit colleges and universities, the price charged a student for tuition is always less than the average cost of providing the education. The difference is made up by 'donative resources' coming from state appropriation, gifts, endowment, and physical wealth. In short, students

are subsidized. Based on 1995 IPEDS data, Winston estimates that the average subsidy per student at a nonprofit college or university was \$8800 per year. This education costs \$12,500 to produce and is sold to the student for a price of \$3700. When public and private institutions are separated, the subsidies remain similar but the cost and price are quite different. Public institutions' costs are \$10,150 per student and the student 'buys' it for \$1230, while private institutions' costs are \$15,310 and are sold to the student at \$6640. Winston represented the cost-price-subsidy this way:

$$\text{student subsidy} = \text{cost} - \text{price}$$

Using the above information the average subsidy is:

$$\begin{aligned} \text{for all nonprofit colleges and universities: } & \$8800 = \$12,500 - \$3700 \\ \text{for all public colleges and universities: } & \$8920 = \$10,150 - \$1230 \\ \text{for all nonprofit private colleges and universities: } & \\ & \$8670 = \$15,310 - \$6640 \end{aligned}$$

It is interesting to note that there is not much difference in the subsidies between public and private nonprofit colleges and universities. These subsidies are a real barrier for entry into the market by for-profit institutions. As noted earlier, similar to most businesses, for-profit firms use the following formula to calculate profits:

$$\text{unit profit} = \text{price} - \text{cost}$$

Winston notes that the student subsidy and unit profit equations are the same with only a different sign:

$$\text{student subsidy} = \text{cost} - \text{price}$$

Profit is negative subsidy. Subsidy is negative profit. Thus, subsidies represent *the maximum amount of cost reduction* that for-profit institutions have to make in order to be competitive (if they offered the same product). In the example given above, a new company offering the same type of education would have to lower its costs by \$8800 to be competitive. But, the types of programs for-profit institutions offer can also influence student decisions about enrollment. The challenge for the for-profits then is to offer good programs at substantially lower costs; that is, programs which students believe are suited for their needs and offered at a reasonable price.

For-profit institutions have employed various strategies to reduce education costs. Since higher education's major expenditure is for per-

sonnel, cost reduction in this area is essential for success. Faculty at for-profit institutions do not have to engage in research, which comprises 33–50% of traditional university faculty workload and often necessitates expensive laboratories and other sources of research support (Raphael and Tobias 1997). Without this research function, faculty members at for-profit institutions have more time for teaching. Faculty time in another traditional activity, academic governance, is reduced to a bare minimum. At the University of Phoenix, for example, personnel costs are reduced through the heavy reliance on part-time faculty members who teach for lower wages. In addition, course syllabi are prepared every three years by practitioners and professionals in the subject area, eliminating the need for wide faculty involvement in curriculum development. Courses are uniform throughout the system and instructional faculty members are expected to follow these centrally developed syllabi. There are no electives, further reducing the costs of course production and the potential for small classes that electives can bring (Raphael and Tobias 1997; Soley 1998; Stamps 1998). Another example is International University, owned by Jones International, Inc. It offers degrees through the Internet. On-line courses are designed by independent contractors and thus are the property of International University. The university hires part-time ‘instructors’ at low cost who answer e-mail questions that students have about course materials (Soley 1998). Faculty time is not spent in governance matters or taken up by continuous curriculum development. Most for-profit institutions make heavy use of part-time faculty and do not grant tenure. As a result, they can recruit, train, assess, and retain faculty that meet their immediate needs.

Other cost reduction strategies include leasing space in office buildings, storefronts and malls in which to hold classes and house a small administrative staff. Sometimes they even use space in public schools. These proprietary institutions also avoid the costs of supporting extracurricular activities and an athletic program. In short, the main reasons behind their financial success are low labor and overhead costs and the sole focus on teaching. They are assisted by the larger context of growth in people wanting to attend college and rising tuition at traditional colleges and universities.

These cost reduction strategies usually allow proprietary institutions to set their tuition and fees above the public institutions and below the nonprofit institutions in the region they are targeting. Using Winston’s national estimates presented above, the average ‘price’ per year for tuition and fees in traditional universities and colleges was \$3700. The

	Tuition and fees per year	Tuition and fees for 4 years	Price per credit unit	Price per 3 unit course
Public	\$1230	\$4920	\$41	\$123
Private	\$6640	\$26,560	\$221	\$663

average price for public institutions was \$1230 and for private institutions was \$6640. To be price competitive, a for-profit institution would need to price its product between \$1230 and \$6640. Assuming a student takes 30 units per year, these figures yield the following information:

#### *Investment opportunities*

Growing interest in education by venture capitalists is one indicator of the potential for growth in for-profit education. These investors provide crucial financing for new companies in which they see high potential for rapid growth and high rates of return. *Education Week* and Knowledge Quest Ventures IIc conducted a survey of 1000 venture capital firms in 1998 to ascertain their interest in investing in education. Eighty percent of the 64 firms responding said they would consider such an investment. Most of these firms were more interested in investing in postsecondary education, including for-profit and technical schools, rather than K-12. Primary factors contributing to this interest were the potential return on investment, and the size and growth of the industry. Improving education was ranked last among the reasons for investment.

The stocks of many for-profit institutions are traded on the NASDAQ and New York Stock Exchange. DeVry was the first of the large education companies to make a public offering of stock in 1991 and Apollo followed in 1994. Shares in Apollo Group started at \$2 per share. Since then, the stock has split several times (most recently in April 2002) and, as of December 8, 2003 was being traded at about \$67 per share. Strayer Education, Inc. became public in 1996 at \$10 per share, split once, and in December 2003 was trading at \$103 per share.

Another avenue for-profit higher education companies to raise capital is private equity funds. Given Wall Street's weak performance in recent years, private equity funds have become an important way for investors to put their cash into one of the few business sectors that is expanding: for-profit education (Blumenstyk 2003). In addition to proprietary/career colleges, these funds have acquired or purchased

interests in colleges and chains of colleges for the last four years. For example, since 1999 Arena Capital Partners in New York has acquired seven colleges in California and three in the Southeast. Coincidentally, some of these private equity funds have major universities, such as Brown, Harvard and Johns Hopkins as investors. As Blumenstyk points out, the flow of capital into the for-profit sector is especially notable given the cutbacks in state funding of public colleges and the current financial troubles of many non-profit privates.

### **Implications and institutional responses**

While it is too early to judge the impact of this growing for-profit sector of higher education, some observations are possible. Most fundamentally, for-profit higher education and nonprofit higher education institutions are different at their core. As Hawthorne (1995) observed, for-profit institutions provide education to make money, while traditional colleges and universities accept money to provide an education. Put another way, there is a major difference between those who are in the business of education and those whose mission it is to provide an education. The basic values and assumptions underlying these two types of institutions are dissimilar, thereby driving decisions about curriculum, the nature of faculty, research and service functions, institutional governance, admissions, services, and the like. Of particular significance to this discussion is the different emphasis on job training and education for life and citizenship. Certainly preparation for a career, especially in the professions, is a purpose of traditional higher education. But at the center of its undergraduate mission is the provision of a liberal education with its emphasis on cultural heritage, critical thinking, communication skills, qualities of the mind and spirit, and education for citizenship. The inclusion of profit-driven schools with clear and specific missions regarding job training into the higher education's fold has resulted in policymakers and accreditation agencies holding traditional education more accountable for the employability of their graduates. In addition, accreditation agencies remain uncertain about how to deal with substantive differences between institutions with distinctly different missions (Hawthorne 1995). Recent actions by these agencies indicate a willingness to consider and accredit for-profit universities.

It is the entrance of the for-profit institutions into the core college curriculum that raises concern and presents challenges (Winston 1999a). These core courses and programs at traditional institutions, such as

introductory courses taught by teaching assistants, large section lower division courses, and majors such as education and accounting, subsidize more expensive curricular offerings elsewhere in the institutions. As these courses and programs are offered by other institutions, they will impact the ability of traditional institutions to cross-subsidize. Marchese (1998) points out that this situation also applies to brand name courses offered by traditional universities taken over the Web that students may seek to transfer. One immediate implication is that colleges and universities will have to gather more details about the costs of their curricula, and over time these institutions may need to restructure their instructional budgets.

Pusser and Doane (2001) argue that the key distinction between for-profit and nonprofit providers relates to public or private economic benefits and public or private social benefits. For-profit institutions are oriented toward monetary and non-monetary private benefits. Non-profit institutions provide the same, but also provide social benefit such as greater levels of educational attainment generate increased tax, higher productivity, more leaders from diverse backgrounds, and greater civic engagement. This orientation toward social benefit justifies public subsidy of nonprofit institutions.

The impressive growth in the college-going rate of high school graduates since 1960 coupled with population growth have implications relevant to the impact of for-profit education. With over 65% of all high school graduates attending some form of postsecondary education in the US, state policy makers increasingly view this as a sufficient number (Levine 2001). Higher education may no longer be viewed as a growth industry, but rather a mature one. Usually when this is the case, the government seeks to control and regulate the industry, thereby diminishing their autonomy and demanding greater accountability. This certainly has been the trend in higher education. Furthermore, state policy makers like those in California are not inclined or able to fund the needed expansion in higher education to accommodate the projected increase in number of people seeking postsecondary education.

Another major shift is that the focus is moving away from teaching (process) and toward learning (outcomes). This change will result in less emphasis on courses and credits and more on the measurement of student achievement (Levine 1997). It weakens reliance on in-class hours as a measure of student learning and progress toward degree, and along with advances in technology, opens the way for new forms of measuring student progress.

The entry of for-profit providers has the potential to accelerate dramatic changes that are already occurring in the American professoriate. Of special significance is the change during the last decade from approximately 80% of the professoriate being tenure track, to approximately 60% today. Arthur Levine (1997) believes that among the five forces that will continue to change the professoriate in the United States are the rise of new technologies and the growth of private sector competitors. He also believes that higher education is at a crossroads:

“There is an underlying belief that colleges and universities are making precisely the same mistake that the railroads made. The railroads believed they were in the railroad business; they focused on making bigger and better railroads. The problem is that they were actually in the transportation industry and, as a result, were derailed by the airlines. Similarly, it can be said that higher education is making the mistake of thinking it is in the campus business, when in reality it is in the very lucrative education business. High technology and entertainment companies are viewing noncampus-based education as an opportunity. (p. 17)”

As mentioned earlier, for-profit institutions have separated instructional delivery from the design of the course. Thus, course content is in the hands of the corporation and not individual professors. As such, it removes faculty from their important role of control over the curriculum and diminishes the need for subject matter expertise. Relatedly, the lack of scholarly expectations of faculty breaks the important link between the production and transmission of new knowledge that underpins academic life. This approach to instruction is not in the context or tradition of academic freedom as instructors are not free to determine what they teach in their courses.

Leaders of ‘traditional’ colleges and universities question the extent to which their institutions will be affected by the for-profits. Based on his analysis of IPEDS data, Winston (1999a) identified the types of schools that are most vulnerable to competition from for-profit institutions. Non-elite private institutions were most vulnerable, including many comprehensives, doctoral universities, two-year colleges, and specialized institutions. They might have difficulty withstanding the cost-reduction competition, or be unable to make organizational shifts without seriously eroding the nature of their institutions. On the other hand, the low cost to students and public subsidies of public higher education will insulate this type of institution from serious competition from the for-profit sector. (See Winston 1999a, b for more information).

How can vulnerable institutions respond? They can reduce their costs and change their programs and organization to be more competitive. Cost reduction will most notably be achieved through the reduction of full-time, tenured faculty and indeed this is already happening across the country (Schuster 1999). One outcome of this trend may be altering the role of faculty, who may have less discretion about the content and instruction methodologies employed (Levine 1997).

Another implication is that vulnerable nonprofit colleges and universities may either become a 'for-profit' or be taken over by them. There is other evidence that cooperative arrangements are being formed between for-profit and nonprofit colleges and universities (Marchese 1998) regardless of their vulnerability. For example, the University of Wisconsin has an agreement with Lotus to sell its courses and programs worldwide. Johns Hopkins University has partnerships with Caliber (a Sylvan and MCI venture). Soley (1998) noted the partnerships of Apollo with Cardinal Stritch College in Wisconsin, William Penn College in Iowa, and Indiana Wesleyan in Indiana. Apollo Group has successfully assisted these colleges in marketing and developing programs using the same methods as the University of Phoenix, and in return, Apollo has received a percentage of their revenues. Another strategy is for nonprofit colleges and universities to increase corporate training. In most institutions, this would entail an expansion of the role and function of their extension/continuing education units.

Initially most nonprofit institutions believed that the for-profits institutions did not provide real competition regarding educational quality. But public perceptions about the merit of some of these new providers has begun to change and traditional institutions are beginning to take note (Newman and Couturier 2001). Some well-known for-profits, such as the University of Phoenix, have developed measures to evaluate learner outcomes and teaching effectiveness that far exceeds efforts at nearly all traditional colleges and universities. Moreover, many prestigious nonprofit universities (e.g., Stanford, Chicago, Columbia, Maryland) have established for-profit subsidiaries and/or partnerships with for-profit firms that Newman and Courturier believe erodes the aura of traditional universities as disinterested guardians of quality and independent thought.

The current focus of lobbyists for career-colleges and for-profit degree granting institutions is the reauthorization of the US Higher Education Act. They are pressuring policymakers to relax certain rules that for-profit institutions must follow to participate in federal-aid programs. Many leaders of nonprofit colleges and universities oppose



any changes that would increase the eligibility of for-profit institutions for federal dollars which they note are already stretched thin (Burd 2003).

Entrepreneurial, for-profit institutions will increasingly force non-profit colleges to examine their programs and become more competitive. Some colleges may need to change their roles, and have a different orientation toward their students as customers. Most especially, non-profit institutions will need to increase their efforts to communicate the value of their broader mission regarding the production and transmission of knowledge, the public benefits to the economy and society, and the importance of having an institution where freedom of ideas is fostered and maintained.

### **Concluding thoughts**

*“It is not easy to predict the future of higher education, nor, once its shape is discerned, to suggest the paths one would like it to take.”*

Burton R. Clark 1976

Higher education has undergone some dramatic shifts since the mid-twentieth century. Most notably, higher education has gone from an elite, mainly private system to an open, public system of mass education. One important shift has been the entrance of non-traditional students, including adult students and those from underrepresented groups. The rapid growth in knowledge, the onset of the information age, and the need for education for career mobility have resulted in education becoming a lifelong necessity. Within this context, the entrance of new providers that are responsive to adult needs for postsecondary education is consistent with market needs and forces, as are the new ventures being undertaken by traditional higher education. Green (1999) observed that higher education is undergoing a period of system segmentation. The emergence of for-profit higher education will cause both increased differentiation in higher education and at the same time bring about changes in traditional higher education. Even so, the boundaries are becoming porous; institutions firmly rooted in one sector now seek students from another. Partnerships between profit and nonprofit entities are increasing and most likely will continue to do so.

As traditional, especially public, higher education finds its way within the ‘education business’, it must do so within its special mission. Society expects public higher education to advance social justice through in-

creased access for underrepresented groups, provide service to communities, enhance economic development through training and applied research, and advance knowledge for the social, economic, cultural and scientific benefit of society. The means by which it fulfills this mission may be informed in part by the for-profit sector. This sector has demonstrated cost-efficient and consumer-oriented ways of developing and delivering training programs.

In his seminal article, *The Benefits of Disorder*, Clark (1976) describes the benefits of the disorderly pattern of higher education in the United States. This system of higher education is a deviant case from the modes of organization found in other nations. It is special, 'not only by virtue of its huge size, but also its dispersion of control, variety of institutional forms, and a host of characteristics such as an extensive student choice and high faculty mobility' (p. 32). By most comparative standards, the system has been very successful and served society well. It is not the result of a carefully developed, centralized plan, but rather has evolved from a specific sequence of struggles that created a postsecondary system responsive to a variety of societal needs. Among the five factors Clark believed contributed to this strength were the competitiveness among colleges and universities and the system of checks and balances (i.e., no one superstructure is in control). As higher education makes its way through its current 'struggles', one hopes that Clark's thesis on the benefits of disorder remains a viable one.

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*Address for correspondence:* Ann I. Morey, Center for Educational Leadership, Innovation and Policy, San Diego State University, San Diego, USA