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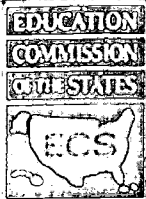
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## ABSTRACT

The nature, role, and impact of the rapidly growing for-profit degree-granting sector of higher education were studied using a variety of data sources, including field notes. For-profit degree-granting institutions have emerged as an integral and increasingly influential part of the system. Over the past decade, there has been a 78% increase in 2-year for-profit institutions and a 266% increase in the number of 4-year institutions. Enrollment in for-profit degree-granting institutions grew by 59% in the same period, reaching roughly 365,000 students. This report presents case studies of three groups of institutions: (1) small, local enterprise colleges; (2) "super systems"; and (3) Internet-based institutions. It explores changes in the for-profit degree-granting sector, the factors that account for its survival and growth, and the impact of regulation and accreditation. The paper also considers similarities and differences in the views of managers, faculty, and students about the purposes, strengths, and weaknesses of their institutions. The for-profit sector's emphasis on career-oriented and customer focused programs, services, and institutions appeals to new types of students, such as working adults and parents with family responsibilities. The degree programs offered by such institutions differ from those offered by traditional degree programs, but the differences may be less significant than critics suggest. Skills and practical subjects receive more emphasis at for-profit institutions, but, in fact, degree programs at all institutions have become more career-oriented. The design of for-profit institutions is driven by employers' needs and students' interests. As both businesses and schools, for-profit institutions need to meet the quality standards of industry and academe. They may even be more sensitive to quality concerns than are traditional institutions. (Contains 5 tables, 17 endnotes, and 17 references.) (SLD)

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# ECS Issue Paper

## Meeting Needs and Making Profits: The Rise of For-Profit Degree-Granting Institutions

Education Commission of the States • 707 17<sup>th</sup> Street, Suite 2700 • Denver, CO 80202-3427 • 303-299-3600 • fax 303-296-8332 • www.ecs.org

By Kathleen F. Kelly  
July 2001

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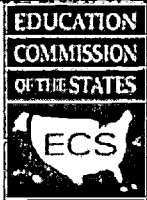
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<u>Foreword</u>	
<u>Executive Summary</u>	
<u>Introduction</u>	
<u>The For-Profit Degree-Granting Sector</u>	Overview Decades of Change Regulation and Accreditation From Disparagement to Emulation Keys to Success
<u>Case Study - Enterprise Colleges</u>	Mission and Purposes Students Services Faculty Programs Accreditation and Regulation
<u>Case Study - Super Systems</u>	Mission and Purposes The Business Students Faculty Programs and Services Accreditation and Regulation
<u>Internet Institutions</u>	
<u>Conclusions and Observations</u>	
<u>References</u>	
<u>Appendix</u>	
<u>Endnotes</u>	

### Foreword

This report is the capstone of three years of work by the Education Commission of the States (ECS) to develop a clearer picture of the nature, role and impact of the rapidly growing for-profit degree-granting sector of higher education.

Supported by a grant from the Alfred P. Sloan Foundation, ECS has (1) made a comprehensive inventory of for-profit institutions, gathering information on their program offerings, enrollment, tuition and ownership; (2) analyzed trends in accreditation and state regulation of for-profit institutions; (3) and reviewed and summarized the research literature on the for-profit sector.

This report goes a step further, examining these institutions from the viewpoint of the people who own and manage them, the teachers who work in them and the students who earn their degrees from them. Drawing on a variety of data sources, including more than 400 pages of field notes, author Kathleen F. Kelly provides an in-depth look at the history, dynamics and unique appeal of the postsecondary education market's smallest but fastest-growing sector.

Readers interested in the work leading up to this report are invited to visit the For-Profit/Proprietary page of the Education Issues section of the ECS Web site ([www.ecs.org](http://www.ecs.org)). The page includes a link to the University of Virginia's companion project, also supported by the Sloan Foundation, on the economic aspects of for-profit institutions.

Several ECS staff members made valuable contributions to this report. Until his departure from ECS earlier this year, Tunde Brimah played a key role in gathering materials, preparing the literature review, organizing the Web page and arranging interviews. During site visits and interviews, he was assisted by Judy Bray, Terese Rainwater, Evelyn Waiwaiole and Spud Van de Water. Thanks, too, to Peter Ewell and Paula Reis of the National Center for Higher Education Management Systems (NCHEMS), who did an excellent job of reporting on accreditors' perceptions of the role and impact of for-profit degree-granting institutions. Credit is also due to the originators of the idea for this study. Former ECS President Frank Newman and Higher Education Director Charles Lenth were instrumental in shaping the original ideas and preparing the proposal to the Sloan Foundation.

Finally, we would like to thank all of the people who participated in interviews and site visits – faculty, students, staff, owners of for-profit institutions and state regulatory agency staff. These individuals gave generously of their time and insights to help us better understand the world of for-profit institutions.

*Gordon (Spud) Van de Water*  
 Director, For-Profit Degree-Granting Study/ Project Manager, Higher Education  
 Education Commission of the States

## Executive Summary

Once considered well outside the mainstream of America's higher education system, for-profit degree-granting institutions have emerged as an integral and increasingly influential part of the system. While such institutions serve a relatively small proportion of students compared to those enrolled in traditional colleges and universities, their remarkable growth over the past decade has drawn the attention of investors, policymakers and educators.

As the number, size and public profile of these institutions has grown, the reaction from the traditional higher education sector has ranged from disparagement to emulation. The sharpest critics contend that the profit motive is not compatible with academic values, and that quality suffers when quantity is paramount: substandard admission criteria, superficial curricula and low expectations for student performance. While these programs meet the needs of certain types of students, critics argue, their degrees are not "true" degrees like the liberal arts-based associate and bachelor's degrees awarded by traditional institutions.

At the same time, a growing number of traditional colleges and universities – under pressure to be more responsive to the needs of students, parents, employers and communities – are turning to some of the same entrepreneurial, customer-oriented approaches that have been used so successfully by for-profit institutions.

This report tells the story of the for-profit degree-granting sector of higher education, as seen through the eyes of faculty, students, campus administrators and company executives. It is based on extensive interviews conducted by the Education Commission of the States (ECS) in 1999 and 2000 with more than 80 people on 13 campuses and in the central offices of five corporations.

The report presents case studies of three groups of institutions – small, local "enterprise" colleges, publicly traded "super systems" and Internet-based institutions. It explores changes in the for-profit degree-granting sector of higher education; factors that account for its survival and growth; the impact of regulation and accreditation; and the similarities and differences in the views of managers, faculty and students about the purposes, strengths and weaknesses of their institutions.

Among the major findings of the report:

? Despite the restrictions of state regulation and accrediting requirements and the challenges from traditional higher education, for-profit degree-granting institutions have grown and succeeded. Over the past decade, there has been a 78% increase in the number of two-year institutions and a 266% increase in the number of four-year institutions. During this period, enrollment in for-profit degree-granting institutions grew by 59%, to roughly 365,000 students. Nationwide, for-profit institutions' share of the two-year college market grew from 19% to 28% over the past decade, and from 3% of the four-year college market to just over 8%.

? The for-profit sector is more diverse than it might first appear. Small "enterprise" colleges continue to serve

local communities, while the sector also includes “super systems” like the country’s largest private university, the University of Phoenix, with enrollment of more than 75,000 students in 15 states and online. In addition, innovative Internet-based institutions are providing instruction primarily or exclusively through technology.

? The for-profit sector’s emphasis on career-oriented, hands-on and customer-focused programs, services and institutions appeals to new types of students. Working adults and parents with family responsibilities are drawn to these schools by accelerated programs, flexible schedules and convenient locations. Applied teaching and learning approaches; individualized attention and support from faculty; and modular course structure serve nontraditional students well, including minorities, under-prepared students and people who have had unsuccessful experiences at traditional colleges.

? Degree programs offered by most for-profit institutions differ in important ways from traditional degree programs, but the differences may be less significant than critics suggest. Skills (versus theory) and practical subjects (versus the liberal arts) receive greater emphasis at for-profit institutions than at traditional colleges and universities. However, degree programs in all sectors of higher education have become more career-oriented, and students are choosing occupational and professional programs in increasing numbers. Unlike 30 years ago when the liberal arts and social sciences dominated, a majority of bachelor’s degrees are now awarded in career fields such as business, education, engineering and health professions.

? For-profit institutions don’t dispute the charge that they “cherry pick” the most profitable programs, leaving public institutions to provide higher cost, lower demand programs. But they point out that they provide educational infrastructure and opportunities with private rather than taxpayer funds.

? The design of for-profit institutions’ programs is driven by employers’ needs and students’ interests. Success is measured by retention of students, degree completion, job placement and employer satisfaction with graduates’ performance. As both businesses and schools, they need to meet the quality standards of both industry and academe, and may be even more sensitive to quality concerns than traditional institutions.

[Back to top](#)

## Introduction

Back when downtown was still the social and business center of the community, there would always be a business college just off the main street. Nearby offices would employ the serious young women and men who graduated from the college with diplomas in secretarial studies or bookkeeping. For more than 150 years, these modest proprietary schools offered training for profit, as did cosmetology, barber and trade schools. Out of the mainstream of higher education, they taught job skills by drill, measured instruction in clock hours and awarded certificates or diplomas, not degrees. Their students were interested in getting a job and had little, except age, in common with students attending traditional colleges and universities.

In sharp contrast to these no-nonsense schools were the operations that made headlines in the 1980s like, “School Closing Leaves Students with Debt, No Jobs.” In the midst of concerns about rates of default on loans among students at all types of institutions, stories of fraud and abuse emerged – fast-talking “admissions counselors” recruiting high school dropouts from welfare lines, signing them up for grants and loans, and then delivering substandard instruction or no instruction at all. Many, but not all, of the problem schools were for-profit institutions and most of these were non-collegiate institutions, but the entire sector fell under suspicion.

Things have changed. During the last decade, for-profit educational enterprises, particularly degree-granting institutions, shrugged off the proletarian image of the 1960s and the scandals of the 1980s and made news in higher education circles and on Wall Street. While this sector serves a relatively small proportion of students compared to those enrolled in traditional colleges and universities, its remarkable growth has drawn attention from investors, policymakers and educators. The high profile of some of these institutions and their accreditation by regional organizations has raised interest and even consternation among more traditional colleges and universities. At the same time, some traditional colleges and universities are becoming more market-oriented and entrepreneurial – many adopting customer-oriented services and some even creating for-profit entities to handle revenue-generating operations.

This report provides an analysis of interviews with executives, campus administrators, faculty and students of selected for-profit degree-granting colleges and universities. During 1999 and 2000, staff of the Education Commission of the States (ECS) conducted extensive interviews on 13 campuses, at the central offices of five corporations and with three other organizations. This report presents case studies of three groups of for-profit institutions – the **small, local “enterprise” colleges, publicly traded “super systems”** and **Internet-based institutions**. It explores changes in the sector; factors that account for their survival and growth; the barriers and

benefits of regulation and accreditation; and the similarities and differences of the views of managers, faculty and students about the purposes, strengths and weaknesses of their institutions.

This report tells the story of for-profit degree-granting institutions primarily in the words of corporate executives, campus administrators, faculty and students. The institutions selected for this study were reasonably typical of degree-granting institutions in the sector. The interviews conducted by ECS staff were extensive, producing more than 400 pages of transcripts. In a few instances, administrators were present when faculty or students were interviewed, but that was not usually the case. No interviews were conducted with employers or with representatives of institutions in other sectors of higher education, so their perspectives are reflected through the eyes of those interviewed and the experiences of the author.

Since interviewees were promised anonymity, most of the quotes in this report are not attributed. Citations are provided for quotes from sources other than interviews. The author of this report did not participate in the early stages of the study or any of the interviews but has several years of experience as a policy analyst and executive in a state agency responsible for oversight of for-profit degree-granting institutions.

Participants in the interviews were generous with their time and generally candid in their responses. The study was substantially enhanced by the participation of key leaders in the industry, who were thoughtful and forthright about their institutions and the for-profit degree-granting institutions sector of higher education.

These interviews were a component of a larger study of the proprietary school sector conducted by ECS and the University of Virginia with support from the Alfred P. Sloan Foundation. In addition to this report, ECS has published a review of the literature, a matrix of the characteristics of for-profit degree-granting institutions, analysis of regulations in selected states and an annotated bibliography. The Curry School of Education at the University of Virginia has undertaken a related study of the business side of the for-profit sector.

## The For-Profit Degree-Granting Sector

### Overview

For-profit degree-granting institutions describe themselves as career-oriented, hands-on and customer-focused. Their primary purpose is to prepare graduates for jobs or career advancement. They tend to specialize, offering a narrow array of programs limited to high-demand occupational or professional fields. Their programs focus on development of skills for jobs and they use applied approaches to teaching and learning. Students who might not enroll in another type of institution – working adults, minorities, under-prepared students, “stopouts” and dropouts with unsuccessful college experiences, and parents with family responsibilities – are drawn to these schools. Perhaps the most important reasons students choose these schools are the extensive academic and personal support services available throughout the program, and job placement assistance after graduation. Accelerated programs, flexible schedules and convenient locations also attract students.

*“The outcome orientation, the private funding, the customer service, the adaptability...these are the four keystones of this model.”*

	<b>2-year</b>	<b>4-year</b>
<b>Number</b>	483	194
<b>10-year Growth</b>	78%	266%
<b>Share</b>	28%	8%

*Source: NCES, See Detail Table 1 in Appendix*

Formerly considered out of the mainstream of higher education, for-profit degree-granting institutions constitute its smallest but fastest-growing sector. As shown in Table 1 and in the detail table in the Appendix, there was remarkable growth in this sector during the past decade, with an increase of 78% in the number of two-year colleges and 266% in the number of four-year institutions. In 1988-89, for-profit institutions represented 19% of two-year colleges and by 1998-99 their share had grown to 28%. Among four-year institutions, the for-profit sector grew from less than 3% to more than 8% during the same period.<sup>1</sup> The sector includes many institutions that upgraded certificate and diploma programs to degree programs or added degree programs during the 1980s and 1990s. So while some of the growth in the number of institutions may be attributed to reclassification of "non-collegiate" to degree-granting institutions, the growth pattern is significant. There are also some truly new institutions and organizations including some, such as Jones International University and UNext.com's degree-granting subsidiary Cardean University, that are employing innovative structures, business approaches and educational methods.

As shown in Table 2, enrollment in for-profit degree-granting institutions has also grown, although not as quickly as the number of institutions. In fall 1998, almost 366,000 students were enrolled, an increase of 59% over fall 1989. Enrollment in all sectors increased 7% during the same period. Although more recent national data are not available, 2001 enrollments are expected to be substantially above 1998 levels.<sup>2</sup>

	<b>Public</b>	<b>Nonprofit Private</b>	<b>For-profit</b>
<b>1989</b>	10,578	2,731	291
<b>1998</b>	11,176	3,007	366
<b>Change</b>	6%	10%	59%

*Source: NCES, See Detail Table 2 in Appendix*

Much of the growth in enrollment among for-profit degree-granting institutions is due to expansion by long-established institutions through mergers and acquisitions, new campuses and implementation of Internet-based programs. Some of these institutions, including the largest and fastest-growing, were established decades ago and have been awarding degrees for years. The original campus of DeVry Institute of Technology, for example, was established in 1931, awarded associate degrees as early as the mid-1950s, and awarded its first bachelor's degrees in 1970.<sup>3</sup> The University of Phoenix, much discussed because of its recent phenomenal growth, was established more than 25 years ago.<sup>4</sup>

Nationally, 2.5% of higher education students were enrolled in for-profit degree-granting institutions in fall 1998. Table 3 in the Appendix lists the states with enrollments over 5,000 in for-profit degree-granting institutions statewide. These states are, as expected, among the most populous states. However, the proportion of students enrolled in these institutions varies considerably, from 1.5% in Texas to 7.9% in Arizona. Some large states such as

Michigan, North Carolina, Maryland and Massachusetts had very few for-profit degree-granting institutions and these institutions served less than 1% of the statewide enrollment.

Table 4 in the Appendix shows that for-profit institutions award few degrees at the graduate level. Associate degrees and certificates and diplomas (less-than-one-year and 1-4 year awards) accounted for 83% of all 1997-98 awards by for-profit institutions. Among the degrees awarded by all sectors of higher education that year, for-profit institutions bestowed 8% of the certificates and diplomas and 10% of the associate degrees. Bachelor's degrees represented 11% of the degrees granted by the for-profit sector, but the sector accounted for only 1% of all degrees at that level.

Many for-profit degree-granting institutions serve individuals who might not enroll in another type of institution. They serve relatively more minority and low-income students, students with GED certificates rather than high school diplomas, and students who delay entering college. Just like every other sector, however, there are differences among institutions within the sector. Table 5 describes the characteristics of students attending two types of for-profit degree-granting institutions – less-than-four-year institutions (highest degree is associate) and four-year institutions (bachelor's degree or higher). Students attending these types of institutions differ considerably. Students attending four-year institutions are older, more affluent and more likely to have a high school diploma and be employed than students at other institutions.

## ***Decades of Change***

*"Our sector goes back hundreds of years. The first women trained in business [were trained] by our sector during the Civil War."*

There have been remarkable changes in higher education in response to population changes, the emergence of the information economy and the development of technology. As the value of postsecondary education to both individuals and society grew, college-going rates among high school graduates increased substantially, from 49% in 1980 to a high of 67% in 1997.<sup>5</sup> During this period, adults also enrolled in colleges and universities in increasing numbers. As the baby boom generation ages, enrollment growth among people over age 25 has been slowing but is still a significant factor, and the baby boom echo is bringing a new wave of traditional college-age students into the market. These conditions presented both challenges and opportunities for the for-profit higher education institutions and in many ways brought out the worst and then the best in the sector.

Public policy expanded access, primarily through expansion of community colleges and development of student financial aid programs. During the past 30 years, junior colleges in many states evolved into comprehensive community colleges offering a wide array of low-cost occupational programs along with baccalaureate transfer programs. In addition to low cost, community colleges are regionally accredited and many of their programs offer degrees – attractive options for students who might otherwise attend a for-profit school.

*"The schools that serve their students well succeed."*

In response to competition from community colleges, many non-collegiate for-profit schools upgraded their certificate and diploma programs to associate degrees and focused on students who might not enroll in another type of institution. To attract working adults, they provided condensed formats, convenient schedules and locations, and online instruction and services. Most for-profit colleges began providing extensive academic and personal support services to help students who were under-prepared or who were intimidated by traditional institutions. Their programs emphasized application over theory and laboratory over lecture. Many students were attracted by the opportunity to get right into their major and not be delayed by "irrelevant" general education and foundation requirements.

Since the 1940s and the establishment of the GI Bill, students attending for-profit institutions have been eligible for federal student financial aid programs. The availability of grants and loans makes education more affordable for students. Institutions have come to rely on these programs and have lobbied to be included in state financial aid programs, arguing students should have choice among all institutions and programs. Among the 11 states that constitute the largest or fastest-growing higher education markets, nine included for-profit degree-granting institutions in state student financial aid programs.<sup>6</sup> While these programs are essential to the for-profit school business model, they bring multiple levels of regulation and oversight that limit growth and flexibility.

The recent growth and success of the for-profit degree-granting institutions could not have been predicted in the



early 1990s when the U.S. Department of Education cracked down on institutions with high rates of defaults. Student aid scandals swirled around the for-profit sector and fraudulent institutions made headlines.<sup>7</sup> Most of the problem schools were non-collegiate institutions, but the entire sector fell under suspicion. Under rigorous anti-default regulations, stronger accrediting requirements and closer state oversight, many of the weaker institutions closed. During the 1990s, more than 1,300 schools were removed from eligibility for federal student aid programs because of high default rates, loss of accreditation or infractions of federal aid rules.<sup>8</sup> Many of these schools were for-profit trade schools, but most were non-collegiate, non-degree schools. Without access to financial aid programs, many of these schools could not survive.

*"Everyone has a story about for-profit schools. Some of them are real and some are just old folklore."*

## **Regulation and Accreditation**

Most postsecondary institutions, including for-profit degree-granting institutions, are subject to some level of regulation by states and the federal government and to accreditation by one or more private accrediting organizations. A full discussion of accreditation and governmental regulation is beyond the scope of this report. These functions are, however, important components of the higher education environment and they affect where and how for-profit institutions do business, whether students participate in financial aid programs and whether other institutions recognize their credits and degrees.

The U.S. Department of Education monitors compliance with student financial aid rules and the capacity of institutions to administer these programs for their students. The Department relies on accrediting organizations and states to assure the quality of instruction, qualifications of faculty, adequacy of facilities and other aspects of operations. For-profit degree-granting institutions strive to comply with federal regulations because they want their students to be able to participate in student financial aid programs. They are concerned about schools that violate regulations because they fear more rigorous oversight for the entire sector and potential exclusion from aid programs.

For-profit degree-granting institutions that operate in more than one state can be subject to myriad regulations, with varying and sometimes contradictory rules. In many states, there are different regulatory processes for public and private institutions and for for-profit and not-for-profit institutions. Established in-state not-for-profit institutions may be exempt, while new for-profit and out-of-state institutions are subject to regulation. In some states, for-profit schools are treated like any other business that must register, pay taxes and file corporate documents annually. Laws in other states focus on consumer issues and provide recourse for students who believe they have been misled or defrauded.

Many states focus on a different concept of consumer protection – protecting employers and purchasers of services who rely on degrees as evidence of knowledge and skills from diploma mills and their “graduates.” Such laws protect the integrity of the degree and the value of the degree for graduates of legitimate colleges and universities. These states have established minimum standards for quality, faculty qualifications, facilities and other aspects of institutional operations. However, a statement, or perhaps a misstatement, by an administrator of one oversight agency suggested that in some states these standards are truly minimal: “We [adopted] minimum standards to help the diploma mills come up to the state minimum that they feel comfortable with.”<sup>9</sup> Regardless of the rigor of the standards, state agencies rarely have the resources to investigate and enforce regulations and pursue violator schools.

Once state approval has been achieved, however, institutions tend to support continued regulation. Approved institutions strive to be considered part of the higher education community and recognized for their contribution to statewide goals for higher education. Institutions want to be in a position to be eligible for state student financial aid programs, institutional grant programs and statewide articulation agreements. According to institutional executives, states’ attitudes toward the for-profit sector ranged from benign neglect to friendliness. “There probably aren’t any states left where there is open hostility,” said one executive. Some states consider for-profit degree-granting institutions to be part of the larger higher education system and include their representatives in policy development and planning activities.

*"...Our schools are very concerned about violator schools...they hurt our reputation."*

All of the for-profit degree-granting institutions included in this study are accredited by one or more organization.<sup>10</sup> While accreditation of schools is an important indicator of quality, the system of accreditation is more complex and less straightforward than it should be if it is to be useful to students and others.

There are three general types of recognized accrediting organizations – regional, national and specialized. There are seven regional organizations and more than 90 national or specialized accrediting organizations. Regional and national organizations accredit an institution as a whole. Specialized accrediting organizations usually deal with individual programs – engineering programs by the Accreditation Board of Engineering and Technology or physical therapy programs by the American Physical Therapy Association, for example – and many institutions hold accreditation for one or more programs in addition to institutional accreditation. Sometimes an institution devoted entirely to one program area will hold only specialized accreditation.

Most traditional institutions are accredited by one of seven regional accrediting organizations, considered to be the most prestigious of accrediting organizations. About 10% of for-profit degree-granting institutions are accredited by one of these organizations. A majority of for-profit degree-granting institutions hold institutional accreditation from a national organization, particularly the Accrediting Commission of Career Schools and Colleges of Technology (ACCSC) or the Accrediting Council for Independent Colleges and Schools (ACICS). The Distance Education and Technology Council also accredits a significant number of institutions.

Several executives cited the developing case of Computer Learning Centers (CLC), which was not one of the institutions included in this study, as an example of the vulnerability of for-profit degree-granting institutions. In 1998, this company enrolled more than 9,000 students, operated 25 campuses in 11 states, and was traded on the New York Stock Exchange. CLC came under fire from states, the U.S. Department of Education and former students. As its problems multiplied, its stock fell and investors refused to provide funds for settlements and fines. As each problem was settled, new problems arose. Ultimately, the Department of Education revoked its eligibility to participate in student financial aid programs and the company soon closed its doors and filed for bankruptcy protection.<sup>11</sup> The heads of the successful enterprises included in this study had mixed reactions to the CLC story. Some believed that the U.S. Department of Education had done a “hatchet job” on the company. Most thought they might have deserved the sanctions. (“If they weren’t serving their market well, they deserved to close,” as one person put it.) Most also believed that the CLC episode was an example of the additional accountability required from for-profit degree-granting institutions. As one person noted: “You’re not going to see that [scrutiny] in traditional higher education.”

### ***From Disparagement to Emulation***

For a long time, for-profit postsecondary education received little attention from traditional higher education – public and not-for-profit private colleges and universities. Each sector offered different kinds of programs for different groups of students so neither was very interested in the other. As the number and size of for-profit degree-granting institutions have grown, however, reaction from traditional higher education has ranged from disparagement to emulation. At the same time, some state policymakers are calling upon public institutions to be more responsive to their clients – students, parents, employers, communities and the state. Traditional colleges and universities are being encouraged to adopt more student-oriented policies and services and respond quickly to the needs of employers for well-prepared workers. Traditional colleges and universities are also becoming more entrepreneurial, establishing for-profit subsidiaries or forming partnerships with for-profit businesses to develop or deliver educational products and services.

Perhaps the most prevalent view among academics is that for-profit degree-granting institutions’ programs are not necessarily inferior but different – training rather than educating, skills rather than theory, practice rather than analysis. They would contend that while these programs meet the needs of certain types of students, their degrees are not “true” degrees like the liberal arts-based associate and bachelor’s degrees awarded by traditional institutions.

For-profit degree-granting institutions would agree that their programs are different, and they are proud of that difference. However, they would assert that their programs are equivalent in content and expectations for student performance. For-profit degree-granting institutions would agree with the criticism that they “cherry pick” the most profitable programs, leaving public institutions to provide higher cost, lower demand programs. But they could counter with the point that they provide educational infrastructure and opportunities with private rather than taxpayer funds.

Stern critics of for-profit degree-granting institutions contend that the profit motive is not compatible with academic values, and that quality suffers when quantity is paramount: substandard admission criteria, low expectations for student performance and superficial curricula with only as much general education as is required by regulators or accreditors. They suggest that intellectual discourse is absent and instructors deliver canned courses, teaching 20 or more hours a week with no time or compensation for scholarly activities and professional development. They say that reduced classroom hours and shortened schedules sacrifice academic intensity to convenience for students. Further, critics say that for-profit institutions have inflated credentials, padding certificate programs to convert them to degree programs that qualify for financial aid and enrolling students in expensive programs that lead to low-paying jobs.

*"...Career education is far different than it was when the Department of Education was throwing gold in the streets."*

For-profit degree-granting institutions would counter that the design of their programs is driven by both employers' needs and students' interests. Programs and courses are not designed to accommodate the narrow academic interests of research-oriented faculty. As both businesses and schools, they need to meet the quality standards of both industry and academe. They may be even more sensitive to quality concerns than traditional institutions. While the stock market moves very quickly when a business has problems, regulatory agencies and accreditors rarely do so. It usually takes years to revoke authority or accreditation.

*"You need to understand [the proprietary model] not in comparison to what public institutions are doing, but in comparison to what the American economy needs."*

Neither for-profit nor traditional higher education can fully address the quality question. While the for-profit sector emphasizes retention, degree completion and job placement, comparative data are not readily available for that or any other sector. While some institutions use external benchmarks for their internal quality-assurance processes, few publish them. Accrediting organizations require institutions to conduct assessments but the institution chooses the methods and measures. Consumer information systems, such as the U.S. Department of Education's College Opportunities On-Line, provide useful information but no outcomes measures such as completion rates, placement statistics or graduates' average earnings.

## **Keys to Success**

Despite the restrictions of state regulation and accrediting requirements and the challenges from traditional higher education, for-profit degree-granting institutions have succeeded and grown. The stronger institutions survived the student aid scandals, and the growth of the for-profit sector, particularly four-year institutions, accelerated through the 1990s. Many institutions gained grudging respect from the higher education community and the number of regionally accredited institutions increased.

Many for-profit institutions were well positioned to take advantage of economic and social conditions and rapid advances in technology. Their emphasis on career-oriented, hands-on and customer-focused institutions and programs seem to appeal to new types of students. Their programs are limited to high-demand occupational or professional fields and focus on development of skills for jobs. Applied teaching and learning serve nontraditional students well, including minorities, under-prepared students, "stopouts" and dropouts with unsuccessful college experiences. Working adults and parents with family responsibilities are drawn to these schools by accelerated programs, flexible schedules and convenient locations.

<b>Conditions Affecting All Sectors of Higher Education<sup>12</sup></b>	<b>Common Strengths of For-Profit Degree-Granting Institutions</b>
<ul style="list-style-type: none"> <li>? Relative growth in minority populations</li> <li>? Growth in the traditional college-age population</li> <li>? Increased college-going rates</li> </ul>	<ul style="list-style-type: none"> <li>? Customer orientation</li> <li>? Academic and personal support services</li> </ul>
<ul style="list-style-type: none"> <li>? Increased adult participation rates</li> <li>? Increased economic value of college degrees</li> </ul>	<ul style="list-style-type: none"> <li>? Accelerated programs</li> <li>? Convenient locations and schedules</li> <li>? Technology-delivered or enhanced instruction</li> </ul>
<ul style="list-style-type: none"> <li>? Increased number and proportion of jobs requiring postsecondary preparation</li> <li>? Rapid changes in job skills</li> <li>? Advances in technology-delivered instruction</li> </ul>	<ul style="list-style-type: none"> <li>? Career-oriented degree programs</li> <li>? Hands-on approaches to instruction</li> <li>? Short program development cycle</li> <li>? Availability of capital for program development and technology</li> </ul>

The for-profit sector is more diverse than it might first appear. Many small “enterprise” colleges continue to serve local communities, while the sector also includes “super systems” like the country’s largest private university, the University of Phoenix, which enrolls more than 75,000 students in 15 states and online.<sup>13</sup> In addition, innovative Internet-based institutions are providing instruction primarily or exclusively through technology. Although classifications and labels tend to exaggerate differences and understate similarities, for the purposes of this analysis, the institutions included in this study are considered in three groups: enterprise colleges, super systems, and Internet institutions.

[Back to top](#)

## Case Study – Enterprise Colleges

Nationally, about half of the for-profit degree granting institutions might be classified as “enterprise” colleges, consisting of one campus or a group of campuses usually serving a specific region. Enterprise colleges are privately owned and operated by an individual or small company. Most of these colleges have relatively small enrollments – typically fewer than 500 students per campus with total enrollments for multi-campus institutions ranging up to 3,000, still small compared to the super systems.

Seven of the institutions included in this study were classified as enterprise colleges and two of those, Keiser College and Western Career College, are truly family enterprises with family members sharing administrative responsibilities and playing multiple roles. Westwood College and Keiser College both have multiple campuses but they continue to be privately held and have not yet reached the scale of super systems.

*“...We certainly don’t want to have those masses of students; we’ll lose our own culture...”*

*“In this business, you have to devote a lot of hours because there are so many things to be responsible for... Some days I feel like the janitor and other times I’m the president.”*

## Mission and Purposes

Founders and chief executives of enterprise colleges describe their institutions as learner-centered, career-oriented and professional, and their degree programs as intense, comprehensive, condensed and hands-on. Enterprise colleges focus on a small set of related degree programs that prepare students for careers. Executives at several institutions said that they entered the business because they believed they could do a better job than traditional colleges and universities – serving more students and more diverse students and providing better training for jobs. Faculty, students and administrators at these schools frequently mentioned “professionalism” in several contexts. Students noted that they were treated in a professional way by the school; faculty mentioned the professional

environment; and administrators spoke of helping students develop professional behaviors in addition to job skills.

*"Number one, we train them for careers, number two, we get them jobs."*

Each of the institutions in this group attributed its ability to compete with other sectors of higher education to the individualized attention provided to students. They talked about creating a "home" for students and doing a lot of handholding. They also cited their success in helping graduates get appropriate jobs. These colleges also paid close attention to their local communities, monitoring job trends, seeking the advice of employers and examining the characteristics of potential students. All had advisory committees of local employers and involved them in program development.

*"...Students can find a home, they can do better, they can get their degrees, and they can get placed into jobs..."*

<b>Enterprise Colleges Included in the Study<sup>14</sup></b>	
<b>Atlantic Coast Institute</b>	Located in Fort Lauderdale, Florida, and established in 1982, ACI is accredited by ACICS**. It offers associate degrees in court reporting, paralegal studies, business and health-related fields.
<b>Keiser College</b>	Established in 1977, Keiser College is based in Fort Lauderdale, and has campuses in Daytona Beach, Melbourne, Sarasota and Tallahassee, Florida. It holds accreditation from the Southern Association of Schools and Colleges, a regional accrediting organization, and specialized accreditation for several health-related programs. It offers associate degree programs in business, computer and information sciences, graphic design, paralegal studies and health-related fields.
<b>Potomac College</b>	Located in Washington DC, and established in 1991, Potomac College is accredited by ACICS**. It offers associate and bachelor's degrees in business.
<b>Silicon Valley College</b>	Based in Fremont, California, and established in 1989, SVC is accredited by ACCSCT*. It operates campuses in San Jose and Walnut Creek. It offers associate degrees in computer-aided design, graphic design, information technology and medical assisting.
<b>Southern California Institute of Technology</b>	Located in California and established in 1987, SCIT is accredited by ACCSCT*. It offers bachelor's degrees in engineering technologies.
<b>Western Career College</b>	Located in California and established in 1967, it is accredited by ACCSCT*. It has campuses in Sacramento, San Leandro and Pleasant Hills, California. WCC offers associate degree programs, primarily in health-related occupations.
<b>Westwood College</b>	Established in Colorado in 1953, Westwood College is accredited by ACCSCT*. Westwood College operates Westwood College of Technology with campuses in Denver, Chicago, Los Angeles and two other California sites. Associate and bachelor's degrees in information technology and graphic design are offered. It also operates the Westwood College of Aviation with campuses in Denver, Houston and Los Angeles.
*ACCSCT - Accrediting Commission of Career Schools and Colleges of Technology	
**ACICS - Accrediting Council for Independent Colleges and Schools.	

## Students

Students attending enterprise colleges were described as "the other 75%," people who were not in the top 25% of their high school classes and who would be unlikely to enroll or be successful at other types of institutions. A majority of the enterprise colleges served more adults than recent high school graduates. Some colleges serve both recent high school graduates during day programs, and adults in evening and weekend programs. One executive noted that recent high school graduates were more likely to go to a community college than a specialized college but adults seek out the specific education they need. Many adults attending these institutions were employed and many had some previous college experience. Several colleges enrolled a relatively high proportion of minority students. Colleges specializing in technology-related programs tended to enroll a large proportion of men while allied health programs attracted more women than men.

While all of the degree-granting institutions participating in this study required students to have a high school diploma or GED, administrators tended to avoid questions about minimum grade-point averages, average scores on admission tests or the percentage of students with GEDs. Instead, they talked about students' commitment and

motivation, suggesting that these factors were more important than academic preparation and compensated for any lack of academic abilities. Several institutions assessed interest and motivation in a pre-admission interview or during an orientation period. Some offered a short trial enrollment period during which both students and advisors could determine whether the student was likely to be successful in the program.

*"We do a lot of hand-holding because traditionally the students that come here have not been successful in high school...and they wouldn't be accepted at a state four-year college."*

When faculty and administrators were asked why students chose their institution, these reasons were most frequently cited – the career focus of the programs and hands-on methods of teaching, small classes and faculty-student interaction, and the high level of customer service. Students generally agreed with this assessment. Administrators suggested that students had shopped around for a school and quite a few students indicated that they had contacted several institutions before enrolling. A few students said that they had been looking for something to do or for a change in their lives, and saw an advertisement that appealed to them; most, however, had definite reasons. They wanted a program that would give them job skills and lead to a job. They were frequently attracted to a particular school by a friendly first contact and prompt response to their initial inquiry. To many students, the career focus meant that they did not have to take much general education or could at least take the major courses first. Several students mentioned that a friend or relative had recommended the school.

*"We have 23 families that had multiple people in our schools, like a father and son, grand-mother and granddaughter. That's an ongoing thing."*

The reasons most frequently mentioned by students, but infrequently by faculty and administrators, were the accelerated programs and the overall time to earn a degree. Citing previous negative experiences with other colleges and universities, students also emphasized class offerings – availability of courses, convenience of schedules, campus location and availability of public transportation. Students who had previously attended a traditional institution valued the ability to plan their programs with a set schedule and sequence of courses. Several mentioned the benefits of modular courses – one course at a time, four days a week for four or six weeks – that allowed them to concentrate on one subject at a time.

A few students reported career objectives – becoming a lawyer, engineer or physical therapist or going to graduate school – that seemed to be inconsistent with their choices of institutions or programs. While students learn a lot about the legal system as they train to be a paralegal, a paralegal program is a circuitous route to law school. Even setting aside accreditation issues, credit earned in an associate of applied science degree program seldom applies toward the type of bachelor's degree needed to enter a graduate or professional school. There was no indication that the institution had misinformed students but it is likely that students did not fully understand educational requirements for some professions and the differences among programs and institutions. Two administrators, not necessarily representative of all colleges in this group, were rather casual toward students' future educational aspirations, suggesting that students could get a "regular degree" after they had worked for a while.

*"I was thinking of going to law school so I figured I would try [the paralegal program] out and see how I liked it."*

Few students voiced complaints about their college and programs during interviews. Most students prefaced any complaint with a positive comment about faculty and the services provided by the college. A few students mentioned that it was sometimes difficult to get access to a computer and more technical support was needed in computer labs. While small class sizes were often an attractive feature, students at two institutions said that class sizes had increased from around 10 to more than 40, and that faculty hiring was not keeping pace with enrollment increases. Most students said that they did not miss the campus life of traditional colleges since they would not have time for such activities anyway. When asked how they would improve the institution, they mentioned perennial student gripes: the food service, the student lounge and parking.

While students had few complaints to report in interviews, administrators said that students were not hesitant to lodge complaints and that changes were often made to correct problems they identified. One college head noted that the serious nature of the students and the close relationship fostered between faculty and students sometimes cause tensions that result in complaints and disputes. Most colleges surveyed students frequently about their satisfaction with various aspects of their experience.

## Services

When asked to identify the unique aspect of the institutions, most faculty and administrators at enterprise colleges mentioned caring about students and providing support services. Most colleges had retention programs that seem to serve the institution's business interests as well as students' educational objectives. One administrator said the college tried to deal with each of the major factors affecting retention – academic problems, poor study habits and motivation, and personal troubles. Retention efforts usually include procedures for contacting students who had missed class or helping those who were having academic trouble. The faculty was viewed as “the first line of defense against attrition.” They monitored attendance, watched for problems and did most of the tutoring, although some institutions had peer-tutoring arrangements as well. Several students reported that instructors were available to them outside of class.

*“... We go over our list of at-risk students every single week. What's up with this student? Let's keep an eye on him.”*

*“My students have my e-mail, my pager number, and my voice mail. They have my home number, voice mail and cell phone.”*

Despite the fact that students hold high school credentials and had passed admission tests, faculty reported that students showed a wide range of ability and many needed help in basic areas – reading, writing and mathematics. Since the early 1990s, many colleges have stopped admitting students who do not have a diploma or GED – the so-called “ability to benefit” students – and also eliminated remedial programs.<sup>15</sup> Without remedial programs, there are no prescribed methods for providing assistance for under-prepared high school graduates. Most of the institutions in this group said that faculty provided individual assistance and tutoring in English usage, mathematics and reading as a part of early coursework.

*“In every other sector of higher education, students get lost. Students cannot get lost in our schools. They cannot get lost.”*

Some institutions serve a relatively large number of academically under-prepared and economically disadvantaged students. These institutions provide personal as well as academic support for students who “have all kinds of life issues.” Students learn manners and how to dress, as well as job skills. Beyond that, some schools are proactive in helping students balance school with family responsibilities and personal problems.

Administrators also stressed customer service on the business side of operations. Front-office personnel were instructed to be friendly and students received help with financial aid paperwork. One college had a financial aid specialist for every 125 students and reported that the local community college had one for every 1,000 students.

Administrators and faculty claimed that their school provided a caring atmosphere, but did students agree? Students were interviewed at four of the enterprise colleges and there was consensus that the school was a friendly place and faculty and staff cared about them. Some suggested that they had chosen the school because their first contact with school personnel had been friendly. Students cited small classes, accessible faculty, friendly staff and smooth-running administrative processes as benefits.

## **Faculty**

The instructors at enterprise colleges were chosen for both their credentials in the field and their ability to teach. In most cases, faculty were expected to have a degree above the level at which they were teaching and also appropriate work experience. Several schools said they required prospective instructors to give a presentation for evaluation by existing faculty members. One college administrator said “you either have inherent capability to teach or you don't,” but others said they provided training in teaching skills to people who had the technical or professional skills needed. Faculty were employed “at will” at for-profit degree-granting institutions. There is no tenure system, but both faculty and administrators agreed that instructors were rarely dismissed and that dismissals were for cause. Most administrators indicated that faculty could make a career in their institutions and many of the faculty had been at their institution for five or more years.

Instructors at enterprise colleges enjoyed teaching and their relationships with students. These were the primary reasons almost all faculty members cited for their choice of employment. Some said that they had always wanted to teach and that the institution did not matter as much as the opportunity to teach. During interviews, instructors tended to talk more about the students than themselves. Several expressed a strong sense of responsibility to

students that was consistent with the mission of the college described by administrators. Faculty often mentioned the college's philosophy and used the same words as administrators and executives when talking about the mission and purposes of the institution.

*"I feel that [the students] are my paying clients for the next 10 weeks and it is my responsibility to be available to them whenever they need me."*

Faculty members were not apologetic about having chosen a for-profit degree-granting institution. Instructors who had experience in other sectors of higher education said that they liked the focus on teaching and the absence of demands for research and publications and the "politics of tenure." They liked the seriousness of students and their dedication to their studies. They also liked the college environment, support from administration and other members of the faculty, relatively small class sizes, organization of the curriculum, and the ability to get teaching materials and equipment when they need it. Like students, faculty also mentioned the convenient location of the school and access to public transportation.

*"Our graduations are awesome...students' parents, grandparents, their kids are chasing them down the aisle because nobody ever graduated from college before."*

Several instructors, particularly those in technical fields, said that they could earn much more in industry. Administrators generally agreed with this assessment, adding that salaries were competitive with other educational institutions but usually not with industry. Although not unique to the sector, several faculty described long days, with split days (morning and evening sessions) running from 8 a.m. to 10 p.m., with a long afternoon break. Although most schools employed part-time faculty, particularly in high-demand fields, administrators tended to prefer full-time faculty, noting that it is "important for them to be part of our culture."

Smaller enterprise colleges did not have formal faculty evaluation processes but other institutions had a regular schedule of reviews by program directors and deans. All schools conduct student-satisfaction and course-evaluation surveys and they get a lot of attention. Faculty evaluations were tied directly to individualized professional development plans at one college. The nature and scope of opportunities for professional development varied among the enterprise colleges. All described fairly extensive orientation programs for faculty covering routines and procedures as well as the college's mission and philosophy.

Some aspects of the faculty role in enterprise institutions raise concerns among traditional educators. Full-time instructors teach 20 to 30 hours a week or more with schedules more like elementary and secondary school teachers than college instructors. Some instructors were expected to teach courses in several fields – such as paralegal studies, English and psychology – that would be taught by individual specialists at larger for-profit institutions and traditional colleges and universities.

One instructor reported that he advised students that they "are crazy if they go all out for an A." However, a more common view was expressed by another faculty member who said, "Every step in the right direction you give credit for, but if they don't know the material, they should not go on. You're not doing them a favor."

## **Programs**

Programs at all enterprise colleges were designed to prepare students for a specific occupation. Most of these colleges offered associate degrees and a few also offered bachelor's degrees. Some college administrators mentioned that their programs were organized more like military training than traditional higher education – one course at a time, hands-on, varied formats and high time-on-task. Students seemed to like this format, indicating that it was easier to focus on one subject at a time and prepare for one final exam at the end of the term. In addition to the career objectives and applied learning methods, the programs offered by enterprise colleges also focus on professional behavior and attitudes – "making them better people and better employees." Several schools had dress codes and expected students to be on time, participate in classes, collaborate with other students on projects and otherwise practice good work habits.

During interviews at enterprise colleges, all discussions about quality began and ended with the three most important measures of success among for-profit degree-granting institutions – retention, completion and placement. All institutions reported that they placed a majority of their graduates in appropriate jobs within a reasonable period. Placement rates ranged from 85% to almost 100%. Persistence rates, usually the percent of students returning for the second academic year, ranged from 70% to 90% for most schools and programs. None of the colleges specified completion rates, but claimed better records than the public sector.



College administrators were not asked specifically about quality-assurance systems, but they were mentioned in response to questions about problem solving and program development. One college described a continuous quality-improvement process tied to long- and short-range planning activities. This institution surveyed students, graduates, alumni and employers on a regular basis. Student evaluations of faculty were considered in planning for professional development for individual instructors. Other aspects of the program included interaction with employers, advisory boards and annual institutionwide convocations.

*"We have an institutional effectiveness and planning program...we do assessment of everybody and everything."*

Most of the other enterprise colleges at least surveyed students on a regular basis, in part because accrediting organizations require it. In addition to retention, completion and placement, other measures of quality were mentioned – attendance, repeat hiring of graduates by employers and the proportion of graduates recommending the institution to friends. Accreditation organizations also provided comparative information on retention, completion and placement for use in institutional evaluation. In some program areas, pass rates on certification or licensure examinations were major indicators of the extent to which program objectives had been achieved.

*"We are very selective about our programs. If a program becomes non-marketable, we drop it and go into other areas..."*

Students had various opinions about the quality and rigor of the courses they were taking. Many students, including those who had some experience in other sectors of higher education, described their courses as "challenging" or "harder than I expected" and said that the work was "as much as you can handle." Several mentioned that instructors adjusted the pace so "nobody is bored" but some said the pace was sometimes too slow.

*"...95% of our students are working hard, they're really strict and disciplined here; this is a no-nonsense school."*

A perennial criticism of for-profit degree-granting institutions is that very little actual teaching takes place; stereotypically, a minimally qualified instructor delivers a canned curriculum that is so simplified that anyone can teach it. An administrator at one institution noted efforts to address this concern within the for-profit sector. "We are trying to get away from the old Bryman method," he said, in which instructors read from textbooks or notes and students "colored in on their copy or underlined." However, one instructor bragged: "Take a three-month course at a regular standard university – we have learned how to teach that material in two weeks."

Updating and upgrading existing programs were often associated with changes in the field. Computer technology programs might be enhanced to allow students to obtain industry certification while health programs might be updated to respond to changes in licensure requirements or in the recommendations of professional organizations. Faculty or advisory groups often initiated such program changes. Other types of enhancements to existing programs, such as updating content or selecting new textbooks, often took place through informal processes including the initiative of individual faculty members and in response to student comments or complaints. (Advisory groups also advise on equipment, software and other educational materials.)

Major changes to existing programs or development of new programs were generally the responsibility of the college executive and academic director with input from department chairs or faculty. Most executives indicated that the employment needs of the community were the primary considerations in developing a new program. Some colleges said they used market research, either hiring an outside firm or doing their own studies, which were often surveys of local employers. Advisory councils or groups of employers were frequently asked to provide suggestions or comment on a proposed curriculum. One college executive said that they had used consultants to develop new programs, particularly ones that were not closely related to existing programs, and used model programs from colleges in other parts of the country. Another noted that there were a lot of "canned" programs that can be purchased from publishing companies.

*"Our focus is to identify where opportunities for employment are, what the needs of someone applying for those jobs are, and then put them together."*

Several mentioned that the ability to get a new program up and running quickly was one of the major strengths of the for-profit sector. One college executive reported that they had "developed three baccalaureate degree programs in three months and had them up and running and online." Others said that they could develop a new program in three to six months but then had to get approval from state regulatory agencies and one or more accrediting organizations,

processes that could add several months to the schedule for getting a new program implemented.

## Accreditation and Regulation

One of the enterprise colleges included in this study, Keiser College, held accreditation from a regional accrediting organization. The others were accredited by national organizations, either the Accrediting Commission of Career Schools and Colleges of Technology or the Accrediting Council for Independent Colleges and Schools. The major disadvantage of holding national, rather than regional accreditation, were difficulties in articulating programs and transferring credits to regionally accredited institutions. In addition, some employers limit tuition reimbursement programs to coursework taken at regionally accredited institutions and some states waive approval or review processes for regionally accredited institutions.

On the other hand, several college executives said that they would lose their unique character and many of the strengths of their programs if they made changes to meet regional accreditation requirements. They would have to become more like the traditional schools while giving up things that enable them to compete effectively. Administrators at one institution acknowledged that regional accrediting organizations were run by educators, were focused on quality and brought a "prestige factor" to institutions. There were, however, aspects of their guidelines that did not suit the for-profit school well – governing boards, shared governance and faculty tenure. One administrator suggested that getting approval for new programs was easier with national accreditors, an important factor in being able to respond quickly to employer demands. Administrators at a few enterprise colleges were critical of what they believed was misplaced confidence in regional accreditation. One suggested that a well-known school had "paid" for its regional accreditation and another said that regional accreditors did not do a thorough job of reviewing large, multi-campus institutions.

Several administrators said that the combination of state regulation, institutional accreditation and specialized program accreditation placed a substantial burden on institutions. "There is so much duplication, they almost step on each other's toes trying to regulate us," one said. Some school representatives suggested resentfully, and perhaps not accurately, that other sectors of higher education, did not have the oversight that their sector did. One administrator, however, said that, despite the administrative burdens, the requirements of state boards and accrediting agencies, combined with the demands of employers, have ensured that the for-profit sector delivers high-quality products and treats students fairly.

*Low-quality institutions "are put out of business either by non-compliance or because the employers don't want to hire their grads."*

Executives and administrators of enterprise colleges had several suggestions for state regulators and accreditors. State agencies and accrediting organizations should streamline their processes, better coordinate regulatory and accrediting processes, and reduce duplication. Several suggested that more emphasis be placed on accountability – on results rather than resources – including the use of common performance measures, or even standardized tests, for similar programs across all sectors of higher education. They believed that their institutions would do well on any reasonable objective measures of student performance. They said state regulators should also encourage partnerships between public and private institutions in the delivery of programs and services to students, capitalizing on the programmatic strengths of each sector. Perhaps most important, representatives of enterprise colleges want policymakers to recognize the contribution they make to students and to the state.

*"...proprietary institutions do perform an important role for our country...training and educating skilled workers and taking people who might not be successful in any other educational environment...and allowing those students to succeed...to have a higher quality of life and to be productive tax-paying citizens."*

[Back to top](#)

## Case Study – Super Systems

The super systems have in common the fact that their stock is traded on the New York Stock Exchange and they have a multi-campus, multi-state reach. It is impossible to get this group to stand still for a portrait, to accurately describe the numbers of campuses or students served by these systems. With expansion, mergers and acquisitions, the number of super systems changes frequently but as of this writing, 12 corporations listed by the New York Stock Exchange operate degree-granting institutions. Five of these corporations were represented in this study with

campus interviews, interviews of corporate executives or both.

When this study began in 1999, degree program enrollment at institutions operated by the super systems ranged from 8,000 to more than 65,000. More recent comparable data is not available, but it is reasonable to expect that these institutions have grown substantially. The University of Phoenix, for example, reported that more than 100,000 students were enrolled in 2001, an increase of over 50% since 1999. Despite the large numbers of students served by these systems, with few exceptions individual campus enrollments were modest. One chain had over 65 campuses with most enrollments ranging from 400 to 500 per campus and the largest enrolling fewer than 1,000 students. Executives at one super system said they operated on a "large campus" model, but only its largest campus enrolled as many as 4,000 students, a relatively small campus compared to most public institutions. Only one super system had a campus with over 20,000 students; most of its campuses enrolled around 2,000.

*"In the 21<sup>st</sup> century, there will be two types of educational institutions – the quick and the dead."*

-- John Sperling, CEO Apollo Group Inc. Web site.

One measure of the importance of the for-profit sector is the attention it is receiving from other sectors of higher education. Part admiration and part disdain, traditional higher education is certainly paying attention. The Web site for *The Chronicle of Higher Education*, a major periodical for the higher education community, has an "Issues in Depth" section with collections of articles on for-profit higher education along with affirmative action, tenure, distance education and college costs. It is the super systems, not the enterprise colleges, that are attracting all the attention. There are more articles about the University of Phoenix than any other institution and more about growth, mergers and acquisitions than any other topic.

### ***Mission and Purposes***

Operating degree-granting educational institutions was the primary business of each of the super systems included in this study, but four of the five ran other enterprises including non-degree schools, corporate training units, certification review programs and consulting services. Two of the five had campuses outside the United States and offered full degree programs through the Internet.

<b>Super Systems Included in the Study</b>	
<b>Corporation &amp; Institution</b>	<b>Description</b>
<b>Apollo Group Inc.</b>	The Apollo Group Inc. operates the University of Phoenix, Institute for Professional Development, College for Financial Planning Institutes Corporation, Western International University and Apollo Learning Group.
<i>University of Phoenix</i>	The University was established in 1976 in Phoenix, Arizona, and offers bachelor's, master's and doctoral degree programs. It is accredited by the North Central Association and holds programmatic accreditation from the National League for Nursing and the American Counseling Association.
<b>Corinthian Colleges Inc.</b>	Corinthian Colleges Inc. operates three divisions – Corinthian Colleges, Rhodes Colleges and Florida Metropolitan University – with 56 colleges in 19 states enrolling 23,000 students. The Corinthian Colleges group offer certificate and diploma programs at 10 colleges with 39 sites.
<i>Blair College</i>	Blair College is one of the eight institutions in the Rhodes Colleges group. It is located in Colorado Springs, Colorado, and is accredited by ACICS. The College enrolls over 400 students in associate degree programs in business, information technology, paralegal and medical office fields.
<i>Parks College</i>	Also a Rhodes College, Parks College has campuses in Denver and Aurora, Colorado. It is accredited by ACICS and offers associate degree programs in business, computer technology, criminal justice, legal assisting, medical office fields and travel and tourism.
<i>Florida Metropolitan University</i>	Florida Metropolitan University has nine campuses in Florida. FMU is accredited by ACICS and offers associate, bachelor's and master's degrees. Degree programs are offered in business and management, computer information science, criminal justice, legal assisting and office technologies; an industry certification program is also offered.
<b>DeVry University</b>	DeVry Inc. operates three groups of degree-granting institutions – DeVry Institutes of Technology, Denver Technical College and Keller Graduate School of Management – and Becker CPA Review. Keller provides MBA programs at 41 facilities in 14 states. DeVry has 21 institutes in 12 states and two provinces. The North Central Association of Colleges and Schools accredits both Keller and DeVry.
<i>DeVry Institute of Technology-Southern California</i>	Southern California DeVry Institutes of Technology are located in Long Beach, Pomona, and West Hills. In 1999, the Long Beach campus enrolled over 2,600 and the Pomona Campus enrolled about 3,500. Bachelor's and associate degree programs are provided in engineering, technology and business.
<b>ITT Educational Services Inc.</b>	ITT Educational Services Inc. was established in 1966 and provides degree programs through 70 institutes in 28 states with enrollment over 27,000. The institutes offer technology-related programs at the associate, bachelor's and master's levels. ITT Technical Institutes are accredited by ACCSCT.
<i>ITT Technical Institute-San Bernardino</i>	ITT Technical Institute of San Bernardino was established in 1966 and offers associate and bachelor's degree programs.
<i>ITT Technical Institute-Tampa</i>	ITT Technical Institute of Tampa was established in 1981 and offers associate and bachelor's degree programs.
<b>Whitman Education Group Inc.</b>	Whitman Education Group Inc. operates three subsidiaries – Ultrasound Technical Services Inc., Sanford Brown College and Colorado Technical University. Collectively, these organizations enroll 7,500 students with 23 campuses in 13 states. Ultrasound Technical Services and Sanford Brown College offer associate degrees and diploma and certificate programs.
<i>Colorado Technical University</i>	Established in 1965, Colorado Technical University now has campuses in Colorado Springs and Denver and in Sioux Falls, Iowa. It offers associate, bachelor's, master's and doctoral programs, primarily in computer science, engineering and business. In 1999, CTU enrolled over 2,000 students. It is regionally accredited by the North Central Association.

*"We are very concerned about the two customers that we serve...the employers...and our students."*

Corporate executives and campus administrators of super systems described their degree-granting institutions as outcomes-oriented, practical and efficient. Degree completion, placement in jobs and satisfaction of graduates' employers were their measures of success. They also believed that their graduates had to be satisfied with their experience. Like the enterprise colleges, the emphasis was on practice and application rather than theory. One institution described its use of "involvement theory" with interaction of faculty and students, hands-on learning methods and group processes.

There were considerable differences among the super systems included in this study. Three of them – DeVry University, ITT Educational Services and the University of Phoenix – offered the same programs at each campus, with minor variations to accommodate local occupational requirements. Programs were generally developed and updated by staff at the corporate office with input from campus faculty. This approach was an advantage to the system because it provided a product with a widely recognized brand name and facilitated development of new campuses – growth by cloning. Students also benefit from the ability to move from one metropolitan area to another and resume their programs without loss of credit or time.

Corinthian Colleges and Whitman Education Group each operated three groups of schools – a chain of non-collegiate schools, a group of institutions offering primarily associate degrees and a multi-campus university offering both undergraduate and graduate programs. These systems had grown primarily by acquisition of institutions. While a consistent corporate philosophy was evident, campuses often retained their unique identities, some even maintaining the family atmosphere of the enterprise college.

## **The Business**

Executives and administrators of super systems say that investors were interested for several reasons:

- ? The industry is relatively recession-proof. During strong economic times, employers offer educational benefits to attract employees and to encourage existing employees to upgrade their knowledge and skills. In a slow economy, individuals seek educational credentials to improve their job security or expand their employment options.
- ? The institutions make full use of facilities and equipment, running year-round with day, evening and weekend sessions in addition to the Internet. Capital costs are usually low with simple, no-frills facilities.
- ? Selection of locations and programs is made on the basis of market research considering the population base, the nature of the local economy, and the nature and scope of employment demand.
- ? New programs can be implemented quickly and programs are frequently updated.
- ? The fact that students usually enroll for months or years provides an element of stability.

One administrator mentioned that the leadership of the institution had been very stable, an attractive factor for investors. The executives of several of the super systems had been associated with the system or one of its components for several years and some were founders of the original institution. In addition to experienced leadership, established schools had overcome the major barriers to getting started – gaining state approval, achieving accreditation and qualifying for student financial aid programs. Finally, several executives believe dissatisfaction with traditional higher education, particularly what they described as the lack of responsiveness of public institutions, works in their favor.

*"...There's a level of discontent with what traditional higher education provides...a very strong belief that privatization may be able to solve some of those problems."*

All of the super systems used extensive media advertising, direct mail and the Internet to attract students but, much like the enterprise colleges, most said that referrals from students, graduates and employers were their most effective recruiting tools. Some institutions make visits to high schools, offering career workshops along with recruiting efforts. Two systems said that their articulation agreements with community colleges were important recruiting mechanisms.

Locations were selected on the basis of market research that considered the population base and projected growth,

the regulatory environment of the state, and the level and type of service provided by other institutions. Sometimes, opportunities to establish partnerships with other institutions or corporations were considered when choosing a site. Facilities were often described as functional and flexible. Super systems tended to pay close attention to external factors and were ready to make adjustments in offerings. For example, one administrator said that as the economy improved, resources were shifted to evening programs to accommodate working students. "We would be ready to shift gears pretty quickly and have a day-school population...if the economy were to slow down."

*"There is so much demand that we couldn't begin to satisfy all of it."*

Interestingly, the executives and campus administrators of several super systems believe that there is not much competition for them. Some for-profit degree-granting institutions believed they were unique, serving students that no other institutions serve, at least not as well, and providing programs in formats that other institutions did not offer. Several administrators noted that their primary competition was the job market, not other educational institutions. They even suggest that the marketing they do when they come into a community raises awareness of the benefits of higher education in general and increases enrollment at other institutions as well as their own. Other institutions said that the market for higher education was very competitive. One noted that not-for-profit private institutions such as National-Louis University, Webster University and Nova Southeastern University had sites nationwide and were marketing just as aggressively as for-profit institutions.

*Competition? "Well, honestly, I don't see anybody...who does the combination of things that we do."*

Two types of partnerships were mentioned most frequently among the super systems – articulation agreements and corporate partnerships. The two regionally accredited systems were actively developing articulation agreements with community colleges, a market that nationally accredited systems and institutions did not mention. It is likely that community colleges, all regionally accredited, would limit their agreements to institutions with the same status. The two regionally accredited systems had designed capstone bachelor's degree programs for community college graduates and offered programs on community college campuses. Agreements typically provided that the system would offer only third- and fourth-year courses and use community college facilities. Processes were streamlined for students and they could continue their studies in a familiar environment.<sup>16</sup> One system has a statewide agreement in one state and is working with a community college organization to develop a model that can be deployed nationally.

Super systems also had partnerships with large corporations, delivering programs at corporate sites and integrating corporate training programs into degree programs. Some systems had developed customized programs in partnership with major corporations and then offered programs to company employees at sites across the country.

Most super systems see continued growth for the foreseeable future – expansion of enrollment at existing campuses and addition of new campuses. Several foresaw growth in online offerings and on-site courses for corporations. Others predicted growth in the number of high school students choosing career-oriented programs. In addition to growth, executives of super systems predicted that the for-profit sector would continue to gain respect in the higher education community – acceptance of credit in transfer, partnerships with institutions in other sectors and smoother approvals and accreditation. Almost all executives mentioned the impact that developments in technology will have on education, predicting that the changes will be profound and noting that they were in a good position to provide technology-related training as well as to use technology to improve instruction and services. Several schools planned improvements to their programs and services that included standardization of programs across campuses, improved customer service and moving from national to regional accreditation.

## **Students**

Three of the super systems included in this study served adult students almost exclusively, two served a mix of recent high school graduates and adults and one served primarily younger people. Several served a relatively large proportion of minority students. With one exception, these campuses had more men than women enrolled. Online programs tended to enroll more whites and more men than other groups. With two exceptions, most of the students on each campus financed their education at least in part through grants or loans. At two institutions serving primarily working adults, many students were eligible for employers' tuition reimbursement. A few institutions provided a limited number of scholarships for students.

Faculty and administrators described students as capable, serious, motivated, and "high caliber." Representatives of

one institution reported that most of their students were experienced and successful in their jobs. While all systems talked about academic support and the efforts they made to retain students, they were less likely than those at enterprise colleges to talk about students needing personal attention and encouragement. Faculty and administrators at institutions serving recent high school graduates, however, said that many students were unprepared for college-level work.

*"If a professor here doesn't show up in 10 minutes, the whole class is in (the office) wanting to know where he is. These kids are serious."*

When asked why students chose their institutions, administrators and faculty focused on the factors that they had worked hardest to develop – career-oriented programs, customer-friendly services, convenient schedules, accelerated programs and job placement. Students tended to mention the same factors, frequently mentioning the job opportunities and placement services; most knew the placement rate for their program. Students also mentioned the reputation of the school, accreditation and up-to-date equipment and facilities. Several students said that they liked the retention efforts and the structure provided by their institution, noting that they had not made progress at other institutions where they had too many choices and too little advice. Class size, attention from faculty and responsive services were important. Interestingly, students attending some of the biggest institutions in the country also liked their small "manageable" campuses. The convenience of location and schedules was often mentioned as the determining factor when choices of similar programs were available. In contrast to enterprise colleges, students, faculty and administrators at most campuses of super systems placed less emphasis on friendliness and caring, although there were no complaints about unfriendliness or lack of attention.

*"I chose this school because I had gone to [a community college] for three years and I didn't seem to get anywhere."*

*"It takes more of a go-getter to get the same results at a community college...here everything is prescribed."*

One campus had experienced rapid growth and students had a list of complaints – large classes and lack of faculty attention. Some students at this campus also complained about the technical and teaching ability of some of the faculty, communications with administrators and slow administrative processes. Despite such complaints, most of these same students said that they would make the same choice if they had it to do over again. Such complaints were isolated; most students interviewed said they liked the small classes and capable faculty. Students had differing ideas about the rigor of the courses. Some believed that they were easier than courses they had taken at other institutions, while others said they were more difficult and demanding.

*"I want my money's worth."*

*"We don't want a student to leave our school at the end of the day anything less than happy."*

Several campuses organized students into groups that proceed through a program together, and students tended to like this arrangement. They said they did not miss traditional college life. Most said they chose their school because they could get their degree more quickly than at a community college or traditional university. They could take heavier loads and had fewer course choices. Courses were carefully scheduled to accommodate their other responsibilities.

*"College life actually takes away from your learning..."*

## **Faculty**

Corporate executives and campus administrators of super systems all stressed that faculty were required to have experience in their field, usually a minimum of three years. Exceptions were made in information technology fields, where recent training was critical and competition was high for faculty members. All said that they required instructors to have a degree above the level of the program in which they taught. The super systems reported that a majority of their faculty had a master's degree and many had doctorates. Like the enterprise colleges, super systems placed strong emphasis on teaching ability and required prospective faculty to demonstrate teaching skills.

Several campuses indicated that a majority of the faculty was part-time, ranging from 50% to more than 90%. Unlike enterprise colleges, super systems generally favored part-time instructors. One institution said part-time instructors were preferred because their programs were built on the concept of practitioner-faculty who would bring day-to-day, real-world experiences to the classroom. Most schools reported that they had little trouble recruiting part-time faculty, although full-time faculty could be difficult to find, and all sectors of higher education were looking for people with advanced degrees in information technology fields. Several institutions indicated that they had recently increased salaries for full-time faculty or were planning to do so in the near future in order to compete with industry for experienced people with the skills they need. Full-time faculty members were often recruited from the corps of part-time instructors.

*"We don't really want people to become career faculty...it defeats our real-world model."*

When asked about their reasons for teaching, faculty at super systems talked first about their careers and the paths that led them to their current position. Several instructors said that they retired from industry with substantial benefits and were following a long-term plan to pursue a second career in teaching. Some said they were willing to trade the stress and high pay of industry for the personal rewards of teaching and a pleasant lifestyle. While most faculty members were drawn from industry, quite a few mentioned military backgrounds. Part-time faculty said they enjoyed teaching and the extra compensation. They liked the ability to adjust their course loads over the course of a year to accommodate busy times at their other job.

*"...Being able to make a difference in the life of somebody just beginning was very attractive to me...income wasn't a concern."*

*"[This campus] was the proper setting... across the street from a golf course."*

Executives said that faculty had credentials equivalent to those teaching at traditional colleges and universities but they chose to teach at a for-profit degree-granting institution because they objected to the tenure system and faculty politics. Faculty rarely brought up tenure, but when asked, they were either uninterested or disdainful. Full-time faculty believed that they had a stable job, had no need for tenure, and were not interested in research and publications. One part-time faculty referred to tenure as an "esoteric thing," adding, "This isn't a full-time job for us, so we're not concerned about things like tenure." Both full- and part-time faculty were generally happy with equipment and teaching materials, class sizes and the support received from administration.

*"When I was in college, the tenured professors were 10 years behind the times."*

Depending on location and program mix, some campuses reported that they had problems recruiting faculty, particularly full-time faculty. Teaching loads for full-time faculty were sometimes high, up to 40 hours per week "on the platform" or supervising laboratory sessions. Full-time faculty members were also expected to teach year-round at schools that maximize the use of facilities and accelerate students' schedules. While there were few complaints about the year-round calendar, course scheduling was an issue at several campuses where faculty had definite preferences about time of day and breaks between courses that were not always accommodated. Administrators admitted that they sometimes overloaded scarce faculty in technical fields. However, campuses tried to accommodate faculty's preferences, and deans were often responsible for reconciling faculty requests with students' needs and facility usage.

*"We have to supply courses for the students so we have to find a qualified faculty member and that may mean flying one in from somewhere else."*

All institutions provided orientation for faculty. At one institution, an associate dean's sole job was integrating and acculturating faculty to the school and its students. Both full- and part-time faculty members were evaluated on a regular basis with classroom observation, student surveys and course outcomes. Pay increases were usually tied to a combination of factors – student evaluations, performance measures, contributions to course development and professional development activities. Some systems offered year-end bonuses and stock options to key managers (including academic managers, but not faculty) for exceptional performance.

Most super systems provided opportunities for faculty to improve their teaching skills with training programs that addressed distance learning methods, student relations, classroom management and specific teaching techniques. While only one of the super systems offered sabbaticals for faculty, most provided some support for professional development – discipline-related conferences and workshops, technical certification and tuition reimbursement.



## Programs and Services

The primary objectives of programs offered by super systems were to prepare students for jobs and place them in appropriate positions or to enhance career advancement. Most campuses offering entry-level programs reported job placement rates for graduates of 85% to 95%. The super systems also placed emphasis on employers as customers. In most cases, the focus was on a broad industry or occupational field and not necessarily local employers in the communities where campuses were located. The campuses had little flexibility to change or introduce programs in response to local needs, although most could make minor adjustments or develop a limited number of electives.

*"Intel interviewed 42 students. Thirty-seven were called back for a second interview and 34 of them were given job offers that afternoon."*

As with enterprise colleges, the "military training model" was cited as appropriately describing their approach to teaching and learning – one course at a time, hands-on, varied formats and high time-on-task. One super system administrator elaborated on this model, saying that instructors were expected to extend teaching and take whatever time necessary to get each student up to the required level of performance. "Extended teaching" could include one-on-one tutoring, supervised open laboratory hours and more attention in regular classes. Like the military training model, the programs were generally very structured with set sequences of courses and few electives. Some super systems could provide new students a projected schedule of courses for their entire program and reflecting their time preferences. Faculty and administrators of super systems mentioned helping students with personal problems less frequently than enterprise colleges, but they provided extensive academic support services and closely monitored students' progress. Faculty and academic advisors monitored attendance and academic progress and helped students who were falling behind. A few super systems provided remedial courses in mathematics and English. Instructors were advised that "students need to become engaged" and that "straight lecture is usually not very effective."

*"...Their job is not only to keep everybody in class, but to get them through the program, and that doesn't mean changing the standards or lowering the expectations. It means that you spend whatever time that it takes to get everybody up to whatever the required level is."*

Most of the super systems made extensive use of technology to deliver and support instruction including delivering entire programs via the Internet. One relied almost entirely on an electronic library, a factor that caused problems obtaining approval in a few states. This institution had trouble getting textbook publishers to make texts available electronically so they decided to create their own content and were developing other digital innovations. Several institutions offered information-technology degree programs and all required students to be able to use the technologies appropriate to their career. Larger institutions also provided services online such as registration, billing, financial aid and information for students to monitor their progress.

*"We now are going to be able to put the entire master curriculum in our Palm Pilot...as they go through the program, they'll have the ability to go back...and review"*

*"Alumni will have lifetime update capability electronically."*

Super systems said they could adapt existing programs quickly to meet the needs of employers and incorporate new technologies into the curriculum. Over the longer term, as demand declines, programs could be redesigned or eliminated. Without faculty tenure and research commitments, resources could be redeployed quickly to other initiatives. Most systems had a formal process for developing new programs. The curriculum unit of the corporate office gathers input from industry panels, supervisors of externship programs, surveys of students and graduates, and campus faculty. Some systems had designated campus faculty who serve on systemwide committees and who collect feedback from faculty and bring recommendations for course revisions, texts and materials, and equipment upgrades.

*"Working in product teams, faculty put a course or program together that responds to industry needs."*

Curriculum specialists design the program, identify learning objectives and develop course materials. A program proposal would usually then be reviewed by faculty curriculum committees and piloted on selected campuses.

Existing programs were routinely reviewed in a similar process. In addition to updating content, systems also sought advice from employers about upgrading equipment and software. Several systems indicated that it took less than a year to implement a new program from conception through approval by national accreditors (approval of a new program by regional accrediting organizations usually takes at least two years). The ability to adapt programs and roll out new programs quickly was considered a unique strength of institutions in the for-profit sector.

Although they played a lesser role in program development, campus faculty seemed satisfied with the processes. They felt they had enough flexibility to teach the way they thought best and to incorporate content of their choice as long as they met course objectives. Their concerns were practical and personal – course scheduling, pay and students' responsiveness. Several said that they appreciated having the guidelines and course materials for their own courses as well as for related courses in the curriculum. They said they had little interest in course development and "no career-building academic interests" that they wanted in the curriculum.

Several of the super systems had sophisticated quality-improvement systems and information systems. At the course level, students evaluated each class and instructors were observed and evaluated by deans on a regular basis. Sequences of courses were coordinated and common final examinations were used by some systems. Retention, completion and placement rates were examined for each program. Graduates were monitored for several years and employers were surveyed regularly. Most systems conducted regular surveys of students, instructors and other employees about the overall activities of the institutions. Some systems employed outside firms to conduct these assessments. Several systems indicated that the process did not stop with collection of information, and that campus and system administrators were expected to make sure that needed changes were made. One system reported that managers' bonuses were based in part on the level of student satisfaction with the service or program.

*Surveys "get circulated pretty fast and part of our job is to respond and improve things as quickly as we identify them."*

## **Accreditation and Regulation**

For-profit degree-granting institutions operating in multiple states were faced with myriad state and federal regulations, accreditation requirements, and, in the case of super systems, scrutiny from investors who were alert to signs of problems that might jeopardize the value of their stock. Most super systems had a unit that monitored accreditation, federal regulations, and state-by-state approval requirements and made sure that individual campuses were in compliance with appropriate rules and guidelines.

*"We have a self-auditing, self-compliance program within our corporation. They check out everything to make sure we are in alignment and that we follow all the rules."*

All of the campuses or institutions in two of the super systems hold regional accreditation from the North Central Association of Colleges and Schools and a third system has a division that is regionally accredited. A campus of one of these systems was the first of the for-profit degree-granting institutions to obtain regional accreditation. Institutions with other types of accreditation said that the regionally accredited institutions were becoming more like public universities – and it was not meant as a compliment.

However, to the extent that degrees might be considered currency, regional accreditation helps protect consistency and value of the currency. In addition, achieving regional accreditation removes a critical disadvantage in competing against not-for-profit and public colleges and universities. However, an executive of one system with both regionally and nationally accredited campuses said that there were drawbacks to regional accreditation – more courses allocated to general studies, more emphasis on academic degrees in faculty qualifications, and different decision-making processes. Some state regulations also affect these aspects of programs.

Neither regional accreditation nor state regulatory procedures were designed with the multi-state, multi-national institution in mind. Rules about the membership of site visit teams – no one should be from the state in which the institution operates, for example – cause problems putting a team together for an institution that operates in the 35 largest states.

From the perspective of their national operations, executives of super systems described state regulatory processes. Florida and Virginia were described as flexible and reasonable. Texas took a "rules are rules" attitude. California, once hostile to the for-profit sector, was described as ineffective. Prior to recent changes in laws, for-profit degree-granting institutions could not operate in New Jersey at all. Even receptive states have rules and procedures

that require customized applications. Systems developing programs for teachers and other licensed professionals must also deal with additional state regulations associated with certification and licensure. Super systems are more likely than other types of institutions to seek political assistance in the approval process. Their advance teams include public relations executives rather than the academic leadership, and they visit governors and political leaders rather than state higher education coordinating or regulating agencies.

The heads of super systems said that they were more accountable than any other sector of higher education. In addition to federal and state regulation and accreditation, they were responsible to investors and scrutinized by investment organizations. A hint of problems in federal student financial aid programs, for example, can send stock prices down, while gaining new approvals or accreditation for a new site may or may not have a positive effect.<sup>17</sup>  
[Back to top](#)

## Internet Institutions

Although the enterprise colleges and the super systems had several shared characteristics, Internet institutions have little in common among them except the use of the Internet to deliver instruction. While several of the super systems delivered full programs on the Internet, most of their students were enrolled at bricks-and-mortar campuses. The Internet institutions had no bricks and mortar except for corporate offices, no full-time faculty and only "virtual" classrooms.

The interviews conducted by ECS at Internet institutions were intended to gain information about the breadth and diversity of for-profit degree-granting institutions and were less comprehensive than those at other institutions. Interviews were limited to administrators and focused on the unique aspects of the institutions and how they were established.

Internet Institutions Included in Study	
Institution	Description
<b>Jones International University</b>	Jones International University was established in 1993 and began offering programs in 1995. It received regional accreditation from the North Central Association in 1999. All programs are delivered via the Internet. Courses are developed by content experts who are faculty at other institutions, including the University of Pennsylvania, Thunderbird Graduate School of International Management, Carnegie-Mellon University and London School of Economics. The University offers professional certificate programs, a bachelor's program in business communications, and master's degree programs in business, education and business communications.
<b>ISIM University</b>	ISIM University was established in 1987 and began offering degree programs over the Internet since its inception. Based in Colorado, it received accreditation by the organization that is now the Distance Education and Training Council in 1993. ISIM serves individual students and markets courses to corporations. Certificate and master's programs are available in information technology, information management and project management. In 1999, it was acquired by UNext.com but continues to be operated separately.
<b>UNext.com</b>	UNext.com was established as an "education company" that provides professional development programs, training and consulting services through the Internet. It also operates Cardean University, which has received authorization to operate in Illinois and offers master's degree programs in business. Cardean University offers programs with academic partners including the University of Chicago, Stanford, Columbia, London School of Economics and Carnegie-Mellon. Programs are developed by teams from partner universities and Unext.com staff.

Some common themes emerged in discussions with administrators of Internet institutions. Each institution had or anticipated having difficulties in getting state approval and regional accreditation. Most rules and guidelines – based on an "input model" emphasizing physical facilities, libraries and equipment, and the qualifications of full-time faculty – could not accommodate Internet-based institutions. Everything was different – no bricks and mortar, small central staffs, unique roles for faculty and a for-profit structure. All three institutions had chosen for their central offices states that had at least developed policies dealing with Internet institutions.

*"Clearly we had to justify our model. I think that always happens when you are on the leading edge."*

Students served by these institutions were, for the most part, adults in their 30s and 40s. Unlike other for-profit degree-granting institutions, the Internet institutions served a fairly significant international population. One institution expected to serve overseas clientele exclusively in its start-up years. At another, international students represented 28% of enrollments. Among U.S. students, up to 50% finance their education through employers' tuition reimbursement plans.

Internet institutions marketed directly to corporations as well as individual students, some exclusively to corporations. One institution's primary focus was corporations outside the U.S. They believed that every degree-granting institution is their competitor and that they have to offer superior instruction, convenience and service in order to survive. Interestingly, the Internet-based institutions believe that students were attracted, at least in part, by the personal attention they get from the institution.

*"There are 720 MBA programs in the United States and we compete with all of them."*

Like all other for-profit degree-granting institutions, two of the Internet institutions emphasized teaching skills when hiring faculty, and provided extensive training for faculty in teaching skills and distance education methods. One administrator said that instructors were paid quite well, that there was a good pool of experienced practitioners who were interested in teaching and that the institution could be selective. In the absence of an extensive administrative structure, the Internet institutions use faculty mentors to assist new instructors, including helping them get used to teaching without "everyone's eyes on them."

One institution had academic advisory committees that included their own faculty and content experts from other institutions. This institution said that they had "unbundled" the role of faculty, with separate experts for content, course design and delivery. Courses were developed on a common template so they "have a consistent look and feel." Once a program has been launched, both students and faculty had input into course development. Once developed, the course or learning module belongs to the company, not the faculty member. In fact, the faculty experts who developed the course were often not the ones who delivered instruction to students.

One institution used the usual methods of course and program evaluation with an electronic twist. The executive pointed out that the technology allows administrators to "be a fly on every single wall" and observe class proceedings and monitor course-related communications.

[Back to top](#)

## Conclusions and Observations

This has been the story of the for-profit degree-granting sector of higher education as told by company executives, campus administrators, faculty and students. For the most part, the interviews were frank discussions of the strengths and weaknesses of this sector of higher education and individual colleges and universities. They revealed an industry that is as diverse and interesting as other sectors of higher education and an industry that has overcome both inertia and scandal to become a major factor in higher education. It is its rapid growth, not its size, that has attracted interest from the higher education community and the business world. While traditional higher education may be critical of the upstart institutions, many traditional colleges and universities are becoming more market-oriented and entrepreneurial themselves. As one of the executives interviewed noted, "Across that entire spectrum, you find practices that originated in the for-profit schools."

This report looked at three groups of institutions – the enterprise colleges, characterized by their small size and caring environment; the super systems, which enroll thousands of students in carefully designed programs at strategically located campuses; and Internet-based institutions, which use technology to deliver programs, and which challenge long-held assumptions about who does what in higher education and how they do it. The leaders of these institutions believed that four characteristics distinguished them from other sectors – career orientation, customer focus, hands-on learning approaches and convenience. These themes were repeated in interviews at each institution and across all three groups.

Few students or faculty had any substantive complaints. The most serious complaints were voiced at campuses that had experienced rapid enrollment increases and had outgrown their equipment, faculty and service staff. Other possible concerns surfaced during the interviews such as the unrealistic expectations of some students about future education and career opportunities.

The degree programs offered by most for-profit institutions probably differ in important ways from classic degree programs, but the differences may be less significant than critics suggest. If skills were balanced on scales with theory, and practical subjects with the liberal arts, skills and practical subjects would probably weigh more heavily at

for-profit degree-granting institutions than at traditional colleges and universities. However, degree programs at most institutions and in all sectors of higher education have become more practical and more career oriented and students are choosing occupational and professional programs in increasing numbers. Unlike 30 years ago when the liberal arts and social sciences dominated, a majority of bachelor's degrees are now awarded in career fields such as business, education, engineering and health professions.

Making a judgment about the relative quality of the programs offered by traditional and for-profit degree-granting institutions was beyond the scope of this project. Most of the institutions participating in the study provided evidence that their programs were achieving their key objective – placing students in appropriate jobs or helping them advance in their careers. Neither traditional nor for-profit higher education provides much more information about the outcomes of their programs. There are few measures that allow comparison across institutions and sectors, so neither can claim the high ground on the quality issue.

Why do students choose the for-profit sector when they could attend a good public university or community college for far less money, or go to a fine nonprofit private institution for not much more? The short answer is, they meet students' needs. Many students had tried a traditional institution and failed, lost motivation or became frustrated and angry at how they were treated. The career orientation of the programs offered by for-profit degree-granting institutions is one of the reasons that students are choosing this sector in increasing numbers. They like the convenience, the schedules and calendars designed for them, and the services. They also want to learn the skills they need to get a job, without having to take subjects they think are irrelevant.

If higher education were a perfect market, then all that needs to be said is that students want what for-profit degree-granting institutions offer. But higher education is not a perfect market in two important ways. First, higher education is subsidized by taxpayers – either directly through support for public colleges and universities, or indirectly through state and federal student financial aid programs. Second, some students at every type of institution are much more interested in the credentials than the learning; they want degrees that are quick, cheap and easy. So taxpayers, employers and others who rely on degrees as evidence of learning would not be well served if the market were the only thing that mattered. That is why federal oversight, state regulation and peer accreditation are so important.

The leadership – executives, administrators and faculty – of colleges and universities included in this study were proud of their institutions and their students. They described well-thought-out programs and comprehensive business plans. Services were provided and programs delivered, and students were at the center of all activities. There was remarkable consistency and unanimity in the way each group – executives, campus administrators, faculty and students – talked about the purposes and features of each institution. If executives said that they had worked hard to create a caring atmosphere, students said they liked the friendliness of the school, and faculty were enthused about contributing to students' futures. If faculty talked about hands-on teaching, students commented about hands-on learning. Most institutions reported high placement rates for graduates in jobs related to their preparation. The convenience noted by executives and administrators was often the major reason students reported for their choice of institution. Finally, leaders in this sector would say that the most important thing they do is provide opportunities for students who otherwise would not or could not get their degrees.

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[Back to top](#)

## Appendix

**Detail Table 1  
Number of Institutions  
By Sector**

	Number of Degree-Granting Institutions			
	1988-89	1998-99	Change	Percent Change
<b>2 Year Colleges</b>				
All Sectors	1,436	1,727	291	20%
Public	984	1,075	91	9
Not-for-profit private	180	169	-11	-6
For-profit private	272	483	211	78
<b>4 Year Colleges</b>				
All Sectors	2,129	2,343	214	10%
Public	598	613	15	3
Not-for-profit private	1,478	1,536	58	4
For-profit private	53	194	141	266

Source: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2000*, Table 5.

**Table 2**  
**Enrollment by Sector**  
**Change and Distribution**

	Private Institutions			All Sectors
	Public Institutions	Not-for-profit private	For-profit private	
<b>1989</b>				
Enrollment	10,577,963	2,731,174	229,423	13,538,560
Percent of Total Enrollment	78.1%	20.2%	1.7%	100%
<b>1998</b>				
Enrollment	11,176,184	3,007,382	365,623	14,549,189
Percent of Total Enrollment	76.8%	20.7%	2.5%	100%
<b>Enrollment Change 1989 to 1998</b>				
Number	598,221	276,208	136,200	1,010,629
Percent	6%	10%	59%	7%

Source: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2000*, Table 173.

**Table 3**  
**States with High Enrollment in For-Profit Institutions**

	Population Rank	Number of Institutions 1997-98	Fall 1998 Enrollment	Percent of Total Enrollment
California	1	87	67,693	3.4%
New York	3	37	30,434	3.0%
Florida	4	57	28,175	4.3%
Pennsylvania	6	72	25,308	4.2%
Arizona	20	30	23,809	7.9%
Illinois	5	21	18,189	2.5%
Colorado	24	28	16,721	6.5%
Texas	2	29	14,490	1.5%
Virginia	12	21	14,455	3.9%
Ohio	7	47	13,090	2.4%
Minnesota	21	21	10,666	3.8%
Missouri	17	20	9,154	2.9%
Georgia	10	12	9,054	3.0%
Indiana	14	24	7,984	2.7%
Kentucky	25	14	7,118	3.9%
New Jersey	9	3	6,257	1.9%
Tennessee	16	15	5,296	2.1%
<b>Subtotal High FP Enrollment States</b>	–	538	307,893	3.3%
All Other States	–	131	57,730	1.1%
<b>U.S. Total</b>	–	669	365,623	2.5%

Sources: 2000-2001 Almanac, *The Chronicle of Higher Education*. U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2000*, Table 197.

**Table 4**  
**Degrees Awarded by**  
**For-Profit Degree-Granting Institutions**

	All Public and Private Institutions	Degrees Awarded 1997-1998	
		For-Profit	Percent of Total
Less than 1 year awards and 1-4 year awards	552,481	44,247	8
Associate	558,704	55,846	10
Bachelor's	1,184,425	13,655	1
Master's	430,164	6,067	1
Doctor's	46,010	351	<1
First-Professional	78,598	347	<1

Source: U.S. Department of Education, National Center for Education Statistics, *Digest of Education Statistics 2000*, Table 173.

**Table 5**  
**Selected Characteristics of Students**  
**Attending For-Profit Degree-Granting Institutions**

	Percent of Total Enrollment 1995-96	
	Less-than-4-year Institutions	4-Year Institutions
<b>Gender</b>		
Male	32.9%	56.8%
Female	67.1	43.2
<b>Age</b>		
23 years or younger	45.9	37.1
24-29 years	21.8	23.1
30 years or older	32.3	39.8
<b>Race-ethnicity</b>		
White, non-Hispanic	58.1	60.4
Black, non-Hispanic	21.2	15.3
Hispanic	16.5	17.9
Asian/Pacific Islander	3.4	6.1
American Indian/Alaskan Native	0.9	0.3
<b>Income</b>		
Lower Quartile	40.4	25.4
Middle Quartiles	47.6	45.5
Upper Quartile	12.0	29.3
<b>High school diploma or equivalent</b>		
High school diploma	77.8	88.3
GED or equivalent	14.7	10.8
Certificate of completion	0.4	0.6
No high school or equivalent	7.1	0.4
<b>Delayed Enrollment</b>		
Delayed enrollment	68.9	52.8
<b>Attendance Status</b>		
Full-time	80.3	65.1
Part-time	19.7	34.9

Hours worked per week while enrolled



Hours worked per week while enrolled		
Not employed	39.1	15.4
1-20 hours	16.7	14.0
21-34 hours	15.9	13.0
35 hours or more	28.3	57.6

Source: U.S. Department of Education, National Center for Education Statistics, *Students at Private, For-Profit Institutions*, November 1999, Table 15.

## Endnotes

1. Data from U.S. Department of Education, National Center for Education Statistics (NCES), *Digest of Education Statistics 2000* show that there is considerable year-to-year variation in the number of for-profit postsecondary institutions reporting to the Department of Education. Much of the growth in the number of two-year degree-granting institutions is due to changes in definitions adopted by NCES in 1996. Restructuring within the sector and differences in reporting methods among institutions also contribute to annual variations in the number of institutions.
2. There is usually a two-year lag in the release of national data by the U.S. Department of Education's National Center for Education Statistics.
3. Duff, Franklin L. (1975), *Degrees Granted by Institutions of Higher Education in Illinois 1957-58 to 1974-75*, University of Illinois, Bureau of Institutional Research.
4. Education Commission of the States (1999), *Roster of For-Profit Educational Institutions*, <http://www.ecs.org/clearinghouse/14/46/1446.doc>
5. U.S. Department of Education, National Center for Education Statistics (NCES), *Digest of Education Statistics 2000*, Table 184. Rates declined to 63% in 1999.
6. Education Commission of the States, Survey Analysis: State Statutes and Regulations Governing the Operation of Degree-Granting For-Profit Institutions of Higher Education, March 2000.
7. For example, in a 1987 series by Roger Flaherty entitled, "Bitter Lessons," the *Chicago Sun-Times* chronicled cases of recruiting in welfare lines, misuses of the "ability to benefit" provision of student aid regulations, sudden school closures and other abuses.
8. Burd, Stephen (2000), "Rate of Student Loan Default Drops for Eighth Consecutive Year," *The Chronicle of Higher Education*, October 13, 2000.
9. Real diploma mills rarely work with state agencies. Diploma mills are usually considered to be fraudulent operations that sell diplomas with little or no instruction. They may have for-profit corporate structures but are likely to attempt to operate as nonprofit institutions under the exemption from regulation provided to "religious" institutions by some states.
10. State approval or its equivalent is required in most states for an institution to operate legally. Accreditation represents acceptance by peer institutions. Both approval and accreditation are essential credentials for degree-granting institutions.
11. Borrego, Anne Marie, "How a Computer-Training Chain Crashed in Plain Sight," *The Chronicle of Higher Education*, February 16, 2001.
12. Merrill Lynch, *The Book of Knowledge: Investing in the Growing Education and Training Industry*, April 1999.
13. "U. of Phoenix Reports Enrollment Growth on Land and Online," *The Chronicle of Higher Education*, July 7, 2000.
14. Information on institutions is drawn primarily from Education Commission of the States (1999), *Roster of For-Profit Educational Institutions*, <http://www.ecs.org/clearinghouse/14/46/1446.doc>. and U.S. Department of Education, College Opportunities On-Line, <http://nces.ed.gov/ipeds/cool/>
15. "Ability-to-benefit" students are students who had neither graduated from high school nor obtained a GED. These students were able to qualify for student financial aid by passing a test administered by the institutions. The tests used by some institutions were suspect and such students were shown to be far more likely to default on student loans than students with a high school diploma or GED. Schools that admitted large number of these students were the target of default reduction efforts.

16. Blumenstyk, Goldie. "How For-Profit Institutions Chase Community-College Students," *The Chronicle of Higher Education*, December 8, 2000. Contrary to the possible negative connotation of "chase" in the title, this article describes how for-profit institutions make it easier for community college graduates to get bachelor's degrees.
17. See for example, "Report on U. Of Phoenix Sends Stock Price Down," *The Chronicle of Higher Education*, October 2, 1998.

The author of this report, Kathleen F. Kelly, has more than 20 years of experience in higher education administration. Now a consultant for higher education organizations and institutions, she was a member of the staff of the Illinois Board of Higher Education from 1983 to 1999. As Deputy Director for Academic Affairs, she provided leadership for policy studies in undergraduate education, graduate education, affordability, statewide program priorities, quality and productivity. She was responsible for statewide program planning, new program approval and review of existing programs. During the past two years, she has provided consulting services to state-level coordinating and planning boards, national policy organizations and individual institutions.

#### Back to top

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