

# INCENTIVES, RESULTS AND RESEARCH NEEDS: THE FOR-PROFIT SECTOR

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Any project aimed at re-conceiving broad-access higher education must address the for-profit sector—the highest positioned lightning rod in the edifice of academia. A tell-tale sign of the sector’s unique predicament is that while the many failures of public and private U.S. colleges and universities are being investigated primarily by academic researchers<sup>1</sup> with minimal exceptions,<sup>2</sup> writing addressing for-profit institutions has been left primarily in the hands of their founders or executives,<sup>3</sup> investment analysts, think tanks of the left and right, and the national

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<sup>1</sup> For an excellent summary see Anthony Grafton’s “Our Universities: Why Are They Failing?” in the *New York Review of Books* (November 24, 2011) where he reviews the following studies: Riley, N. S., *The Faculty Lounges: And Other Reasons Why You Won’t Get The College Education You Paid For* (Chicago: Ivan R. Dee, 2011); Ginsberg, B., *The Fall of the Faculty: The Rise of the All-Administrative University and Why It Matters* (New York: Oxford University Press, 2011); Karabel, J., *The Chosen: The Hidden History of Admission and Exclusion at Harvard, Yale, and Princeton* (New York: Mariner, Houghton Mifflin, 2005); Newfield, C., *Unmaking the Public University: The Forty-Year Assault on the Middle Class* (Cambridge: Harvard University Press, 2008); Bowen, W. G., Chingos, M. M., McPherson, M. S., *Crossing the Finish Line: Completing College at America’s Public Universities* (Princeton: Princeton University Press, 2009); Arum, R., Roksa, J., *Academically Adrift: Limited Learning on College Campuses* (Chicago: University of Chicago Press, 2011); Kronman, A. T., *Education’s End: Why Our Colleges and Universities Have Given Up on the Meaning of Life* (New Haven: Yale University Press, 2008).

<sup>2</sup> For example, Kirp, D. L., *Shakespeare, Einstein, and the Bottom Line: The Marketing of Higher Education* (Cambridge: Harvard University Press, 2003); Berg, G. A., *Lessons from the Edge: For-Profit and Nontraditional Higher Education in America* (Westport, CT: Praeger Publishers, 2005); Breneman, D. W., Pusser, B., Turner, S. E., eds., *Earnings from Learning: The Rise of For-Profit Universities* (Albany, NY: SUNY Press, 2006); Kinser, K., “From Main Street to Wall Street: For-Profit Higher Education,” *ASHE Higher Education Report*, 31(5) (San Francisco: Jossey-Bass, 2006); Lechuga, V. M., *The Changing Landscape of the Academic Profession: Faculty Culture at For-Profit Colleges and Universities* (New York: Routledge, 2006); Tierney, W. G., Hentschke, G. C., *New Players, Different Game: Understanding the Rise of For-Profit Colleges and Universities* (Baltimore: Johns Hopkins University Press, 2007); Hentschke, G.C., Lechuga, V. M., Tierney, W. G., eds., *For-Profit Colleges and Universities: Their Markets, Regulation, Performance, and Place in Higher Education* (Sterling, VA: Stylus Publishing, 2010); Christensen, C. M., Eyring, H., *The Innovative University: Changing the DNA of Higher Education from the Inside Out* (San Francisco: Jossey-Bass, 2011).

<sup>3</sup> See: Sperling, J. G., *Against All Odds: Teaching America How to Compete in a Global Economy* (Phoenix: Apollo Press, 1989); Sperling, J. G., Tucker, R. W., *For-Profit Higher Education: Developing a World-Class Workforce* (New Brunswick, NJ: Transaction Publishers, 1997); Sperling, J.G., *Rebel with a Cause: The Entrepreneur Who Created the University of Phoenix and the For-Profit Revolution in Higher Education* (New York: John Wiley & Sons, 2000); Ruch,

media. That is, by observers generally regarded as either long on self-interest or short on objectivity, or both. As a long-time tiller in the fields of public, private and for-profit education, I believe I have come to understand the cause of this dilemma, simply put: for the public and private sectors disinterestedness is a major goal, whereas interestedness is the state the for-profit sector must cultivate if it is to succeed. It is with this assumption in mind that this study aims to contribute to our understanding of a critical player in the new ecology of higher education.<sup>4</sup>

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Although for-profit postsecondary institutions have received little historical attention until recently, they have a long history. In Richard Ruch's *Higher Ed, Inc.* George Keller ironically observes in his Foreword that late medieval universities were profit-making corporations "and the black gowns that professors still wear at graduations...have deep pockets into which students...deposited their fees" (2001, x). In the U.S., especially since the 19<sup>th</sup>-century, proprietary vocational institutions came to exist as a training option to the by then elite church and tax supported colleges. However, rather than academic degrees, until the 1980s proprietary institutions offered primarily certificates in practical fields such as secretarial work, auto-diesel mechanics, cosmetology, and skilled trades such as radio/television/IT, and health. Accordingly, until then the traditional and proprietary sectors rarely competed for either students or tax dollars, so for-profit institutions neither sought to assert their equality nor threatened the collegiate status quo. Instead, they were generally ignored by social scientists and most policymakers.

## **The Growth of the For-Profit Sector**

### ***Beginning of College for Everyone***

All that changed in the past thirty years. As Tables 1 and 2 help to make evident, while most postsecondary for-profit institutions still offer certificates, today most students at for-profit schools attend two- or four-year degree granting colleges and universities.<sup>5</sup> Consequently, the contemporary angst around for-profit education is best understood not so much as a consequence of the hostility between "vocational training" and "higher education" but rather as the result of the explosive growth of a new sector—a sector that in three decades has managed to challenge most features of traditional higher education and has come to compete vigorously for both

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R. S., *Higher Ed, Inc.: The Rise of the For-Profit University* (Baltimore: Johns Hopkins University Press, 2001); Rosen, A. S., *Change.edu: Rebooting for the New Talent Economy* (New York, Kaplan Publishing, 2011).

<sup>4</sup> For an excellent summary of some of the key issues surrounding this new ecology, see Smith, P., *Harnessing America's Wasted Talent: A New Ecology of Learning* (San Francisco: Jossey-Bass, 2010).

<sup>5</sup> U.S. Dept. of Education (USDOE), National Center for Education Statistics (NCES), Integrated Postsecondary Education Data System (IPEDS). Unless otherwise indicated, the data for this study is drawn from the *Digest of Educational Statistics* (DES): 2010, published by the NCES, April 2011. Data for the year 2011 will appear April 2012. See Appendix for NCES sources on data relevant to for-profit institutions.

students and the tax dollars they bring with them by way of federal and state funded financial aid. To understand the force of this challenge to the status quo of academia we need only reflect on the speed of the for-profit sector’s growth, from fewer than twenty bachelor’s granting institutions in 1980 to over 660 by 2011, and from 530 associate’s awarding colleges in 2006 to 1,016 five years later.

**Table 1: Number of For-Profit Institutions Awarding Associate’s or Higher Degrees**

	Less than Associate’s degree	Associate’s degree	Bachelor’s degree or higher	Total <sup>#</sup>
1980-1981			18	
2006-2007	1693	530	453	2676
2010-2011	1525	1016	663	3204

\*Because distinct sites do not map fully with unique IPEDS UNITIDs, these numbers are estimates.

**Table 2: Number of U.S. Title IV Institutions by Sector and Decade**

	2010 Number of Schools	2000 Number of Schools	1990 Number of Schools	1980 Number of Schools
All Sectors	7,059	6,993	5,412	3,669
Public	2,002	1,943	1,738	1,382
Not-for-Profit	1,808	1,655	1,513	1,246
For-Profit	3,183	1,814	418	105

During this thirty year period a number of factors drove the dramatic expansion in for-profit institutions of higher education (IHEs). For example, concerned with the rise in skills needed in the workforce and under pressure from minority advocates who had long complained that too many students were being tracked away from college, there was a mostly unnoticed shift between the ‘80s and ‘90s in the percent of high school guidance counselors, parents and teachers urging students in the lowest quartile in standardized tests to attend college. According to the longitudinal student survey data from the U.S. Department of Education’s National Center for Education Statistics (USDOE, NCES), compiled by Kenneth Gray and Edwin Herr,<sup>6</sup> the

<sup>6</sup> Gray, K. and Herr, E., *Other Ways to Win: Creating Alternatives for High School Graduates* (Thousand Oaks, CA: Corwin Press, 2000, Second Edition). The relevant data in table form is reproduced in *High Schools & Careers: The*

percentage of high school guidance counselors recommending college to these low performing students increased during the two decades from 26% to 56%. During that same time the percentage of parents advising the lowest quartile of students to go to college grew from 40% to 60% among fathers and from 48% to 65% among mothers. Outdoing even the counselors, the percent of teachers advocating for these same underprepared students to enroll in college increased from 28% to 57%.

In effect, while only 42% of high school students in the *highest* quartile of academic ability reported being urged by their counselors and teachers to go to college in the 1980s, by the 1990s the percentage rose to 57% for students in the *lowest* quartile. This meant that many high school graduates, who never dreamed of going to college (or who were never encouraged to have such dreams), began to enroll in whatever type of postsecondary education they were able to attend. And as is well known, many were left with only one option: open access institutions, whether two-year public or two- and four-year for-profit schools. The unintended but predictable consequence of the flood of poorly prepared college students entering the low-tuition, public two-year institutions was the schools' transformation into cemeteries of the American dreams of tens of thousands of ill-prepared or disinterested students. Seeing an opportunity in this predicament, for-profit education options arose that, by providing nontraditional alternatives to the practices common in community colleges, sought to overcome the effects of the educational shortcomings and socio-cultural limitations of the students they aggressively recruited.

### ***Private Capital and the Pursuit of Degrees***

Another impetus for the growth of for-profit IHEs, closely connected to the assumption that a college education is necessary for all to get and keep a job, was the Baby Boomers' fear that without a degree their middle-class status could be in jeopardy. The many forces moving these would-be students toward college, mostly adult learners many of whom wanted to complete their degree, have been amply studied by pioneers of the sector, such as John Sperling,<sup>7</sup> and a number of contemporary researchers.<sup>8</sup> Rather than summarize their important observations, I focus here on what I consider is the most critical factor: the eighteen year bull market between 1982 and 2000 and the recent upswings in Wall Street's fortune.

That long bull market, together with the proof of concept provided by the success of the University of Phoenix (UOPX), made Wall Street and private equity firms believers in investing in higher education. The power of this belief led six education companies to undertake an initial public offering (IPO) between 1991 and 1999. And in the bull market between the bursting of the

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*New Value Proposition* (Pittsburgh, PA: Health Careers Futures and Jewish Healthcare Foundation, 2008, p. 29) available at <http://www.hcfutures.org/Pdfs/News/HSCareersValueProp.pdf>.

<sup>7</sup> See footnote 3.

<sup>8</sup> See footnotes 1 and 2.

dot-com bubble (2001) and the Great Recession (2008) five more companies went public. Then, with the next rise in the equities market, after the official end of the Great Recession, three additional postsecondary education companies were listed in the nation's stock exchanges. By 2009-10 this unprecedented flood of private capital into for-profit higher education, coupled with the increase in federal and state financial aid available to needy students,<sup>9</sup> permitted the thirteen companies still listed at the time to enroll approximately 48% of the 2.6 million full time equivalent students (FTES) in for-profit institutions eligible for federal financial aid (i.e., those required to complete the Integrated Postsecondary Education Data System survey [IPEDS] and which consequently had a UNITID [a unique identity within IPEDS]).

At first, the capital raised from investors helped numerous start-ups get off the ground, later, by the selling of their stock, newly minted public companies were able to expand their two- and four-year colleges and universities and to acquire new ones. For example, because no one was willing to lend the founder money, it took UOPX fourteen years to grow from eight to nearly 10,000 students (1976-1990), but after its parent company (Apollo Group, Inc.) undertook an IPO in 1994 its enrollment grew by another 10,000 in just the first two years, and fourteen years after Apollo Group listed on NASDAQ UOPX reached 362,000 students—over 36 times the organic growth attained in its first fourteen years.

By hewing closely to the scalable business model developed by UOPX, the rate of post-IPO growth of a number of other higher education holding companies was not far behind Apollo Group. As a result, by the 2009-10 academic year, 82% of all students at for-profit IHEs were pursuing an academic degree, 24.5% at two-year schools and 57.5% at four-year institutions—with only 18% attending schools offering programs shorter than an associate's degree. By that time, the 2.6 million FTES were enrolled in 3,323 colleges and universities with a UNITID (I specify this because many other for-profit postsecondary institutions exist, but are not tracked because they are not required to complete IPEDS and consequently are not part of the present study).<sup>10</sup>

With an effective model in place and the needed capital in hand explosive growth through organic and acquisition processes took place so that between 2000 and 2010 the number of new institutions in the for-profit sector increased by over 75% compared to 9.2% in the not-for-profit sector and only 3% in the public sector.<sup>11</sup> Meanwhile, enrollment growth between 2000 and 2010 grew by 28% (1.7 million) in for-profit schools, 7% (0.8 million) in not-for-profit institutions, and 3% (3.6 million) in public colleges and universities.<sup>12</sup> The expansion in number of

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<sup>9</sup> On the growth of financial aid see Hess, F. M., ed. *Footing the Tuition Bill: The New Student Loan Sector* (Washington, D.C.: American Enterprise Institute for Public Policy Research, 2007).

<sup>10</sup> USDOE, NCES, IPEDS, DES, 2010, tables 195, 202, 239.

<sup>11</sup> USDOE, NCES, IPEDS, count of U.S., Title IV institutions by institutional control.

<sup>12</sup> USDOE, NCES, IPEDS. Based on a simple count of enrollment in each category of schools drawn from IPEDS numbers.

institutions came with an accompanying number of closures and mergers. Between 1997 and 2007, 191 for-profit institutions and a nearly equal number (199) of not-for-profit ones either closed or merged. During the same time nearly 95 public colleges either merged (the majority) or closed.<sup>13</sup>

This consolidation phenomenon among broad-access institutions, little studied to date, is likely to become a major feature of the changing ecology of higher education in the U.S. The speed at which it is likely to take place will depend on three interrelated processes (each in need of being researched):

- First, although the for-profit sector has experienced a significant decline in enrollment in the last two years,<sup>14</sup> particularly as a result of the restrictive new regulations imposed by USDOE<sup>15</sup> and the negative media resulting from the Congressional hearings in support of these, as the for-profit sector's adaptations to the USDOE regulations begin to take effect, the sector will likely start to grow once more at a rapid pace.
- Second, that escalation in growth—particularly online—will exacerbate the already negative effect the widespread marketing of for-profit education is having on recruitment at expensive but not very competitive not-for-profit colleges.
- Third, cash strapped public community colleges and moderately selective four-year state schools will continue to be forced to increase their tuition to the point where in the near future neither will necessarily be perceived as more affordable than for-profit IHEs.

Together these three processes will likely lead to the closing of many more not-for-profit schools and the merger of some public ones (for instance, through the sharing of presidents or through the need to centralize administrations in order to reap economies of scale through reductions in redundant services).<sup>16</sup>

The enrollment success of the for-profit sector across the three decades of its expansion is summarized in Table 3. Of 4.4 million FTES Fall enrolments between 2000 and 2009, 27%

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<sup>13</sup> USDOE, NCES, IPEDS, 2009; see AEFA paper, "Using a Micro-Indicators Approach to Analyze Dynamics of Enrollment Changes in For-Profit Degree-Granting Colleges" (in Snyder, T., "Statistical Profile of For-Profit Postsecondary Institutions" presented at the Education Writers Association Annual Meeting, April 30 – May 2, 2009, Washington, DC).

<sup>14</sup> With regard to publicly held education companies see Fain, P., "More Selective For-Profits," *Inside Higher Ed*, Nov 11, 2011 available at <http://www.insidehighered.com/news/2011/11/11/enrollments-tumble-profit-colleges>.

<sup>15</sup> On these regulations see <http://www.ed.gov/news/student-aid-rules-protect-borrowers-and-taxpayers> and on the most impactful of these, "gainful employment," see <http://www.federalregister.gov/articles/2011/06/13/2011-13905/program-integrity-gainful-employment-debt-measures>.

<sup>16</sup> For cognate support of this affirmation see the blog by Lloyd Armstrong, "What Will the College of 2020 Look Like?" available at <http://www.changinghighereducation.com/2011/11/what-will-the-college-of-2020-look-like.html>.

enrolled in for-profit institutions. A decade before, only 7% of new students enrolled in for-profit schools. Put another way, while Fall enrollment grew between 2000 and 2009 by 21.1% in the not-for-profit sector and by 26% in the public sector, enrollment at for-profit schools grew by 311.5%.<sup>17</sup> This growth led to a 418% increase in bachelor’s degrees granted by for-profit schools since 2000.<sup>18</sup>

**Table 3: Percentage Fall Enrollment Increase by Sector and Decade: 1980-2009**

Percentage Fall Enrollments	Fall 1980 – Fall 1989	Fall 1990 – Fall 1999	Fall 2000 – Fall 2009
TOTAL	11.9	7.0	33.4
For-profit	105.4	101.3	311.5
Not-for-profit	8.1	10.6	21.1
Public	11.9	4.3	26.0

***The Consequences of Spectacular Growth***

As is clear from the above, it is impossible to overestimate the importance of Wall Street and private capital in the development of the for-profit sector and, as I note below, the same applies to the academic and operational innovations first introduced by UOPX. Working together—capital and scalable nontraditional innovations—they helped to determine the key incentives that have fueled the performance of the sector. The synergy among the perceived need to acquire a degree, the organizational structure making degree attainment a scalable process, and access to the needed capital, made it possible for underserved, nontraditional students, who once sought primarily certificates or who had abandoned earlier college studies, to pursue two- and four-year or higher degrees from schools designed specifically for their educational needs and operated to achieve maximum growth through the introduction of well incentivized business practices.

At the beginning the sector’s expansion met primarily with local opposition in the form of neighboring state schools, who felt encroached upon by unworthy upstarts, and state higher education councils and commissions, whose permission was required to operate in the state or when entering a new state. But the strongest opposition came from the accrediting bodies channeling the resentment of the state colleges.

<sup>17</sup> USDOE, NCES, IPEDS, DES, 2010, table 197.

<sup>18</sup> USDOE, NCES, IPEDS, “Fall Enrollment: All Students,” at all schools, in all sectors for years 1980 to 2009. See [http://news.yahoo.com/s/yblog\\_thelookout/20110526/us\\_yblog\\_thelookout/for-profit-college-enrollment-soared-418-percent](http://news.yahoo.com/s/yblog_thelookout/20110526/us_yblog_thelookout/for-profit-college-enrollment-soared-418-percent).

Resistance to the innovations introduced by the new players—UOPX and those following its lead—was fierce and relentless. Among the innovations most troubling to the accreditors were those that challenged the collegiate practices developed over the centuries to serve traditional (i.e., young, single, dependent, residential) students.

The most disruptive innovations, each designed to better serve working adult learners, included offering condensed courses (of five and six weeks duration rather than the traditional twelve week quarter or sixteen to eighteen week semester courses), year-around academic calendars (instead of fixed quarterly or semester terms with long summer vacations), a professoriate composed overwhelmingly of practitioner, "facilitator" faculty who taught in the evening what they practiced during the day (in lieu of full-time, tenure and tenure-track appointments with research and service responsibilities), use of a centralized curriculum/syllabus (as opposed to each faculty member creating his or her own course), the accumulation of credits resulting from the mastery of specified course outcomes (rather than based on number of hours of "seat time"), "facilitated" classes supplemented by collaborative learning teams (rather than reliance primarily on the lecturing of professors), and asynchronous fully online degree programs and e-libraries (in the place of face-to-face instruction at fixed locations and physical books in brick and mortar buildings). Most important of all, accrediting bodies—especially the North Central Association of Colleges and Schools, which certified most of the regionally accredited for-profit IHEs—were unsettled by an unshakable suspicion that the troublesome innovations were primarily motivated by the financial incentives of the parent companies rather than by the concern of the academic institutions to provide the right pedagogy and student services needed by a new breed of nontraditional students.

Together, these innovations were a truly tall order for traditional higher education accreditors to accept. More recently, federal regulators (USDOE and Congress) and some state attorneys general have also questioned some of the practices as self-serving, predatory or simply ineffective. However, piece-by-piece, through modifications by one side and adaptations by the other, accreditors and regulators not only have made their peace with the academic innovations noted above but have adopted some them as their own (e.g., the shift from relying primarily on inputs—books in library, number of PhDs, etc.—to an emphasis on outcomes as central to the accreditation review process). For all the accusations and counterclaims we read about, the tension that continues to produce new restrictive regulations and negative media today has generally shifted from what might be characterized as academic practices to operational ones. That is to say that what drives the critics today has more to do with business matters such as incentive compensation (said to lead to aggressive recruitment resulting in the enrollment of underprepared students), extensive reliance on federal financial aid in grants and loans (with the latter leading to too much student debt and therefore high default rates), and the estimation that



too little is being invested in instruction while much is being spent on marketing and executive pay.

This study is not the place to respond to these concerns, but their relevance to the topic of incentives and their accompanying results is addressed below. What does bear observing at this point is that a major part of the conflict between the sector and its regulators lies at the feet of the age-old struggle between personal freedom to maximize efficiency and productivity (and thereby to grow) and the desire by those charged with oversight to check that freedom for the perceived common good and the orderly distribution of public resources.

### ***Faculty- versus Adult-Centered Institutions: The Challenge to Traditional Incentives***

For the purposes of this brief study, this classic clash between goods is best understood by reflecting on the stress introduced by the key disruptive innovation of for-profit education: the shift from a *faculty-centered* institution to one that is *adult student-centered*. This move marked a number of dramatic alterations in the traditional incentives that have been the sinews moving higher education.

Independent of lofty mission statements and glossy brochures, it is well known in academia that four-year public and nonprofit private colleges and universities serve primarily the faculty. Much to the frustration of today's policymakers and many professional higher education bureaucrats and managers, the incentives that matter to the professoriate are those focused on their personal professional growth. In a typical four-year school a professor's employment options and security, level of remuneration, promotion through the ranks, freedom from teaching (especially undergraduates), access to resources (for research, sabbaticals, travel to conferences), and sense of self-worth is overwhelmingly dependent on his/her professional success as a published scholar, award and grant winning researcher, and sought out public lecturer. It is likewise well known that at less selective public and not-for-profit schools—where professors recognize that they are primarily paid to teach—there are few powerful incentives to focus on student success outside concerns with job security arising from poor student evaluations, the desire to maintain some level of professional autonomy, and the occasional kudos from appreciative students. In effect, there are no structural incentives to teach at pre-determined levels of performance or the resources to train the faculty to improve the learning of poorly prepared students (or to supplement classroom instruction).

All this, of course, is being put in a state of flux by the call for increased production of degrees on the part of the Obama administration along with state governors, foundations such as Lumina and Gates, and by the accountability movement<sup>19</sup> and, of course, the impoverishment of state and national coffers. As the cost of education is increasingly being borne by skeptical parents and

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<sup>19</sup> On this movement see Carey, K. and Schneider M., *Accountability in American Higher Education* (New York: Palgrave Macmillan, 2010).

students fearful for their futures we can expect that non-elite four-year institutions will be forced to rethink some of the inefficient and ineffective incentives behind “traditional academia.” Books like *The Innovative University* (Christensen, Eyring 2011), *Harnessing America’s Wasted Talent* (Smith 2010) and *Change.edu* (Rosen 2011) make this point eloquently and convincingly. Still, the barriers to innovation in U.S. higher education are not going to be easily overcome.<sup>20</sup>

However, for-profit IHEs, being predominantly open enrollment institutions that rely on tuition for their revenue, are student-centered by mission and (most importantly) necessity. Some do a good job at educating their students and some don’t, but in the end they are either student-centered or soon bankrupt. Being student-centered, instructors and administrators necessarily have a different set of incentives moving them. For instance, they know they must work closely with management in making what changes are needed to improve classroom instruction, organizational structures, operating procedures, and the technology needed for the institution to be effective and efficient in delivering the two things without which the institution would die: an effective product (to make it possible to recruit and retain students at the lowest cost possible) and growth (to attract and maintain investors/shareholders through the constant expansion of revenues, margins, and earnings).

The introduction of the need to produce an effective product and the need to grow (especially for publicly held education companies or those with outside investors) relegates the concerns of faculty members second to the needs of students (the customers that must be both served and pleased if they are to be retained and graduated). This profound alteration to the status quo was and remains at the heart of the stresses that divide the for-profit from both the not-for-profit and public sectors. As is well-known to most academics and to a growing public through the new scholarship critical of higher education,<sup>21</sup> while employees at public and not-for-profit schools claim they (also) exist in order to educate their students, the unfortunate reality is that few incentives exist in traditional, middle-brow academia to motivate faculty members (and often administrators) to make student success and the nontraditional services and practices they need a priority. Meanwhile, contingent faculty members, who make up the majority of those teaching at for-profit IHEs, have no career pathways where they teach (all they can usually gain is slightly higher pay determined by the accumulated number of courses taught), so their whole focus—whether happily so or not—is necessarily on the success of the students in their class; in effect, if they cannot perform well in the classroom (the only responsibility most of them have) they know they will not be kept on.

Further, unlike not-for-profit or public institutions, for-profit schools can powerfully motivate the behavior of their non-teaching staff and administrators (“managers”) through financial

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<sup>20</sup> See Brewer, D.J. and Tierney, W.G., “Barriers to Innovation in U.S. Higher Education” in Wildavsky, B. et. al, eds., *Reinventing Higher Education: The Promise of Innovation* (Cambridge: Harvard Education Press, 2011).

<sup>21</sup> See footnote 1 above and Rosen 2011.

incentives. Bonuses—in cash or through stock options—and a variety of variable pay schemes, that depend on the individual or his/her team reaching or surpassing pre-approved, usually quantifiable, goals, work to incent staff and administrators to levels of performance and responsibility (not just showing up and “putting in time”) that are rare in other IHE settings outside development offices and among managers of endowments.

## **Problems in Need of Objective Research and the Obstacles in the Way**

### ***Accreditation Status and the Double Standard of Regulation***

While Wall Street, private investors and the successful results of scalable practices have made possible much of the capital required by for-profit IHEs, as USDOE and the news media make clear, it is primarily the grants and loans received by students under Title IV of the Higher Education Act of 1965 that make up the bulk of the sector’s present revenue.<sup>22</sup> Given that access to Title IV grants and loans is limited to students enrolled in “institutions of higher education,” defined as those that are either candidates for accreditation or accredited by an accrediting agency recognized by the USDOE, accreditation matters greatly to nearly all IHEs, all the more so if they depend primarily on tuition for their operating capital.

Six *regional* and seven *national* accrediting bodies are recognized by USDOE. The former are responsible for two- and four-year public, not-for-profit and for-profit colleges and universities whose focus is the granting of academic degrees; the latter agencies focus primarily on postsecondary institutions with career oriented or restricted missions, such as the Accrediting Commission of Career Schools and Colleges and the Distance Education Training Council. In 2009-10 of the 2.6 million FTES enrolled in for-profit institutions with UNITIDs, 1.5 million (57.5%) attended colleges and universities that offered bachelor’s or higher degrees. Of these 1.5 million, 1.06 million (71%) attended *regionally* accredited institutions. Therefore, by 2009-10 40.6% of all postsecondary students at for-profit IHEs were attending regionally accredited schools granting bachelor’s or higher degrees.<sup>23</sup>

As Jonathan Fanton, past president of the John D. and Catherine T. MacArthur Foundation and of the New School for Social Research, has recently argued, we need a single standard for higher

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<sup>22</sup> See, for example, Blumenstyk, G., “For-Profit Colleges Show Increasing Dependence on Federal Student Aid,” *Chronicle of Higher Education*, February 15, 2011, available at <http://chronicle.com/article/For-Profit-Colleges-Show/126394/>. However, it was not always so. For instance, by the late ‘90s and early 2000s as much as 65% of UOPX’s revenue was derived from tuition reimbursements by employers of the students. This fact points to the then mid-management level of most of UOPX’s students, a situation reinforced by the minimum 60 transfer credits required to enroll in the university. As this requirement was relaxed, with fewer and fewer credits required for entrance, the labor status of UOPX’s students eroded to the point where, at least at the undergraduate level, most students today are employed at lower than middle manager positions and are consequently less likely to have their tuition paid by their employer.

<sup>23</sup> USDOE, NCES, IPEDS, DES, 2010, tables 195, 202, 239.

education,<sup>24</sup> but unfortunately neither USDOE nor the regional accreditors hold all the schools they oversee to identical standards or equivalent regulations. When it comes to what is expected of IHEs, tax status sometimes trumps accreditation status even when the issues in question are relevant to all IHEs, such as the regulations regarding “gainful employment,”<sup>25</sup> which are “rules” that as Kevin Carey notes “would essentially require for-profits to show that students will be able to make enough money with their degrees to pay back their loans” and which should also be made applicable to the “traditional public and non-profit sector where most students actually go to college.”<sup>26</sup> In short, some of the distinctions made between proprietary and non-proprietary colleges and universities have led to a discriminatory predicament where some of the newly established regulations, whose aim is to ensure the integrity of USDOE’s operations, especially its oversight of the financial aid it administers, apply only to for-profit IHEs although all of higher education would be improved (or harmed) by their universal implementation. The discriminatory nature of these regulations is a controversial area that is ripe for both research (on their need and consequences) and objective policy recommendations based on that research, particularly given the potential negative implications for all of higher education of continuing to have two sets of regulations to monitor what are essentially universal problems across all *academic* sectors: from low levels of retention and graduation success, to difficult debt burdens and associated high default rates, to the existence of programs that lead to few employment opportunities.

### ***Research Problems Associated with the Sector’s Organizational Structure***

Useful research—research that can lead to policy recommendations—needs to be comparative; that is, whatever metrics are used the results need to be able to be compared to each other or to a common standard. The lack of universal standards in higher education by which to measure performance is one part of the problem. Access to information is the other critical part. Higher education institutions are notorious for their unwillingness to share data; indeed, were it not for the fact that eligibility for Title IV financial aid requires participation in IPEDS, researchers would be devoid of most national comparative data. Other critical problems include the voluntary nature of much of the data that is available at the institutional level,<sup>27</sup> and, perhaps most important of all, the absence of student-level data in most states.

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<sup>24</sup> Fanton, J., “We Need a Single Standard for Higher Education,” *Education Week*, published online November 15, 2011; published in print November 16, 2011 as “The Value of a Single Standard for Higher Education,” available at <http://www.edweek.org/ew/articles/2011/11/16/12fanton.h31.html>.

<sup>25</sup> “Gainful employment” regulations also apply to non-degree programs at public and not-for-profit schools, see <http://www.federalregister.gov/articles/2011/06/13/2011-13905/program-integrity-gainful-employmentdebt-measures>.

<sup>26</sup> Carey, K., “College, Inc.,” *Chronicle of Higher Education*, May 10, 2010, available at <http://chronicle.com/blogPost/College-Inc/23850/>.

<sup>27</sup> For the Voluntary System of Accountability formed by over 300 members of The Association of Public and Land-grant Universities (APLU) and the Association of State Colleges and Universities (AASCU) see

Regarding this last observation, one difficulty of doing research on for-profit IHEs at the institutional level is that many of the separately recognized campuses (that is, campuses with a unique UNITID) are merely sites of a single institution from an ownership/control or operational perspective. So, for instance, a 2009 study of graduation rates<sup>28</sup>—that crossed IPEDS institutional data from 2007 with categories of selectivity drawn from *Barron's Profiles of American Colleges* (2009 edition)—yielded information on 1,385 bachelor's granting institutions, but it included only 11 “campuses” of DeVry University, (each identified as a “state campus”—DeVry University-Texas, DeVry University-California and so on), although DeVry University had over 80 distinct physical sites at the time. Supposing, by way of example, that we want to compare student performance between San Jose State University and the DeVry University San Jose Center—both of which offer associate's, bachelor's and master's degree programs—how would we go about it if no disaggregated data were available for the DeVry University San Jose Center? Do we compare SJSU to DeVry University-California as a whole? Or would we need to give up and compare DeVry University-California to the California State University System as a whole? Of course, none of these alternatives would be useful for us. So, to repeat, in the absence of student-level data we cannot undertake that kind of comparative study.

Put another way, given the emphasis placed on scalability by the sector, research on for-profit IHEs is difficult because students are aggregated into a few institutions, most of which have numerous branches, few of which have unique UNITIDs. Indeed, of the 3,323 for-profit institutions with their own UNITID, only 663 (20%) of these sites awarded bachelor's and/or higher degrees. But these 663 campus locations are part of fewer than 200 unique institutions offering bachelor's or higher degrees. And of these 200, in 2009-10 only 64 were unduplicated, regionally accredited schools. Therefore, 64 regionally accredited colleges and universities accounted for nearly 41% of all FTES in for-profit IHEs with UNITIDs. I should add that by 2009-10 the 2.13 million FTES attending two- and four-year for-profit schools represented 10.4% of all such students in the U.S.<sup>29</sup> This means that these 64 regionally accredited schools made up nearly 4.3% of all students in the U.S. enrolled in two- and four-year IHEs.

### ***Research Issues Related to the Profile of Students in the For-Profit Sector***

Comparative gender and enrollment status at the sector level present some interesting contrasts worthy of research. Given the large number of working females and stay-at-home moms

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<http://www.voluntarysystem.org>; for the Transparency by Design initiative formed by a consortium of regionally accredited, adult-serving, distance education institutions see <http://www.collegechoicesforadults.org/>; for the [Voluntary Framework of Accountability](#) (VFA), developed by the American Association of Community Colleges (AACC) and College Board see

<http://www.aacc.nche.edu/Resources/aaccprograms/vfa/Pages/default.aspx>.

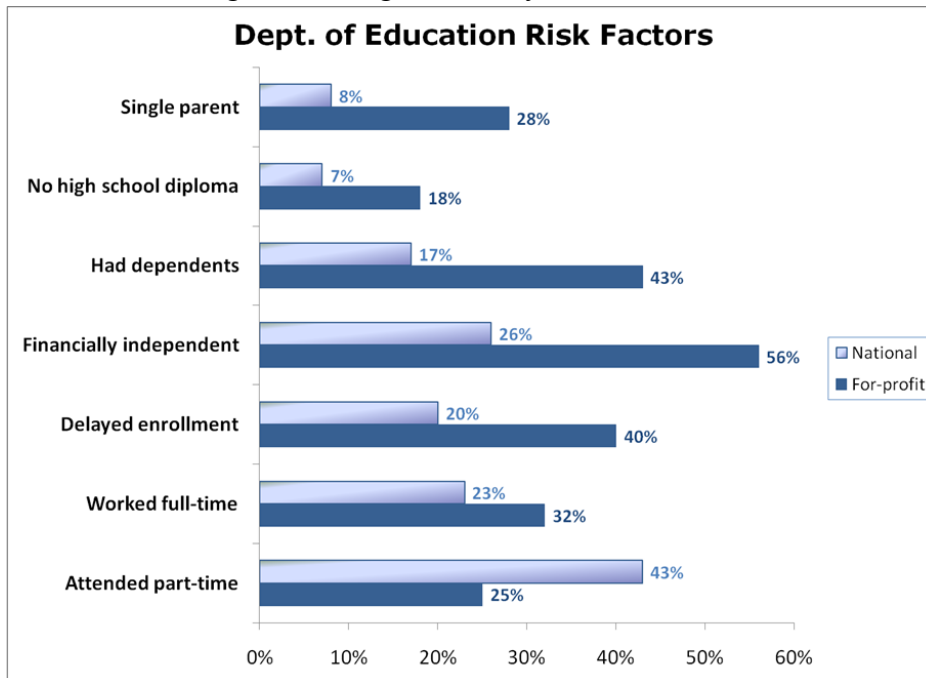
<sup>28</sup> Hess, F. M., Schneider, M., Carey, K., Kelly, A. P., *Diplomas and Dropouts: Which Colleges Actually Graduate Their Students (and Which Don't)* (Washington, D. C.: American Enterprise Institute, 2009).

<sup>29</sup> USDOE, NCES, IPEDS, DES, 2010, tables 195, 202, 239.

(frequently single mothers) studying online, for-profit institutions in 2009-10 had as a whole a significantly higher percentage of females (65.4%) compared to not-for-profit schools (57.6%) or public institutions (56.3%). Also, notwithstanding common assumptions about for-profit colleges serving primarily part-time working learners, their percentage of full-time students is higher (74.8%) than that found at public institutions (57.6%) but nearly the same as at not-for-profit colleges (74.5%).<sup>30</sup> This unexpected result suggests two things: One, that course scheduling regimes at for-profit IHEs are different from those at not-for-profit schools (more on that below) and, second, that moderately selective not-for-profit colleges and for-profit IHEs are competing fiercely for many of the same students—a point borne out by the recruitment, scheduling and program offerings of institutions like Trinity in Washington, D.C. or Notre Dame de Namur in Belmont, California (both of which, like many of their peers, are marketing to nontraditional adult learners who are working, are attending to families, or looking to complete their degree).

As Table 4 makes evident, for-profit colleges and universities, in comparison with the national average, serve higher proportions of students with risk factors recognized by USDOE.<sup>31</sup> The

Table 4: Percentage of Undergraduates by Risk Factors



<sup>30</sup> USDOE, NCES, IPEDS, DES, 2010, tables 195 (Fall 2008), 202 (Fall 2009), 239 (Fall 2009).

<sup>31</sup> USDOE recognized risk factors are found at <http://nces.ed.gov/das/epubs/showtable.asp?pubnumber=19&tablenumber=C&dir=2002168> and <http://nces.ed.gov/das/epubs/showGlossary2.asp?pubNumber=19&tableNumber=C&dir=2002168&columnGVars=RISKINDX|DELAYENR|ATTNSTAT|DEPEND|NDEPEND|SINGLPAR|HSDEG|ENRJOB&rowGVars=gender|race1|cenrace2|hispanic|age|immigr|anydep|singlpar|disabil>.

average undergraduate in the U.S. has 1.5 of these risk factors while the typical student at an elite college has none, and at a major for-profit institution, such as Kaplan University, the average student has four.<sup>32</sup> Unfortunately, American higher education on the whole has done a poor job of graduating students with several risk factors. On average, students without risk factors graduate at a 60% rate, when even one risk factor is present the average fall just below 45%, but when two or more risk factors are found the average falls to 17%.<sup>33</sup> However, in a study undertaken by Kaplan the graduation rate for students with two or more risk factors was 32%; in other words, according to Kaplan research if U.S. higher education had their 32% graduation rate the country would be graduating approximately 800,000 more students per year.<sup>34</sup>

Two problems for researchers hoping to understand student performance in the for-profit sector are closely related to the way in which these institutions seek to address the many at-risk students they educate. First, given that students cannot apply Title IV financial aid to pay tuition on developmental, non-college-credit-bearing courses; these do not exist in most of the for-profit degree granting institutions. When to that is added the widespread concern in the sector that free standing developmental curricula is not be very effective and therefore needs to be integrated into college level courses, research on success in passing from a “remedial” level to a college level is nearly impossible to undertake. Second, following the template established from the start by UOPX, rather than having fixed terms, most for-profit degree granting IHEs have continuous, or at least year-around, course schedules composed of condensed courses taken sequentially. This permits students who are progressing to complete sufficient credits to be counted as full-time students. As a result, research that needs to disaggregate part- from full-time student performance or behavior is not feasible among the largest institutions in the sector.

While the practice of counting all courses for college credit and maximizing student progression by sequential course schedules makes certain kind of research unfeasible, it does have a positive side: the emphasis on integrating basic, preparatory skills and knowledge into all phases of the curriculum obviates the need to subject students to generally unsuccessful developmental courses, and putting students on a schedule where they only take one or two courses at a time, but do so continually, permits them to focus and introduces a much needed discipline for students long out of school. Needless to say, these assertions are themselves in need of verification through systematic investigation, but the research results from Kaplan suggest there is reason to feel positive about the results of these practices.

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<sup>32</sup> USDOE, NCES, *2003-04 Beginning Postsecondary Students Longitudinal Study, First Follow-Up (BPS: 04/06)*. On Kaplan see Rosen, A., presentation at *Forum for the Future of Higher Education*, 2011 Aspen Symposium, June 7, 2001. (In author's files.)

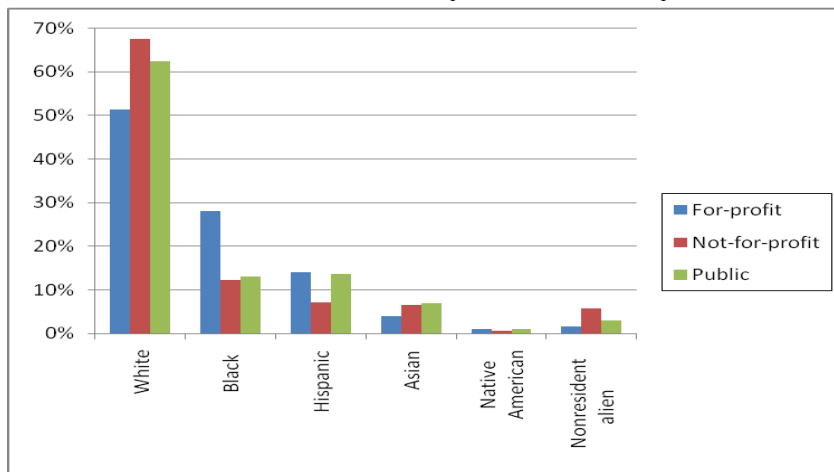
<sup>33</sup> USDOE, NCES. *1995 and 2003-04 Beginning Postsecondary Students Longitudinal Study*. Graduation rates include students pursuing associate's and bachelor's degrees.

<sup>34</sup> Rosen, A., presentation at *Forum for the Future of Higher Education*.

Concerning race and ethnicity, as Table 5 shows, in the Fall of 2009 for-profit schools had a greater percentage of students who identified themselves as black than was the case at not-for-profit or public colleges. However, the percentage of Hispanics at for-profit IHEs is only slightly higher than at public institutions and both sectors have a significantly higher percentage of Hispanics than do private not-for-profit schools. As for Asians, a smaller percentage of them attend for-profit institutions than attend either not-for-profit or public colleges.<sup>35</sup>

It is widely known that the for-profit sector attracts many “minority” students, many of whom have few other options outside community colleges. However, little is known factually about the reasons for the wide disparity between black and Latino enrollment in the sector and even less is publicly known about the comparative performance of the two groups. That said, even less is known—within or outside the sector—about the causes leading to disparate retention, progression and graduation rates. This is an area wide open for research and, to the extent the sector makes its relevant data accessible for study, it is a topic which Nexus Research and Policy Center will be exploring in the near future.

**Table 5: Fall 2009 Distribution by Race/Ethnicity**



Tables 6 and 7 show that for-profit institutions with UNITIDs serve a higher percentage of adult learners (i.e., students age 25 or older) than not-for-profit or public colleges. In fact, nearly 50% of students in the sector were over 30-years old in 2009-10 as compared with 25% of students in not-for-profit schools or 22% in public institutions. And, of course, the reverse is also true: while typically aged undergraduates at for-profit schools make up only 16.4% of total students, the percentage of traditional aged enrollments of not-for-profit and public institutions are each over 40%.<sup>36</sup> What is clear, then, is that for-profit institutions are serving an important student population that is growing and looking to educate itself in a nontraditional context geared to its specific needs.

<sup>35</sup> USDOE, NCES, IPEDS, DES, 2010, table 239.

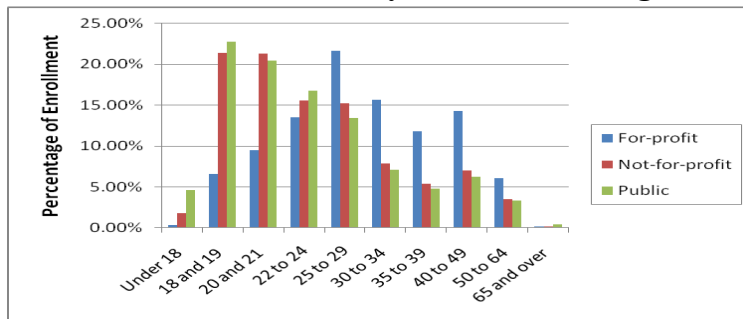
<sup>36</sup> USDOE, NCES, IPEDS, DES, 2010, table 200.



**Table 6: 2009 Distribution by Age in Percentages**

	Total	21 or under	22 to 24	25 to 29	30 or above
For-profit	100	16.4	13.5	21.6	48.5
Not-for-profit	100	44.5	15.5	15.2	24.8
Public	100	47.8	16.7	13.4	22.0

**Table 7: 2009 Distribution by Cohorts of All Ages**



Clearly, convenient scheduling, multiple locations (UOPX campuses are said to be within approximately 20 minutes from nearly 90% of the U.S. population), student services geared to their needs, and the extensive use of the online medium are extremely attractive to adult learners, nearly all of whom either work or are looking to get a job or promotion.

What has not been made known through publicly shared research is whether the performance of similarly situated adult learners, those with comparable risks as described by USDOE, do better or as well in for-profit IHEs than at public or not-for-profit schools. A major risk-adjusted study of comparative student performance and success within and across sectors is probably the single most important task researchers studying nontraditional students could undertake if they wanted to build a foundation for evidence based policy recommendations. Alas, schools would have to open access to their relevant databases and most, if not all, are probably not ready to do that voluntarily.

***Research Issues Related to Tuition, Fees and Taxpayer Costs***

We all know this is a very difficult period for higher education. Unless an academic is safely ensconced at a well endowed, elite *private* institution it is easy to imagine the Golden Age of higher education has come and gone. While the sense that the sky is falling has been experienced

on several occasions in the past thirty years, the structural transformations in the economies and labor markets of the U.S. and the world today leave one with little reason to believe that the status quo ante will ever return. These too obvious observations are made to introduce what is likely to be the next steps in the relative position of the three sectors.

While the for-profit sector's innovations—such as online learning, extensive use of a contingent faculty, career oriented curricula, year-round schedules of classes taught into the evening and on weekends—are easily blamed for much of what has changed in academia, the sector itself is in large measure a result of broader shifts set loose by, for instance, technology, the aging of the population, the success of the diversity movement, mass immigration, the rise of the “knowledge economy,” the decline of manufacturing, and the careerism all these forces have fostered. Without the development of the internet and the World Wide Web distance education would remain as backwards as it was when it relied on correspondence and television; without the aging of America most students would be too young to need the services and practices of adult-centered education; without the rise in the numbers of immigrants and the advances they have made since the civil rights movement, “minorities” would continue to be a minority and would continue to be absent from most of higher education; without the loss of good-paying manufacturing jobs and in the absence of the replacement of many repetitive jobs by computer-assisted tools, high school diplomas would likely continue to serve millions of young men and women striving to join the middle class; and without the dramatic shift from college as a time for socialization and “finding yourself” to college as a time to prepare for the workforce, for-profit education would still be firmly tethered to vocational training rather than professional development.

But although it grew in response to these forces, for-profit education is by definition not free. Someone has to pay for it and research into who is doing that and how has only recently begun to be done by others besides Wall Street analysts. As is well known, though little commented on by the current press or today's policymakers, there is a substantial difference between the *price* a student pays for her/his education and the actual *cost* to educate that student. Working with Mark Schneider, my colleague at Nexus, we have undertaken a series of preliminary studies aimed at answering some critical questions concerning who wins and who pays in higher education. Based on the calculations in our initial study, *Who Wins? Who Pays?*,<sup>37</sup> a subsequent study on the difference between price and cost focused on how much higher education costs taxpayers.<sup>38</sup> In that second study we estimated that, depending on the sector and the *Barron's* selectivity level of competitiveness, in 2009-10 the total annual *taxpayer* cost of education at a four-year institution

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<sup>37</sup> Klor de Alva, J., Schneider, M., *Who Wins? Who Pays? The Economic Returns and Costs of a Bachelor's Degree* (San Francisco: Nexus Research and Policy Center and Washington, D. C.: American Institutes for Research, 2011) available at [http://www.nexusresearch.org/pdf/Who\\_Wins\\_Who\\_Pays.pdf](http://www.nexusresearch.org/pdf/Who_Wins_Who_Pays.pdf).

<sup>38</sup> Schneider, M., Klor de Alva, J., “Cheap for Whom?: How Much Higher Education Costs Taxpayers,” *Education Outlook*, No. 8, October 2011, American Enterprise Institute for Public Policy Research available at <http://www.aei.org/files/2011/10/05/08-EduO-Schneider-Oct-2011-gnew.pdf>.

could vary from a net “profit” to the taxpayer from for-profit IHEs (even after considering Pell grants and federal subsidized loans) to approximately \$1,000 to \$2,000 per student per year at all but the “most competitive” not-for-profit colleges (where the taxpayer subsidy can reach over \$13,000 per student per year). When we turned to public four-year colleges, the annual taxpayer cost per student ranged from approximately \$7,000 at a “non/less competitive” institution to about \$24,000 at the “most-competitive” flagships.<sup>39</sup>

When these figures are compared to the average tuition and fees charged for full-time students (see Table 8), the differences that exist in the price students (and their parents) are asked to pay in each sector become more intelligible. While there is no one-to-one correlation, as can be expected, the price to students tends to decline in keeping with the increase in the amount taxpayers are subsidizing their education. Likewise, schools that receive little or no tax subsidy require higher tuition and fees if they are to provide a worthwhile education. In Table 8 we see that in 2009-10 the tuition and fees charged for a full-time student at for-profit IHEs averaged over two times as much as the tuition and fees at the heavily subsidized public four-year institutions (\$15,172 vs. \$6,695). Meanwhile, not-for-profit four-year colleges, with substantial subsidies in the form of foregone taxes, charged 68% more than for-profit institutions.<sup>40</sup>

This seeming oddity (partly subsidized private non-profits should be even cheaper than for-profit colleges) suggests just how great is the threat less selective not-for-profit schools face at the hands of their continually improving, significantly more cost-effective for-profit competitors. Indeed, only at the two-year level are for-profit institutions more expensive than not-for-profit schools. And at that level the for-profit schools appear to be outperforming their not-for-profit peers.<sup>41</sup>

**Table 8: 2009-10 Tuition and Fees for Full-Time Students**

	All	2-year	4-year
ALL institutions	\$9,120	\$2,923	\$12,467
For-profit	\$15,166	\$15,146	\$15,172
Not-for-profit	\$25,413	\$12,656	\$25,552
Public	\$4,751	\$2,285	\$6,695

<sup>39</sup> Schneider, Klor de Alva, “Cheap for Whom?,” Figure 1.

<sup>40</sup> USDOE, NCES, IPEDS, DES, 2010, table 345 (tuition and required fees [in-state for public institutions]; room and board excluded).

<sup>41</sup> Swail, W.S., *Graduating At-Risk Students: A Cross-Sector Analysis* (Virginia Beach, VA: Educational Policy Institute, 2009) available at <http://www.educationalpolicy.org/pdf/GraduatingAtRiskStudents.pdf>.

## ***Problems with the Measurement of Comparative Student and Institutional Performance by Sectors***

This last observation brings us to the important matter of comparative student (and, therefore, institutional) performance across the three sectors. As previously noted, this is the area most in need of research. It is common knowledge among those who study higher education that we are at best on the threshold of developing the right metrics by which to study student success. And so we are still a long way from being able to undertake such measures in a comparative manner. Furthermore, while IPEDS data is useful for many purposes it is flawed and likely to remain so until the gathering of student-unit data becomes the norm and better “graduation rate” metrics are accepted.

Work done by the Nexus Research and Policy Center, the National Governors Association Center’s Work Group on College Completion Metrics, and Complete College America together point to useful, relevant metrics that are available for interested parties.<sup>42</sup> But, there’s the rub: there are not many interested parties either willing to undertake the kinds of studies needed or, having done so, willing to share the results. To date, foundation resources and federal prodding have helped get dozens of states to establish student databases, but these have been limited to public institutions—with the private not-for-profit sector leading the opposition. But even then, the fear exists that the data systems being built will have limited utility for comparing public institutions given the freedom each state has to determine what metrics to use.<sup>43</sup> And voluntary accountability systems are not likely to satisfy anyone other than the participants and their sponsors, who through their use are hoping to avoid being forced to report unflattering results.

### ***Degrees and Certificates Awarded***

So for now, our primary source for comparison purposes is IPEDS data. Based on that source, Table 9 summarizes the percentage of certificates and degrees produced by each sector. Two facts stand out. In 2009-10 for-profit institutions awarded a higher percentage of master’s degrees (9.7%) than of bachelor’s (5.7%), doctor’s (4.3%) or first-professional degrees (1.7%). As is logical given the sector’s size, these are all smaller percentages than at not-for-profit or public HEIs. However, given their focus on adult learners and working students, for-profit schools awarded significantly more of the less than two-year certificates and associate’s degrees

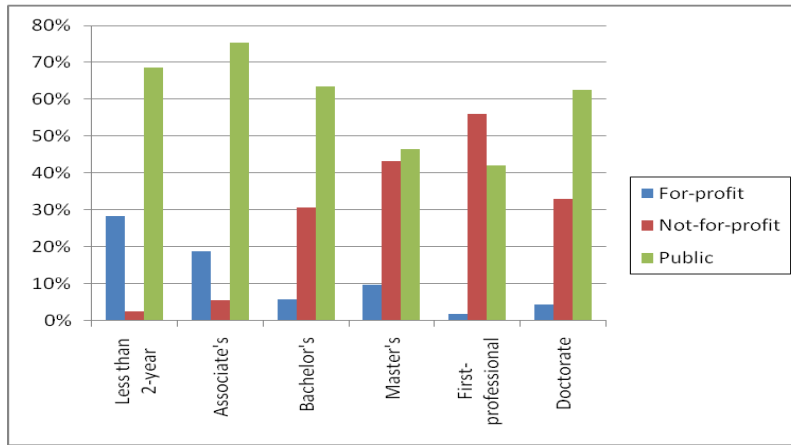
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<sup>42</sup> See Klor de Alva, J., Schneider, M., and Klagge, J. *Proposed Changes Needed to Improve IPEDS Community College Data: A Proof of Concept Study* (2010) and *Proof of Concept Study On Proposed Changes Needed to Improve IPEDS Data* (2010) both available at [www.nexusresearch.org](http://www.nexusresearch.org); Reyna, R., *Complete to Compete: Common College Completion Metrics* (Washington, D.C.: NGA Center for Best Practices, Education Division, 2010). The latter report, which report draws on the recommendations of the NGA Center’s Work Group on College Completion Metrics, is available at <http://www.nga.org/files/live/sites/NGA/files/pdf/1007COMMONCOLLEGEMETRICS.PDF>.

<sup>43</sup> See Basken, P., “States Embrace Student Data Tracking with Prodding from White House,” *Chronicle of Higher Education*, January 3, 2010, available at <http://wiredcampus.chronicle.com/article/States-Embrace-Student-Data/63376/>.

than not-for-profit institutions. More precisely the sector awarded 28.4% of all less than two-year credentials and nearly 19% of all associate's degree.<sup>44</sup>

**Table 9: Percentage of Degrees and Certificates by Sector, 2009-10**



I have added Table 10 to help make better sense of these percentages. Although the for-profit sector in 2009-10 made up approximately 10.4% of the combined FTES of all two- and four-year institutions with UNITIDs, they produced 13.6% of all degrees and certificates awarded that academic year. This would seem a very positive result; however, without identifying where the certificates were awarded we cannot be sure how many were not awarded at two- and four-year IHEs. That said, it is worthwhile to focus solely on degree production. Here we see that only

<sup>44</sup> USDOE, NCES, IPEDS. Completions: Awards/degrees conferred by program (2010 CIP classification), award level, first major, by institutional control. The spreadsheets containing the graphs and data for degrees and certificates awarded come from an IPEDS data pull showing degrees and certificates earned, across all sectors. Below are the column headings in the author's spreadsheet containing the raw data:

- Grand total (C2010\_A First major Grand total Degrees/certificates total)
- Grand total (C2010\_A First major Grand total Degrees total)
- Grand total (C2010\_A First major Grand total Associate's degree)
- Grand total (C2010\_A First major Grand total Bachelor's degree)
- Grand total (C2010\_A First major Grand total Master's degree)
- Grand total (C2010\_A First major Grand total Doctor's degree - research/scholarship (new degree classification))
- Grand total (C2010\_A First major Grand total Doctor's degree - professional practice (new degree classification))
- Grand total (C2010\_A First major Grand total Doctor's degree - other (new degree classification))
- Grand total (C2010\_A First major Grand total Certificates below the baccalaureate total)
- Grand total (C2010\_A First major Grand total Award of less than 1 academic year)
- Grand total (C2010\_A First major Grand total Award of at least 1 but less than 2 academic years)
- Sector of institution(HD2009)

5.1% of all undergraduate and graduate degrees were produced by the for-profit sector; that is, about half as many as would be expected given their percentage of two- and four-year FTES.<sup>45</sup>

Given the powerful incentive the for-profit sector has to retain its students through to graduation (see below), research is needed to understand this seeming shortfall in degree production. Once again, the most important area for future research on this matter is risk-adjusted comparisons of student performance by sector. Preliminary work in the area has been done by Swail (2009) based on the 2006 annual IPEDS survey of institutions and the NCES's *Beginning Postsecondary Students Longitudinal Survey*, which by being undertaken at three- and six-year intervals provides useful projections of student performance.<sup>46</sup> Initial conclusions, as we saw earlier, include that career colleges (including two-year, four-year and less than two-year schools) have a higher percentage of beginning students with three or more risk factors than public or not-for-profit traditional institutions, and to repeat, while these students are less likely to retain than those with one or no risk factors, these students retained and graduated at higher rates in career colleges than at public or not-for-profit institutions. Needless to say, this speaks well for these broad-access institutions. But far more research needs to be done to conclude the assessment is accurate across sectors on a risk-adjusted basis and to link specific practices to improvements in performance.

**Table 10: Degrees and Certificates Awarded at U.S. Institution 2006-2010**

	Awards - Degrees and Sub-baccalaureate Certificates (U.S. Only Institutions)				
	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Total Awards	3,651,636	3,736,534	3,843,262	4,011,093	4,286,068
Total Sub-baccalaureate Certificates	715,401	729,037	749,860	805,755	934,899
Total Undergraduate Degrees	2,198,448	2,252,210	2,313,358	2,388,834	2,499,586
Total Graduate Degrees	737,787	755,287	780,044	816,504	851,583
Less-than- 1 year Certificates	374,222	385,530	402,257	429,640	502,748
1-2 year Certificates	310,191	311,753	316,265	339,163	382,060
More than-2-but-less-than 4-year Certificates	30,988	31,754	31,338	36,952	50,091
Associate's Degrees	713,206	728,118	750,283	787,466	849,572
Bachelor's Degrees	1,485,242	1,524,092	1,563,075	1,601,368	1,650,014
Master's Degrees	594,065	604,607	626,397	659,267	693,025
Doctoral or First Professional Degrees	143,722	150,680	153,647	157,237	158,558

	Distribution of Awards				
	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Total Awards	100%	100%	100%	100%	100%

<sup>45</sup> USDOE, NCES, IPEDS. Completions data file C2010 A, <http://nces.ed.gov/ipeds/datacenter/DataFiles.aspx>.

<sup>46</sup> Education Policy Institute analysis using *Beginning Postsecondary Students Longitudinal Survey Data Analysis System* (BPS: 96/01; BPS: 04/06), USDOE, NCES, available at <http://nces.ed.gov/surveys/bps/>.

Total Sub-baccalaureate Certificates	20%	20%	20%	20%	22%
Total Undergraduate Degrees	60%	60%	60%	60%	58%
Total Graduate Degrees	20%	20%	20%	20%	20%
Less-than- 1 year Certificates	10%	10%	10%	11%	12%
1-2 year Certificates	8%	8%	8%	8%	9%
More than-2-but-less-than 4-year Certificates	1%	1%	1%	1%	1%
Associate's Degrees	20%	19%	20%	20%	20%
Bachelor's Degrees	41%	41%	41%	40%	38%
Master's Degrees	16%	16%	16%	16%	16%
Doctoral or First Professional Degrees	4%	4%	4%	4%	4%

	Distribution of Sub-baccalaureate Certificates				
	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010
Total Sub-baccalaureate Certificates	100%	100%	100%	100%	100%
Less-than- 1 year Certificates	52%	53%	54%	53%	54%
1-2 year Certificates	43%	43%	42%	42%	41%
More than-2-but-less-than 4-year Certificates	4%	4%	4%	5%	5%

**Completion Rates by Awards, Sectors and Selectivity of Institution**

Given the above, what were the 2009-10 completion rates at for-profit schools? Table 11 shows that students at less than two-year credential granting for-profit schools completed at rates comparable to those at less-than-two-year public institutions but at lower rates than students at not-for-profit schools. This result is important and merits study. Again, given the incentives of for-profit institutions to perform better than their competition, why would their performance be lower than comparable not-for-profit schools? The answer is likely not obvious because at the two-year level students at for-profit institutions completed at higher rates than students at the other two sectors. Lastly, why is this reversed at four-year IHEs, where students at for-profit colleges completed at lower rates than their peers in the other two sectors?<sup>47</sup>

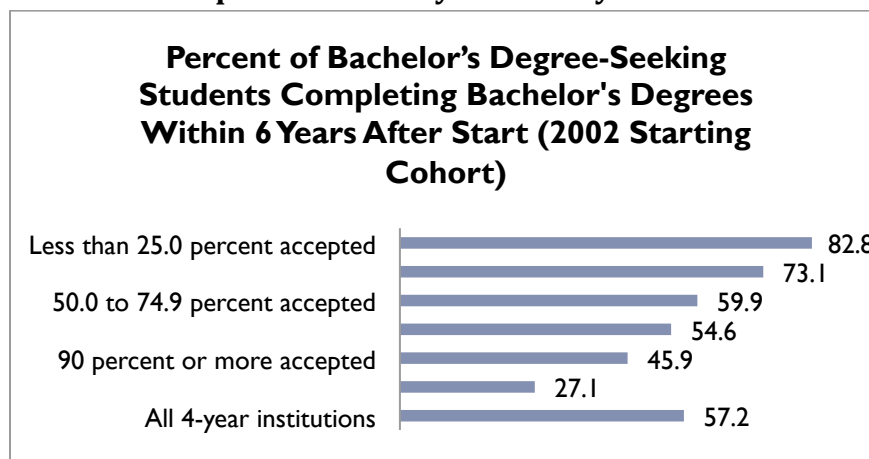
**Table 11: Percentage of Students Completing Within 150% of Normal Time**

Type of institution / award	TOTAL	For-profit	Not-for-profit	Public
Less than 2-year	67.2	66.9	76.2	67.0
2-year	27.5	57.7	48.2	20.6
Bachelor's	57.2	22.0	64.6	54.9

<sup>47</sup> USDOE, NCES, IPEDS, DES, 2010, table 341 (Bachelor's degrees for 2002 cohort; Associate's degrees for 2005 cohort; less than 2-year certificates for Fall 2009 cohort) available at [http://nces.ed.gov/programs/digest/d10/tables/dt10\\_341.asp](http://nces.ed.gov/programs/digest/d10/tables/dt10_341.asp).

One possible answer to this last question is found in Table 12, which shows that, as expected, open admissions—the key characteristic of the broadest-access schools—leads to the lowest graduation rates at four-year IHEs.<sup>48</sup> Consequently, it is no surprise that four-year for-profit schools, under pressure to improve completion rates, have begun to experiment with mechanisms to filter out those most likely to abandon their studies. The first two to move in that direction, UOPX and Kaplan University, have instituted new processes by which students, who may be unprepared, can try out what the institutions offer for free—that is, prior to applying for financial aid. In these new programs the decision whether they are ready or not for college is left primarily to the individual, but it has nonetheless led to a substantial number of students choosing to abandon their college plans rather than risking dropping out in the future.<sup>49</sup>

**Table 12: Completion Rates by Selectivity of Institution**



***Financial Aid, Revenue Sources, and Return or Loss to Taxpayers***

Filtering mechanisms such as free propaedeutic classes (at UOPX) or regularly scheduled introductory courses (at Kaplan University) represent a short-term loss of revenue. An even bigger loss of revenue for the sector has resulted from waiting so long to put needed reforms in place before the 2009-10 negotiated rule making process began at USDOE.<sup>50</sup> Regulatory pressures, combined with negative publicity and the continuing economic crisis of the last two years have led to revenue losses between 2010 and 2011 ranging from 33% at Kaplan Higher

<sup>48</sup> USDOE, NCES, 2001-02 to 2008-09 IPEDS, Fall 2001, and Spring 2002 through Spring 2009; Table 341 (Bachelor's degrees for 2002 cohort; Associate's degrees for 2005 cohort; less than 2-year certificates for Fall 2009 cohort) available at [http://nces.ed.gov/programs/digest/d10/tables/dt10\\_341.asp](http://nces.ed.gov/programs/digest/d10/tables/dt10_341.asp).

<sup>49</sup> Fain, P., "More Selective For-Profits," *Inside Higher Ed*, Nov 11, 2011, available at <http://www.insidehighered.com/news/2011/11/11/enrollments-tumble-profit-colleges>.

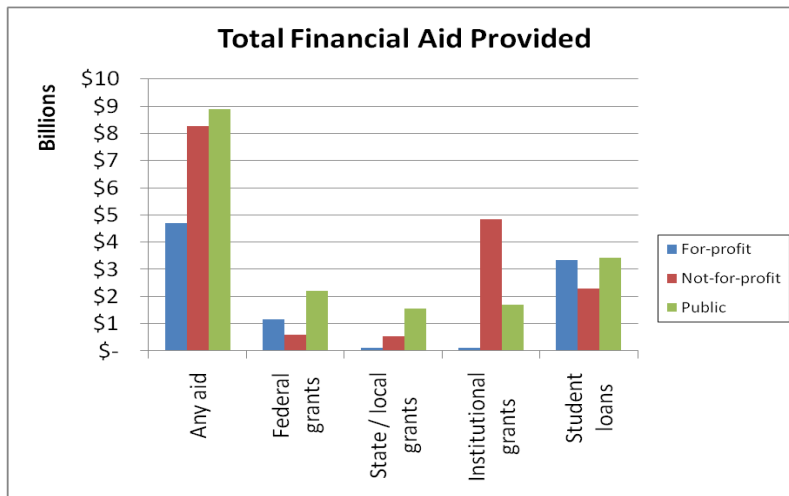
<sup>50</sup> USDOE, Negotiated Rulemaking 2009-10, see <http://www2.ed.gov/policy/highered/leg/hea08/index.html>.



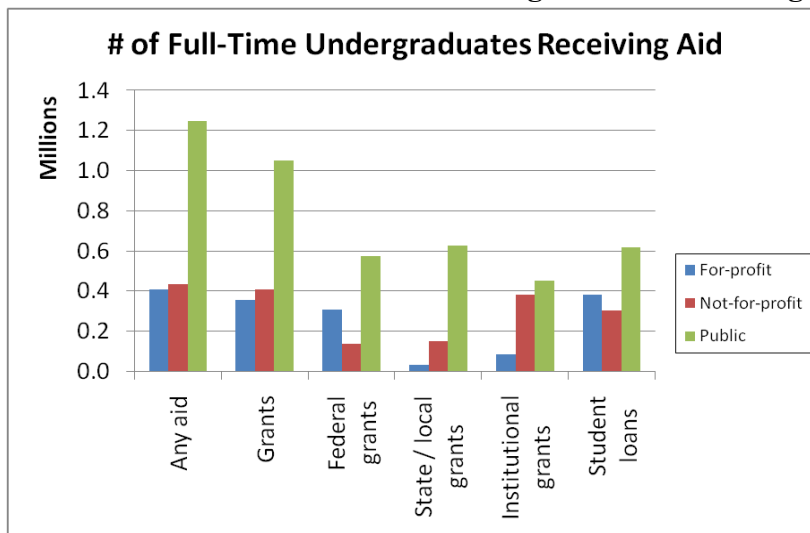
Education to 11% at Apollo Group, with most other publicly held institutions also suffering losses during the same period.<sup>51</sup>

Detailed reasons for these losses have been amply studied by the many investment analysts who report on the sector, and all interested readers have access to the education companies' quarterly reports filed with the Securities and Exchange Commission. Here I focus instead on financial data as reported to IPEDS. In 2009-10 public institutions received more financial aid (Table 13) and served more students on financial aid (Table 14) than the other two sectors. However, for-profit HEIs served a larger percentage of their students on financial aid (Table 15).<sup>52</sup>

**Table 13: Total Financial Aid by Sector**



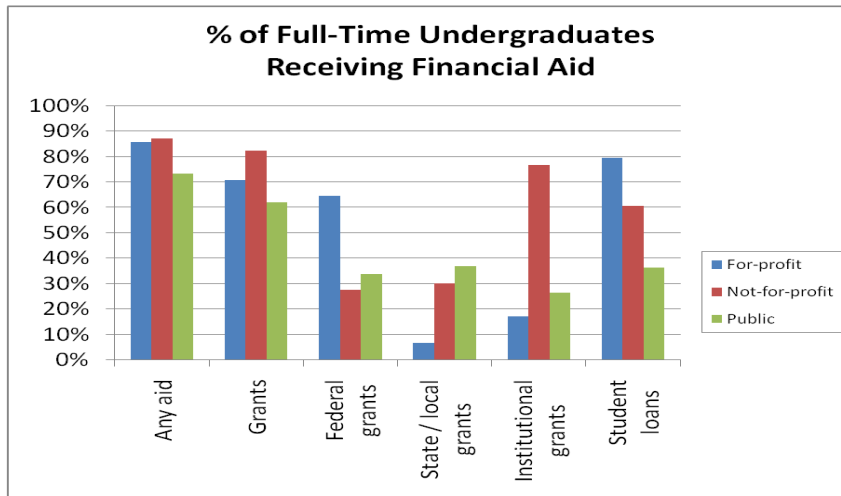
**Table 14: Number of Full-Time Undergraduates Receiving Financial Aid by Sector**



<sup>51</sup> See chart on “For-Profit Colleges' Most Recent Quarterly Enrollment and Revenue, 2011 vs. 2010” in Fain, P., “More Selective For-Profits.”

<sup>52</sup> USDOE, NCES, IPEDS, DES, 2010, table 350.

**Table 15: Percentage of Full-Time Undergraduates Receiving Financial Aid by Sector**



As previously discussed, the percent of revenue that comes from tuition is logically dependent on the size of taxpayer subsidies received and, of course, the amount of revenue generated through other means. In the for-profit sector in 2008-09, as summarized in Table 16, 86.4% of revenue came from tuition, leaving only 13.6% coming from other sources—and these other sources are generally student-directed funds (e.g., federal workforce development grants, etc.). This means the sole business of for-profits is students. So all incentives are focused on their recruitment, care, and preparation for employment or career advancement. However, in the not-for-profit sector tuition made up less than half of revenue (40.3%), leaving administrators, staff and faculty members in that sector responsible for managing many functions unrelated to teaching, including attending to the needs of federal and state grant makers and legislators, charitable donors, endowment managers, sports team fans, and alumni. Meanwhile, in the public sector only 19.4% of revenue came from tuition (and fees)—less than half of the percentage found in the not-for-profit sector and less than a fourth of that found in the for-profit sector.<sup>53</sup> Of course, the percentage of revenue coming from tuition in the public sector has increased recently given the hefty hikes in tuition since 2009-10, and this will surely drive public institution administrators to try to entice or force faculty members and staff to be more productive. Whether this can be done without significant losses in student performance remains to be seen. What is clear is that all sectors are turning their attention to the traditional student “market” of for-profit IHEs, so greater competition among the sectors can be expected.

<sup>53</sup> USDOE, NCES, IPEDS, DES, 2010, tables 362 (public), 367 (not-for-profit; excluding investment gain/loss), and 369 (for-profit).

**Table: 16 Revenue Sources by Sector, 2008-09**

Source of revenue	For-profit	Not-for-profit	Public
Tuition and fees	86.4	40.3	19.4
Federal	7.3	15.8	15.3
State and local	0.7	1.8	35.6
Other	5.6	42.1	29.7

In recent research conducted with my colleague Mark Schneider we calculated the direct costs and economic returns to graduates and taxpayers of a bachelor’s degree by taking into consideration data on all revenue sources in order to understand the relationship between lifetime tax payments and taxpayer subsidies.<sup>54</sup> Using publicly available data drawn from a variety of sources (including the U.S. Census, USDOE’s 2008 National Postsecondary Aid Study, IPEDS, PayScale.com’s 2010 salary report, the Board of Governors of the Federal Reserve System, and the Internal Revenue Service) we reached some interesting results reported in Table 17.

Using *Barron’s* selectivity criteria and crossing it with results by control sectors we calculated that, independent of the extent or absence of taxpayer subsidies, the net return to taxpayers per bachelor’s degree is positive in all but two categories of institutions: *public* “non”/“less competitive” institutions and *public* “most competitive” schools. Keeping in mind that only 12.8% of students attend “noncompetitive”/“less competitive” institutions and only 7.9% attend “most competitive” colleges, it means that taxpayers receive a net benefit (“profit”) on nearly 80% of all bachelor’s graduates. Put another way, taxpayers are well served from a financial perspective by the graduates who attended “competitive” broad-access institutions that made it to *Barron’s* (2009 edition); that is, the 660 institutions, making up 47.7% of all *Barron’s* schools and enrolling 3,372,603 students or 41.5% of all students in *Barron’s* schools.<sup>55</sup> These institutions, such as Florida Atlantic or University of Northern Iowa, accepted between 75% to 85% of applicants, with median freshman test scores between 500 and 572 on the SAT and 21 to 23 on ACT, and with minimum high school GPAs between C and B+.<sup>56</sup>

Table 17 therefore points to an important consideration in the re-conceptualization of broad-access higher education: The taxpayer investment in broad-access education yields a positive

<sup>54</sup> Klor de Alva, J., Schneider, M., *Who Wins? Who Pays?*, Table 6, p. 14.

<sup>55</sup> Hess, F.M., Schneider, M, Carey, and Kelly, A. P., *Diplomas and dropouts: Which colleges actually graduate their students (and which don’t)*, Table A1 available at <http://www.aei.org/docLib/Diplomas%20and%20Dropouts%final.pdf>.

<sup>56</sup> Klor de Alva, J., Schneider, M., *Who Wins? Who Pays?*, p. 29.

result for taxpayers, even without considering all the tax savings that result because graduates have lower unemployment and incarceration rates, use fewer social services, are likely to be healthier, and so on.

**Table 17: Net Financial Return/Loss to Taxpayers per Bachelor’s Degree: Lifetime Tax Payments Minus Taxpayer Subsidy**

<b>Non/Less Competitive</b>	
For-Profit	\$60,948
Public	(\$7,458)
Not-for-Profit	\$44,143
<b>Competitive</b>	
Public	\$4,113
Not-for-Profit	\$49,537
<b>Very Competitive</b>	
Public	\$16,944
Not-for-Profit	\$69,988
<b>Highly Competitive</b>	
Public	\$22,816
Not-for-Profit	\$84,759
<b>Most Competitive</b>	
Public	(\$9,278)
Not-for-Profit	\$88,402

### ***Revenue Expenditures by Sector***

Besides the periodic detailed reports by financial analysts studying the for-profit institutions whose parent companies are publicly held, much has been written lately on how money is spent (or misspent) in higher education.<sup>57</sup> Table 18 captures how revenue was spent per FTES in 2008-09 according to the latest available IPEDS data.<sup>58</sup>

A few observations are in order. For instance, instruction expenses<sup>59</sup> at four-year for-profit IHEs are substantially lower than they are at the other two sectors. While much needs to be studied to make sense of this, we know that the use of contingent faculty, the focus on low cost majors

<sup>57</sup> See especially the excellent work on postsecondary education costs by the Delta Project at [http://www.deltacostproject.org/analyses/delta\\_reports.asp](http://www.deltacostproject.org/analyses/delta_reports.asp).

<sup>58</sup> USDOE, NCES, IPEDS, DES, 2010, tables 373 (public), 376 (not-for-profit), and 378 (for-profit). For a glossary of terms used in the rubrics in Table 17 see <http://nces.ed.gov/ipeds/glossary/index.asp?id=63>.

<sup>59</sup> Defined by USDOE as follows: A functional expense category that includes expenses of the colleges, schools, departments, and other instructional divisions of the institution and expenses for departmental research and

**Table 18: Expenditure per FTE Student: 2008-2009**

Institution type		TOTAL	Instruction	Research & public service	Auxiliary enterprises	Hospitals	Student Services, Academic and Institutional Support	Other
Per-Student spending		\$	\$	\$	\$	\$	\$	\$
4-year	For-profit	12,654	2,633	8	282	0	9,013	718
	Not-for-profit	46,080	15,143	5,744	4,472	3,903	13,982	2,836
	Public	36,707	9,327	6,047	2,980	4,226	6,583	7,352
2-year	For-profit	13,498	4,394	8	410	0	7,395	1,290
	Not-for-profit	19,129	6,405	152	1,439	0	9,718	1,414
	Public	12,153	4,542	196	585	0	3,673	3,158

(e.g., business and education), the absence of departmental research and public service, and the use of leased facilities all work to lower instruction costs. How much more these are lowered through operational efficiencies is a matter of speculation. And, unfortunately, we all know how difficult it is to allocate costs, especially across institutions or sectors. The point that needs making is that whether the differences in levels of expenditures in instruction are due to cutting corners and ill-advised savings, motivated by the need to make a profit, is a matter for researchers to settle on the basis of hard data not uninformed speculation. After all, thoughtless cost cutting is unlikely to be common given that four-year for-profit institutions spend significantly more than public four-year schools in student services, academic and instructional support—areas that we know they must address well if they are to serve their students well.

To help make additional sense of what might be at work in the differing allocation of resources across the three sectors I have added Tables 19 and 20, which summarize the IPEDS data for 2009-10 concerning how employees in each sector are distributed by functional area<sup>60</sup> and status.<sup>61</sup> An analysis of these Tables will be left for another occasion.

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public service that are not separately budgeted. Includes general academic instruction, occupational and vocational instruction, community education, preparatory and adult basic education, and regular, special, and extension sessions. Also includes expenses for both credit and non-credit activities. Excludes expenses for academic administration where the primary function is administration (e.g., academic deans). Information technology expenses related to instructional activities if the institution separately budgets and expenses information technology resources are included (otherwise these expenses are included in academic support). Institutions include actual or allocated costs for operation and maintenance of plant, interest, and depreciation.

<sup>60</sup> U.S. Dept. of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), *Digest of Education Statistics, 2010*, table 255.

<sup>61</sup> U.S. Dept. of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS), *Digest of Education Statistics, 2010*, table 255.

**Table 19: Distribution of Staff: 2009**

Institution type		Management	Faculty	Graduate asst.	Other professional	Non-professional
4-year	For-profit	8.2	57.4	0.2	21.5	12.7
	Not-for-profit	9.2	38.0	6.2	20.9	25.8
	Public	4.7	29.9	15.3	24.2	25.9
2-year	For-profit	13.2	52.0	0	18.9	15.9
	Not-for-profit	12.7	53.2	0	15.1	19.0
	Public	4.4	58.6	0	10.4	26.7

**Table 20: Percent of Staff Working Full-Time: 2009**

Institution type		TOTAL	Management	Faculty	Other professional	Non-professional
4-year	For-profit	48.1	99.1	14.7	96.5	84.6
	Not-for-profit	69.7	96.7	55.6	86.2	84.2
	Public	67.9	95.3	67.7	87.9	84.5
2-year	For-profit	66.3	98.0	44.5	93.1	79.5
	Not-for-profit	58.5	92.8	38.5	81.8	72.9
	Public	47.3	97.2	30.2	75.4	65.8

## Conclusion and Recommendations:

For my conclusion, I quote Andy Rosen, Chairman and CEO of Kaplan, Inc., as he applies Clay Christensen’s theory of disruptive innovation to education:<sup>62</sup>

<sup>62</sup> Rosen, A., presentation at *Forum for the Future of Higher Education*. On Clay Christensen and disruptive innovation in education see Christensen, C. M., Eyring, H. J., *The Innovative University: Changing the DNA of Higher Education* (Washington, D.C.: American Council on Education, 2011).

...innovators often deliver products that are simpler, cheaper, smaller or more convenient than incumbent products. They are usually scorned by incumbents, because the new products are often viewed as *worse* than what exists, and they do not meet the needs of their customers. But over time, these disruptors keep improving their products, to the point where some existing customers find themselves willing to accept tradeoffs in exchange for the advantages the new products entail.

For-profit universities are [still] in their early stages. These institutions are not perfect.... But I would argue that our incentives are more closely aligned with what our students want than the incentives of the rest of higher education.

Based on all of the above, to help change the ecology of U.S. higher education, the barriers that separate the for-profit sector from the other two sectors must be rationalized and eliminated wherever possible. This means, for example, not permitting tax status to trump accreditation status. It also means that the states and USDOE, wherever possible, should create regulations that are not discriminatory against the for-profit sector. If we are to improve higher education in the U.S., what is reasonable to apply to one sector must be able to be applied to all sectors and if a regulation cannot be universally applied to all similarly situated institutions, it should simply not be adopted. And every effort must be made to audit current regulations to assure these do not discriminate against the needs of “nontraditional” students, who today make up nearly 75% of higher education enrollment. Lastly, every effort should be expended by USDOE to collect reliable data across all sectors at both the institutional and student-level so that researchers and policymakers can at last measure the performance of the growing number of nontraditional students whose educational careers are neither linear nor unimportant to the fate of the nation.

## APPENDIX

### NATIONAL CENTER FOR EDUCATION STATISTICS DATA ON FOR-PROFIT INSTITUTIONS

- ▶ For-profit institutions are included in NCES data collections if they participate in Title IV programs. See <http://nces.ed.gov/surveys/SurveyGroups.asp?Group=2> .
- ▶ Data on students, staff, graduates, graduation rates, financial aid, and institutional finances at individual institutions are collected through the Integrated Postsecondary Education Data System (IPEDS) and available as summary tables in publications and at an institutional level at NCES College Navigator:  
<http://nces.ed.gov/collegenavigator/?s=all&l=5>.
- ▶ The latest national data on cost of education and access to financial aid are available through the National Postsecondary Student Aid Study (NPSAS: 08) at  
<http://nces.ed.gov/pubsearch/pubsinfo.asp?pubid=200801>.
- ▶ Research information on student pathways through postsecondary education is collected through longitudinal surveys, such as the Educational Longitudinal Survey: 2002/06 (SEE: <http://nces.ed.gov/surveys/els2002/>).
- ▶ Special surveys (PEQIS—Postsecondary Education Quick Information System) providing data on specific topics, such as distance education, educational technology, dual enrollment, etc. Are found at <http://nces.ed.gov/surveys/peqis/downloads.asp>.