

Developing a Research Agenda: Tax-Paying Colleges and Universities/For-profit higher education

April 28-29, 2014

University of Southern California
Davidson Conference Center

Hosted by: USC Pullias Center for Higher Education and the
DeVry Education Group

What Data Exist That Might be Useful to do Research on For-Profits?

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What We Know: Research About For-Profit Higher Education

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One of the major policies that targeted for-profit institutions, the US Department of Education's Gainful Employment Regulations, was struck down due to a lack of a reasoned basis for one of its three metrics (Contreras, 2012). This lack of a basis is unsurprising given how little research exists on for-profit institutions and their students. In addition to providing standing to metrics of gainful employment, research on for-profits could build a better understanding of the role of for-profits in higher education – particularly in meeting public goals of increased educational attainment.

Why is research so scarce, especially given the large number of students who attend for-profit institutions? First, the popularity of for-profits is a relatively recent phenomenon. Since 2000, for-profit enrollments have tripled, whereas enrollments at public and non-profit institutions have increased by only 22 percent. Previously, few students attended for-profits, and for-profit attendees are not the more traditional four-year college student whom higher education research tended to focus on (Wolf, 2014). Second, the data on for-profits are limited and often of poor quality. Unlike public and non-profit institutions, there is no data source that covers anywhere close to all for-profit institutions. In fact, the most comprehensive source of data on for-profits is estimated to only include a non-random sample of all for-profits operating, those that participate in the Federal Student Aid Programs (Association of Private Sector Colleges and Universities, 2014). While there are a number of sources of data that cover a part or an aspect of for-profit institutions or for-profit students, these data sources all have non-trivial problems, such as incomplete coverage of the universe of institutions and/or poor or uncertain quality of the data collected.

In this essay, I discuss these sources of data – how they might be used and highlight weaknesses that a researcher would face in using the data. I conclude with what could be done to improve the availability, completeness, and quality of data on the for-profit sector.

Existing Data on For-Profits

Most research focuses either on institutions or students as the unit of analysis, not both simultaneously. As such, I have organized my discussion of available data on the unit record – institutions or students. In the first section, I review institutional-level data. In the following section, I review student-level data. In both sections, I spend more time discussing the more commonly used or more complete and higher quality data sets.

Institutional-Level Data

The U.S. Department of Education collects most of the institutional-level data available on for-profits. These data collected by the U.S Department of Education are of institutions participating in the Federal Student Financial Aid Programs – the main role of the federal government in higher education is distributing financial aid and access to federal financial aid is the way in which it can compel institutions to submit data and the way in which the federal government has access to data. Other sources of data discussed below are state regulatory agencies that oversee for-profits operating in that state, the U.S. Securities and Exchange Committee company filings for publicly-traded for-profits, and data from the accrediting agencies to which for-profits are members.

Integrated Postsecondary Data System (<http://nces.ed.gov/ipeds/>). The Integrated Postsecondary Data System (IPEDS) is the most commonly used data for the study of for-profit institutions. The U.S. Department of Education’s National Center for Education Statistics requires

all postsecondary institutions that receive federal financial aid (also known as Title IV institutions) to complete multiple surveys each year. The responses to these surveys comprise IPEDS. IPEDS reports the following on the data made publicly available:

- Institutional characteristics: tuition and fees, room and board charges, public or private status, religious affiliation (if any), type of calendar system, levels of awards offered, types of programs, and admissions requirements
- Institutional prices: for first-time, full-time, degree- or certificate-seeking undergraduate students. This includes tuition and fee data as well as information on the estimated student budgets for students based on living situations (on-campus or off-campus)
- Enrollment:
 - Fall enrollment: by race/ethnicity; gender; enrollment status (part-time or full-time); and or level of study (undergraduate or graduate).
 - Residence of first-term students: number of first-time freshmen by state of residence, along with data on the number who graduated from high school the previous year. These data are collected in even-numbered years.
 - Age: age distribution of enrolled students. These data are collected in odd-numbered years.
 - Unduplicated 12-month headcount: enrollment figures based on the unduplicated head count of students enrolled over a 12-month period
 - Instructional activity: instructional activity is measured in total credit and/or contact hours delivered by institutions during a 12-month period.
 - Total entering class: number of incoming students (students enrolling for the first time in a postsecondary institution versus students transferring in from another postsecondary institution) at an institution.

- Student financial aid: number of full-time, first-time degree/certificate-seeking undergraduate students who receive different types of student financial aid, including grants and loans, from different sources at each institution; average dollar amount of aid received by these students; average net price at each institution for the following two groups: (1) full-time, first-time degree/certificate-seeking undergraduate students who receive grant and scholarship aid; and (2) full-time, first-time degree/certificate-seeking undergraduate students who receive Title IV federal student aid.
- Degrees and certificates awarded: number of students who complete a postsecondary education program by type of program (Classification of Instructional Programs code) and level of award (certificate or degree); the number and location of completers by field.
- Student persistence and success:
 - First-year retention rates: percentage of first-year students who had persisted in or completed their educational program a year later.
 - Graduation rates
- Institutional resources: human resources and finances
 - Human resources: number and type of staff supporting postsecondary education, measured three ways
 - Employees by assigned position: all employees by full- or part-time status, faculty status, and occupational activity.
 - Salaries: the number of full-time instructional faculty by rank, gender, and length of contract/teaching period; and salary outlays for full-time staff.
 - Staff: demographic and occupational characteristics for staff at institutions.

- **Finances:** institutional revenues by source, expenditures by category, and assets and liabilities. Generally, private institutions use standards established by the Financial Accounting Standards Board (whereas, public institutions use standards established by the Governmental Accounting Standards Board)

The main strength of IPEDS for researching for-profit institutions is that it is the most comprehensive source available. It covers all Title IV institutions and includes a breadth of variables. Moreover, the data are easy to access, and IPEDS staff are responsive and knowledgeable. The limitations of IPEDS, however, are non-trivial. While IPEDS is the most comprehensive source of institutional data, institutions that do not participate in the Federal Student Financial Aid Programs are not required to participate. Research has found that IPEDS misses about half of for-profit institutions and 27% of students who attend a for-profit institution. Differences between for-profit institutions that do and do not participate in Title IV exist. Most significantly, for-profit institutions that participate in Title IV charge substantially higher tuition than for-profit institutions that do not participate in Title IV (Piketty, 2014). Moreover, IPEDS allows institutions to report online enrollments at whichever campus they choose, which can distort analyses of for-profit institutions. However, it is currently unknown what this distortion may be. Finally, for-profit institutions report financial information differently than public institutions, making any comparisons across the sectors challenging. For example, public institutions provide expenditures in academic support, institutional support, and student services as three separate categories, whereas for-profit institutions report these expenditures as a single category.

Student financial aid data (<https://studentaid.ed.gov/about/data-center/school>). The U.S. Department of Education's Office of Federal Student Aid publishes and serves as a clearinghouse for data on the institutions that participate in the federal student financial aid programs. These data include the following that would be useful for research:

- **2011 Gainful Employment Informational Rates:** data on the three metrics used to determine gainful employment: repayment rate, two debt-to-earnings ratios, and three student loan medians. The website notes: **“IMPORTANT DISCLAIMER:** The 2011 Gainful Employment Informational Rates were prepared to provide institutions with preliminary data about the performance of their GE Programs. The calculation of the 2011 Gainful Employment Informational Rates did not include a process for institutions to receive draft debt measures and to submit challenges, as the institutions will for official rate calculations. For these reasons, the 2011 Informational Rates are not intended to form a basis for making any general or specific assumptions or determinations about specific GE Programs, or in making projections about future years' rates.”
- **Default Rates:** data on student default rates for federal student loan programs.
- **Proprietary School 90/10 Revenue Percentages:** data on for-profit institutions revenues from Title IV sources and non-Title IV sources.
- **Clery Act Reports:** data on campus crime and security.
- **Financial Responsibility Composite Scores:** institution’s composite score that aims to estimate whether an institution is “maintaining the standards of financial responsibility to participate in the Title IV programs” (<https://studentaid.ed.gov/about/data-center/school/composite-scores>). The composite score is calculated from the institution’s primary reserve ratio, an equity ratio, and a net income ratio.
- **Foreign Gifts Reports:** data on foreign gifts received – amount given, who has given the gift, and type of gift.

- Closed Schools Monthly Reports: list of schools that have closed in the given month.
- Postsecondary Education Participants System (PEPS) Weekly Reports Data Extracts: extract of selected institutional data. Includes a wide range of information, such as accreditation status, default rates, and loans in repayment.

These data are comprehensive for the specific areas covered for Title IV institutions only.

These data can be linked with IPEDS data to gain a fuller dataset with more institutional characteristics. However caution must be used when merging the Office of Federal Student Aid data with IPEDS. While IPEDS and the Federal Student Aid data both contain the same identifier, IPEDS allows branch campuses submit data separate from their main campus, but the Federal Student Aid does not. As such, some variables (such as reported percentages) do not merge well for institutions whose branch campuses reported separately for IPEDS.

State Regulatory Agencies that Oversee For-Profits. Higher education policy varies by state but most states have some organization that oversees the operation of for-profit institutions. Moreover, federal regulations are requiring postsecondary institutions to have state authorization to operate (Federal Register, 2010). While these regulations are still being figured out, many states were already collecting data on the for-profit institutions open in their state. These reports may contain information such as compliance and disciplinary actions, performance data, institutional characteristics, and demographic information. For example, here is a sample of the reports available from California's Bureau for Private Postsecondary Education:

- Performance reports
http://www.bppe.ca.gov/annual_report/2012/41424484_pfs.pdf
- Disciplinary actions

http://www.bppe.ca.gov/enforcement/disciplinary_actions.shtml

- Compliance inspection results

http://www.bppe.ca.gov/enforcement/inspection_results.shtml

However, much of the information publicly available is not set up for researchers, so it would take requesting data from the agency housing the data or the time to enter the data into a format conducive to research. But the universe of for-profit institutions is twice as large as just those who participate in Title IV programs (Piketty, 2014).

Data from Accrediting Agencies. Accrediting agencies collect data on member institutions via the accreditation review process. For example, Accrediting Commission of Career Schools and Colleges (ACCSC) collects data on school characteristics, student demographics, program characteristics, and student achievement rates and trends. See their annual report for summary data:

<http://www.accsc.org/UploadedDocuments/2013%20School%20Characteristics%20and%20Student%20Achievement%20Report.pdf>

These data would only be available for institutions that have gone through an accreditation review process, and the review process is different for each accrediting agency. The majority of for-profits that are accredited are nationally accredited from one of two agencies, the Accrediting Commission for Career Colleges and Schools (ACCSC), and the Accrediting Commission for Independent Colleges and Schools (ACICS). Approximately 1600 for-profit institutions are accredited by one of these two agencies. A much smaller number of for-profit institutions are regionally accredited, estimated to be around 100-200 for-profit institutions. Some for-profit institutions are accredited by the approximately 70 specialized or professional agencies (estimated to be around 100 or so for-profit institutions accredited by such agencies) (Wolf, 2014). These agencies only accredit institutions that offer curricula in a specific field, such as nursing. These are

the types of accrediting agencies recognized by the U.S. Department of Education. However, anyone can create an accrediting agency and some for-profits have done so. Such accreditation is not acceptable if an institution wants to participate in the Federal Student Aid Programs, but may be important in marketing and recruiting students.

Each accreditation agency has its own process for accreditation and collects its own data. Given the different sources of accreditation data, researchers must use caution if trying to use data from multiple accrediting agencies as the data may not be comparable. Moreover, researchers who chose just to study institutions in one of the accrediting agencies run the risk of selection bias. Accrediting agencies are membership organizations and membership is not randomly determined. As such, there is likely sorting happening in the types of institutions in a given agency. Most obviously, institutions who have specialized or professional accreditation only offer instruction in a single field.

Securities and Exchange Commission / Publicly-Traded Company Filings

(<http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&SIC=8200&owner=exclude&count=40>). The Securities and Exchange Commission (SEC) publishes publicly-traded companies' filings. Annual, quarterly, and ad hoc filings include information on the company's finances, executive compensation, correspondence with the SEC, and any information on strategy that the company voluntarily shares. The goal of the information provided in these filings is to assist investors in making informed decisions about the value of the company. These data are only available for for-profits that are publicly-traded or are owned by a publicly-traded company, which make up only 17 percent of for-profit institutions, but 53 percent of enrollments (Jez, 2014).

USDE Accreditation Data (<http://ope.ed.gov/accreditation/>). The U.S. Department of Education's Office of Postsecondary Education publishes data on postsecondary accreditation,

including institutional and program accreditation. This data is gathered from the accrediting agencies who report information on their members.

Fiscal Operations Report and Application to Participate/ Financial Institution Shared Assessment Program (<https://cbfisap.ed.gov/ecb/CBSWebApp/>). The Fiscal Operations Report and Application to Participate Form / Financial Institution Shared Assessment Program (FISAP) database includes information on students' participation in Federal Financial Aid, such as the number of borrowers who entered repayment and the number of students who applied for financial aid. Like other Federal Student Financial Aid Data, these data are only collected for those institutions that participate in the Federal Student Financial Aid Programs and face the same difficulties in matching these data with IPEDS. Additionally, these data are not publicly available.

Pell End-of-the-Year Reports (<http://www2.ed.gov/inaid/prof/resources/data/pell-data.html>). The U.S. Department of Education's Office of Postsecondary Education publishes data annually on Federal Pell Grant distributions. Institutional-level data included are number of Pell Grant recipients and total amount awarded. Summary data include the distribution of Pell Grant recipients by control of institution and grant level, type, state, legal residence, family income and type, enrollment status, EFC, grant expenditures.

Student-Level Data

The student-level data available are largely surveys of students conducted by the federal government specifically for research purposes. Not surprisingly, most of these datasets are administered by the U.S. Department of Education's National Center for Education Statistics. Other sources of data include state data, private data, and a federal data set used to track federal financial aid. While none of these datasets focus primarily on for-profit students and may have small numbers of for-profit students, this may be counterbalanced by the fact that many of the

datasets oversample low-income and minority students, who are more likely to attend for-profit institutions.

National Center for Education Statistics Surveys

(<http://nces.ed.gov/surveys/SurveyGroups.asp?group=2>). The National Center for Education Statistics (NCES) provides data for research in education. The surveys listed below comprise NCES's student-level data. Given the surveys are designed for researchers and, as such, NCES provides excellent summaries of each survey, I edit and excerpt from their summaries below.

- **Baccalaureate and Beyond (B&B):** B&B studies follow students who complete their baccalaureate degrees. Students are asked question about their future employment and education expectations, as well as about their undergraduate education. In later follow-ups, students are asked questions about their job search activities, education and employment experiences after graduation. The first B&B study included about 11,000 students who completed their degree in the 1992-93 academic year. These students comprised the first B&B cohort and were followed up in 1994, 1997, and 2003. The second B&B cohort began with the Class of 2000 and involved only a 1-year follow-up in 2001. The current B&B cohort comprises of a sample of the Class of 2008 and has followed-up with them one year after graduation in 2009. This group of grads will be followed-up a second time in 2012-2013 and for a third and final time in 2018 (four and ten years after graduation, respectively).
- **Beginning Postsecondary Students Longitudinal Study (BPS):** BPS studies follow students who first begin their postsecondary education. These students are asked questions about their experiences during, and transitions through postsecondary education and into the labor force, as well as family formation. Transfers, persisters, stopouts/dropouts, and vocational completers are among those included in the studies. In the first BPS study,

about 10,600 students were identified as starting in the academic year 1989-90. These students were followed in 1992 and in 1994. A second cohort of first time, beginning students was identified in 1996, with follow-ups performed in 1998 and in 2001. The third cohort was identified in 2004, and was followed-up in 2006 and 2009. A new cohort was identified in 2012 and will be followed in 2014 and 2017.

- **Career/Technical Education Statistics (CTES):** Built off of existing NCES surveys, this dataset provides information on career/technical education from students, faculty, and schools at the secondary and postsecondary levels, as well as on adults seeking work-related education and training.
- **High School and Beyond (HS&B):** The HS&B describes the activities of seniors and sophomores as they progressed through high school, postsecondary education, and into the workplace. The data span 1980 through 1992 and include parent, teacher, high school transcripts, student financial aid records, and postsecondary transcripts in addition to student questionnaires and interviews.
- **National Longitudinal Study of the H.S. Class of 1972 (NLS-72):** The NLS-72 describes the transition of young adults from high school through postsecondary education and the workplace. The data span 1972 through 1986 and include postsecondary transcripts.
- **National Postsecondary Student Aid Study (NPSAS):** The NPSAS is a comprehensive study that examines how students and their families pay for postsecondary education. It includes nationally representative samples of undergraduates, graduate and first-professional students; students attending public and private less-than-2-year institutions, community colleges, 4-year colleges, and major universities. Students who receive financial aid as well as those who do not receive financial aid participate in NPSAS. Comprehensive

student interviews and administrative records, with exceptional detail concerning student financial aid, are available for academic years 1986-87, 1989-90, 1992-93, 1995-96, 1999-2000, 2003-04, and 2008. Data collection just ended for the 2011-12 academic year.

- **Postsecondary Education Quick Information System (PEQIS):** PEQIS provides timely data on focused issues needed for program planning and policy development with a minimum burden on respondents. In addition to obtaining information on emerging issues quickly, PEQIS surveys are also used to assess the feasibility of developing large-scale data collection efforts on a given topic or to supplement other NCES postsecondary surveys. PEQIS employs a standing sample (panel) of approximately 1,600 postsecondary education institutions at the 2-year and 4-year level. The nationally representative panel includes public and private colleges and universities that award associate, bachelor's, master's, and doctoral degrees.

NCES allows for online analysis of these surveys at its DataLab: <http://nces.ed.gov/datalab/>.

Alternatively, researchers can request the raw data be sent to them if they would like to conduct analyses that are not available via DataLab. These data are widely used, and NCES provides excellent support in using these data. The main drawback is that the size of the sample relating to for-profits may be prohibitively small, especially for subgroup analysis.

Bureau of Labor Statistics' National Longitudinal Study of Youth Surveys

[\(http://www.bls.gov/nls/\)](http://www.bls.gov/nls/). Similar to the NCES surveys, the Bureau of Labor Statistics (BLS) administers several surveys that follow respondents into higher education (if they take that route).

From the BLS website:

- **National Longitudinal Survey of Youth 1997 (NLSY97):** Survey of young men and women born in the years 1980-84; respondents were ages 12-17 when first interviewed in 1997.

- National Longitudinal Survey of Youth 1979 (NLSY79): Survey of men and women born in the years 1957-64; respondents were ages 14-22 when first interviewed in 1979.
- NLSY79 Children and Young Adults: Survey of the biological children of women in the NLSY79.
- National Longitudinal Surveys of Young Women and Mature Women (NLSW): The Young Women's survey includes women who were ages 14-24 when first interviewed in 1968. The Mature Women's survey includes women who were ages 30-44 when first interviewed in 1967. These surveys were discontinued in 2003.
- National Longitudinal Surveys of Young Men and Older Men: The Young Men's survey, which was discontinued in 1981, includes men who were ages 14-24 when first interviewed in 1966. The Older Men's survey, which was discontinued in 1990, includes men who were ages 45-59 when first interviewed in 1966.

These surveys contain information not only on respondents' educational training, but also on their upbringing, health, relationships, family, background, and employment. The data on higher education can be linked to IPEDS to provide more complete information about the respondents' postsecondary careers. The publicly-available data are available from their website, however to get detailed information on the college(s) attended, researchers must apply for the confidential data. These data are widely used, but less commonly so by education researchers. Like the NCES data, the size of the sample that attends a for-profit may be prohibitively small, especially for subgroup analysis.

Statewide Longitudinal Data Systems. Most states collect student-level higher education data, even if only within a public higher education system. However, seven states collect some statewide data on for-profit students – ranging from enrollments to degree completion (Data Quality

Campaign, 2012). These data systems likely are not ready for research yet, they are worth watching as they mature and as policy pressure on for-profits grows.

National Student Clearinghouse StudentTracker

(<http://www.studentclearinghouse.org/colleges/studenttracker/>). National Student Clearinghouse tracks students who attended institutions that subscribe to the National Student Clearinghouse services. Their database covers 3,500 institutions, which enroll over 98% of students attending U.S. institutions. It is not clear what the coverage of for-profit institutions and their students is, though. Moreover, since institutions opt-in and pay to participate, there is likely bias in the institutions, and thus the students, covered in this database. Finally, these data are not public.

National Student Loan Data System (https://www.nsldsfa.gov/nslds_FAP/). These data include loan and grant information for students participating in a Federal Student Financial Aid Program. Aid information collected begins at aid approval, concludes at aid closure, and includes disbursement, repayment, deferment, and delinquency. However, these data are not available to researchers.

Moving forward

Institutional-level research on for-profits faces serious limitations given the incompleteness of available data. The most comprehensive dataset, IPEDS, is missing non-Title IV for-profit institutions, which are estimated to be half of all for-profit institutions (Cellini, 2013). State accrediting agencies perhaps have complete data for the institutions that operate in that state. These datasets can be used to help get a sense of the context of for-profit institutions, but it is impossible to understand the national for-profit sector as a whole with the current state of data. Moreover, not all for-profit institutions are accredited.

Student-level research is likely in a better position than institutional-level research given the breadth of student survey data that includes students that attend all types of institutions. However, analysis of groups, such as Veterans or minorities, at for-profits may be trickier given the sample size of for-profit students in these datasets are likely too small to be divvied up.

Given the limitations of data that are currently available to research for-profits, it is no wonder that the amount of research on the sector has not kept up with the explosive growth of the sector. The for-profit sector, seeking to build a strong reputation, and state and federal governments, seeking to reign in abuses of predator institutions, should consider ways to improve the quality of data available. For-profit institutions could build alliances between agencies that accredit large numbers of for-profits to collect comparable data. The for-profit sector and the federal government could encourage and support non-Title IV for-profit institutions to submit data to IPEDS.

Better data would allow researchers to develop a fuller understanding of the for-profit industry and analyze the impact of for-profit institutions on a variety of outcomes, such as student employment and income, regional and national economic growth, increasing educational attainment, and access to college for traditionally underserved students. For example, if IPEDS collected data on non-Title IV institutions, we could link these data to economic data sets to study how for-profit institutions have impacted a region's economic development. Or, more generally, we could have an improved picture of the for-profit landscape.

However, the institutional data collected are usually primarily collected for some regulatory or accountability purpose - and not necessarily for research. This means that the information available may not allow researchers to answer the questions most important to develop a public agenda on higher education that includes for-profits. In other words, the research done will largely be dictated by the data available - and this means we will have studies about student financial aid

usage for Title IV institutions and not studies about, say, the labor market decisions of the faculty at for-profit institutions. In fact, some of the most important questions about for-profits cannot be answered with the data we have today. Questions like, are there greater returns (however you want to define this) to attending a for-profit institution than a public or non-profit institution? The for-profit industry responds to federal efforts to regulate the industry with three claims: (1) that only a few for-profit institutions are predatory; (2) that all institutions, public or private, should be held to the same standard; and (3) that regulating for-profits will limit access for students and leave employers without skilled employees (Association of Private Sector Colleges and Universities, 2013, 2014). These are claims that researchers could explore better if there were more complete and higher quality data. Is it true that there are just a few bad apples? If we had the same regulations and policies for all higher education institutions, would it just impact for-profits or would it impact institutions of all types? Are for-profit institutions closing the skills gap? Today, such investigations must be done with just the limited sample of for-profits from federal datasets, accreditation data, and the variables that they collect.

Alternatively, until quantitative data sets improve (which is a non-trivial matter), for-profit institutions could expand access to their institutions for researchers. Much can be learned from in-depth qualitative inquiries of a sample of for-profit institutions combined with access to institutional administrative data. If more for-profit institutions would open their gates to qualitative researchers, we could answer questions about how for-profit executives lead their institutions. Unlike public and non-profit institutions, for-profit institutions' goal is to earn a profit. An interesting qualitative study could analyze whether differences exist between public, non-profit, and for-profit executives' leadership practices and management decisions. Qualitative research could also analyze the experiences of employees and students of for-profit institutions. How do these experiences differ from those of other institutions? Another qualitative research project could be

interview employers to understand how they perceive the quality of education of for-profit students to students from other institutions. All of these research questions are well-suited for qualitative inquiry and could be done if for-profit institutions welcomed researchers into their institutions.

Until the quality of institutional-level data improves, research can focus on understanding the student who attends for-profit institutions by using the numerous student survey datasets available from NCES and the Bureau of Labor Statistics. If sample sizes for students attending for-profits are too small, those who administer the surveys can seek to supplement their samples with more from this population.

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DRAFT

What We Know: Research About For-Profit Higher Education

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What We Know: Research About For-Profit Higher Education

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For-profit higher education in the United States has been a topic of scholarly research since at least the early 1900s (Kinser, 2006a). A sector-spanning research agenda has not developed, however, from over a century of these investigations. Few academic researchers have made a career focusing on the sector, so sustained inquiry grounded in a robust theoretical framework is lacking. Rather, one sees in the literature a sequence of investigations, mostly by partisans, that are typically descriptive in nature and argumentative in conclusion. Moreover, the research has been marginal to the broader scholarship on higher education, with only a handful of research articles with a for-profit sector focus published in top-tier journals. As was noted in a previous review of the literature (Kinser 2006a), each generation seems to take its own fresh view, looking askance at the findings of the previous generation or simply focusing only on the perpetually new dimensions of a fast-changing sector.

The last few years, however, can perhaps be seen as a golden age for research on for-profit higher education. Research from scholars and think tanks, along with government reports from statistical agencies and political committees, have made available much new information on the operation of the for-profit sector and its impact on the policies and practices of the US higher education system. This new influx of research follows the growing significance of the sector in terms of its enrollment, revenue, and the educational capacity of the United States. Much of it is directly responsive to policy issues related to eligibility for federal student aid. Other research examines the faculty role or the student experience in for-profit higher education. And finally, there is research that attempts to evaluate the quality or value of a for-profit education, whether from the perspective of the student, the state, or the employer.

This paper will look primarily at research that has emerged since my previous review of the for-profit literature in 2006. First I will discuss information regarding the diversity and distinctiveness of the sector. Next I will describe the primary findings related to students, faculty, and the curriculum. The quality or value of a for-profit education will also be addressed. Finally, I will summarize the impact – real or potential – of changing federal regulations broadly centered on student aid eligibility. The goal of this paper is to identify the primary conclusions one can draw about the for-profit sector based on empirical research.

Diversity and distinctiveness of for-profit higher education

For-profit higher education is sometimes considered as a singular entity, with scholars making sector-wide comparisons against public and private non-for-profit higher education. This is common in essays seeking to make broad points about the sector by citing data on enrollment trends or financial aid outcomes (e.g., McGuire, 2012; Bennett, Lucchesi, and Vedder, 2010). Although this approach has its uses, most scholars recognize that the for-profit sector is diverse and consequently they disaggregate data for analysis. The simplest differentiation of data follows the NCES designations of less-than-two year, two-year, and four-year institutions. A more complex classification for analysis proposed by the Institute for Higher Education Policy (2012) includes dimensions that focus on grouping institutions based on enrollment growth within a particular geographic region, the enrollment concentration of full-time students compared to part-time students, and enrollment patterns of students between for-profit and other institutions of higher education. Kinser (2007) identified a multidimensional typology that classified institutions based on ownership, degree level, and geographic scope, and used it to track the enrolment and expansion strategies of for-profit higher education. Deming, Goldin and Katz (2012) reported enrollment rates based on whether the campus was an "independent" school (one state with fewer than five campuses), online institutions, and for-profit "chains" (part of a larger system of campuses).

The research that disaggregates data based on one or more dimensions demonstrates that the for-profit sector is not a monolithic entity. Kinser (2006b), for example, used the University of Phoenix to make the point that more attention should be paid to the diversity of institutions in the sector. The analysis by Deming, Goldin and Katz (2012) picks up that theme as they show that almost all of the enrollment growth in the first decade of the 2000s comes from chains, and most of that from their online divisions. Independent schools showed relatively flat growth during this period. They worry that understanding the for-profit sector has become tantamount to the large chains, which distorts an economic analysis of the impact of the sector as a whole.

A more important distortion of the data on for-profits comes from a reliance on information only from Title-IV eligible institutions. Cellini and Goldin (2012) used data from five states to estimate the number of non-Title IV institutions. They conclude that there are likely twice as many for-profit institutions than typically identified, and enrollment in the sector is 37 percent greater than what is seen in Title IV institutions. Cellini and Goldin (2012) point out that the non-Title IV institutions represent a hidden educational resource that could become more important as policy-makers seek to reform Title IV eligibility in ways that disproportionately affect the for-profit sector.

Even as there is growing acknowledgement of the diversity within the for-profit sector, it still is studied as a distinctive subset of the higher education universe. In some respects this is has been shown to be an accurate portrayal. For example, the students enrolling in for-profit sector may be diverse, but they are nonetheless significantly different from their counterparts in the public and private nonprofit sectors (Chung, 2008). The research, however, has not delimited the sector's distinctiveness. There is little information on characteristics or outcomes that may suggest more similarities than differences among sectors. Nor has the research explored the overlapping areas where within sector differences are greater than between sector differences. For-profit higher education may, therefore, be less distinctive that current research suggests.

Students

The for-profit sector has been remarkably successful in providing access to higher education for non-traditional student populations. According to the Imagine America Foundation (2013), minority students account for 44 percent of the enrollment in the sector, and 37 percent of enrollments are from black and Hispanic students. These proportions have increased since the mid-2000s. Likewise, the proportion of adult students enrolling in a for-profit institution is also substantial with half of all students in two-year colleges and three-quarters of all students in four-year institutions aged 25 or older. For-profits are also more likely to enroll low income and/or first generation college students. The Imagine America Foundation calculates about 90% of all students in the sector are the first in their families to attend college, are classified as low income, or both. Almost one-quarter have annual family incomes below \$20,000. Students in for-profit institutions are also likely to be making a second attempt at college. In four-year institutions, 40 percent of the students have previously enrolled in a public or private nonprofit institution, while nearly a quarter in two-year for-profits have had previous enrollments outside of the sector.

In certain fields, the for-profit sector is a significant contributor to minority degrees. The Imagine America Foundation (2013) states that for-profits represent seven of the top ten institutions in awarding Bachelor's degrees to minorities in computer and information sciences; in the field of business, for-profits represent six of the top ten producers of minority MBAs and doctorates. But in general, certificates represent a much larger proportion of the credentials awarded in the for-profit sector: approximately 55% of all awards in the sector are non-degree certificates. Because of the large proportion of black and Hispanic enrollment in for-profit certificate programs, they grant the bulk of all certificates awarded to blacks and Hispanics in the U.S.

Research on why students choose a for-profit program is split, with few studies providing an objective take on the matter. One effort is Iloh and Tierney (2013), who examine the admission practices

of for-profit institutions as compared to community colleges. They argue that students respond positively to the information provided by for-profits and their customer service focus. A few studies that focus on international private higher education growth suggest the parallel to US for-profits is in their ability to meet demand for education in a market environment where public options are limited (Douglass, 2012; Levy, 2006). This matches the rhetorical arguments from for-profit advocates that explain growth of the sector based on students making rational choices to enroll in programs that best meet their needs. Data to support this assertion is weak, but does come in the form of student satisfaction ratings that are comparable with those in the public and private nonprofit sectors (Imagine America Foundation, 2013).

Research conducted by the U.S. Senate Committee on Health, Education Labor and Pensions (2012) provides data that suggests that for-profits recruit vulnerable students by creating a sense of urgency to enrollment and to “locate and push pain in students’ lives” (p. 4). In this view, students are misinformed by the admissions process and are manipulated to secure a commitment to pay tuition to the for-profit institution. A secret-shopper investigation by Cottom (2013) has supported this perspective. The notion that students are not making rational choices may also be supported by economic analyses (e.g., Cellini & Goldin, 2012) that show that students are enrolling in programs that are more expensive than their competitors in the public sector. Still, the data sources are weak and do not allow for sufficient detail to fully account for the diversity of students and institutions that make up the for-profit sector (Chung, 2012). Thus, students motives for attending relative to the institutional actions responsible for recruiting them remain unclear.

Faculty and the curriculum

According to an IPEDS analysis, for-profits award credentials in 38 different fields (Kinser 2014). The top programs offered by for-profit institutions are, based on number of awards, are 1) health professions, 2) personal and culinary services, 3) business, 4) mechanics and repair technologies, and 5)

computer and information sciences. In general, for-profit institutions tend to offer credentials in only a few fields of study, though they are often more diverse than public and private non-profit institutions in the level of credential offered. For example, 38.2 percent of all degrees awarded by four year for-profits are associate degrees. That compares to 7.8 percent of degrees in public institutions and 4.8 percent in private nonprofit institutions (Ginder and Kelly-Reid, 2013b).

According to IPEDS data (Ginder and Kelly-Reid, 2013a), approximately 85 percent of faculty in four-year for profit institutions are employed part-time. In two year institutions, however, the full-time/part-time split is nearly even, with 53 percent employed part-time, and in less-than-two-year institutions, the clear majority of faculty are employed full time. Moreover, even as full-time employees, less than ten percent of the for-profit faculty have access to tenure (Ehrenberg, 2012). The student-faculty ratio in the for-profit sector as a whole is comparable to the public and private non-profit sectors. Even with the enrollment growth seen over the last decade, it appears the sector has been able to maintain sufficient staffing.

A summary of what is known about for-profit faculty is provided by Tierney and Hentschke (2007). They argue that shared governance structures involving faculty are rare in the for-profit sector, and that academic freedom is not particularly important to the academic model. Rather, the sector shows evidence of “tight coupling” of faculty responsibilities with administratively determined tasks. Faculty are assigned teaching roles and are evaluated based on their ability as instructors, not on scholarly expertise as evaluated by disciplinary peers. The empirical evidence for these claims, however, is not robust, as few studies have looked explicitly at the faculty role in for-profit higher education. A study by Lechuga (2008) looks at faculty culture in for-profit higher education and identifies the interlocking dimensions of assessment, knowledge, and customer service as defining the role. The impact of the marketplace is seen in decisions regarding the curriculum, especially through an explicit connection to labor market demand and performance-based job security. Additional work, however, is

needed to extend these findings across the sector specifically to understand institutional diversity in for-profit faculty models.

Measures of quality

The quality of for-profit higher education is regularly questioned. Often this is by suggesting that there is an unavoidable tension between quality and profit. Kinser (2013a) notes that this is a faulty assumption, and identifies at least three routes to profit that do not raise inherent quality concerns. Advocates, in fact, suggest the profit motive improves education (e.g., Stanfield, 2012). Nevertheless, authors regularly identify examples of where revenue maximization may end up short-changing quality. For example, Garrity, Garrison, and Fiedler (2010) identify a set of institutions that have more revenue from Federal Pell grants than they spend in instructional expenses. Davis, Adams, and Hardesty (2011) point out challenges that libraries in for-profit institutions face because of low standards and lack of investment. The conflation of the sub-prime banking scandal with for-profit higher education is a common rhetorical device (e.g., Braucher, 2012; Lynch, Engle, and Cruz, 2010; McGuire, 2012), with a litany of aggregated data and innuendo marshalled to support assertions that quality is a distant second to profit in the sector.

Empirical approaches to the issue of for-profit quality are less common. A paper by Deming, Goldin and Katz (2012) looks at various outcome measures as indicators of quality. They find that for-profit students take on greater debt, but they are also more likely to obtain certificates and associate degrees, and less likely to obtain a bachelor's degree. They also earn less on average, which is likely related to lower employment rates. Lang and Weinstein (2012) look more closely at earnings and do not find statistically significant benefits for students earning for-profit associate's degrees. This is somewhat countered by a separate analysis by Cellini and Chaudhary (2012) who find for-profit associate degrees do provide earning gains, similar to gains from public sector enrollment, but the gains may be quite low. For-profit graduates are also more likely to work full-time after graduation, and to work more hours in

total. However, they also find evidence to suggest a negative effect on dropping out of a for-profit institution without earning a degree that is not present among public sector dropouts. In other words, if students are able to complete the for-profit programs they tend to do well in the marketplace. If they do not complete, they find themselves further disadvantaged.

A final indicator of quality relates to the ability of for-profit students to repay their loans. For-profit students rely heavily on loans to finance their education—about three-quarters take out loans—repayment may be viewed as indicator of whether the benefit of attending for-profit institution is worth the cost. On the other hand, because for-profit institutions enroll a high proportion of students who are demographically at risk of defaulting on loans, the institutional impact is negligible. In fact, studies from the 1980s and 1990s established conclusively that student loan default is related to student risk factors, not institutional sector [see Hillman (2014) for a review]. The for-profit sector has changed dramatically since those studies were done, though, and current research contradicts these prior results. Hillman (2014) and Belfield (2013), for example, both find that even after controlling for relevant demographic characteristics, students attending for-profit institutions are more likely to default. The finding is not dependent on how much a student borrows, but rather is a combination of institutional attendance and whether the student earned a credential. Hillman (2014) points out the connection to student risk factors and for-profit enrollment, but concludes that the institutional effect accentuates the likelihood of default among low-income and minority students. Although Hillman (2014) does not offer an explanatory hypothesis, he recommends looking at the linkages between specific for-profit institutional characteristics and student default, and developing policies that would ensure the sector is invested in student success more than revenue maximization.

In general, though, quality of for-profit higher education remains understudied. Quality distinctions based on national or regional accreditation, for example, have not been made. There has not been an empirical comparison of curricula or academic requirements. The University of Phoenix

Academic Annual Reports (e.g., 2012) notwithstanding, independent assessments of learning outcomes are absent in the literature. Without more of this work, it is difficult to assess the accusations of the sector's critics against the claims of its supporters.

Federal Regulations

The significant policy implications associated with the inclusion of for-profit higher education within the postsecondary universe have been evident since the GI Bill in 1944, and were only exacerbated with the passage of the higher education act of 1965 and its later amendments. Still, until recently the for-profit sector itself was a marginal entity in terms of enrollment, revenue, and the educational capacity of the United States. This has changed (Kinser, 2013b). In the 2000s, forty percent of enrollment growth was concentrated in the for-profit sector along with a third of all new credentials awarded during this period. Revenue in the sector tripled between 2003 and 2010, from \$9.9 billion to \$29.6 billion. Loan volume to for-profit higher education during 2010 was \$23.8 billion, and it also absorbed \$8.8 billion in grants that year. It now accounts for almost a quarter of the loan and grant volume disbursed in the U.S. Nine of the top ten institutions in title IV loans, and seven of the top ten institutions in Title IV grants, are for-profits. In sum, because of enrollment increases as well as changes in the way students are paying for the rising cost of their education, the for-profit sector has greatly increased its participation in federal aid programs. Such heavy reliance on government aid has regulatory consequences. This is reflected in the literature, where most of the research is directed toward policy-relevant assessments of for-profit higher education performance. In particular, research examines whether current or proposed rules have the intended policy effects.

One line of research suggests that for-profit higher education provides a good return on investment for government. A combination of factors leads to this conclusion, including revenue returns directly through taxes the for-profit sector pays, as well as the lifetime earnings reported by graduates of for-profit institutions. Because of the sectors' taxpaying status, then, a for-profit degree ultimately

receives no net subsidies from the government, even after taking into account financial support given to students via federal Title IV and state aid programs (Schneider and Klor de Alva, 2011; Klor de Alva and Schneider, 2014). Degrees awarded by public and private nonprofit institutions, on the other hand, are subsidized via direct appropriations as well as their tax-exempt status. Advocates therefore argue that the for-profit sector is a relative bargain for the states and federal government alike. The increase in aid received by the sector should therefore be viewed positively by regulators, rather than seen as an area of growing concern.

A second line of work examines the impact of federal regulations on the for-profit sector. For example, the 90/10 regulation that requires for-profit institutions to earn at least 10 percent of their revenue from non-Title IV sources has been examined to see how it affects the prices and enrollment strategies of affected institutions. On pricing, some version of the Bennett hypothesis—the availability of financial aid causes tuition to rise—is often proposed as an explanation for why for-profits charge students more (Cellini and Goldin, 2012; Gillen, 2012). The impact of 90/10 rule means that for-profit institutions must raise tuition to ensure that students cannot pay the full tab with Title IV revenue. Cellini and Goldin (2012) find that tuition in Title IV eligible programs is higher than similar programs without Title IV eligibility. They, however attribute the difference to institutions increasing their costs to take advantage of the federal aid subsidy, and do not find evidence of fees above the level of the subsidy that would implicate the 90/10 rule. Kantrowitz (2013) argues against the 90/10 rule because it is unfair to institutions that enroll large numbers of low-income students who must rely on aid to fund their tuition. He suggests repealing the rule outright, or at least modifying it by taking student demographics into account.

Another set of policy analyses have focused on gainful employment rules. Heller (2011) looks at proposed repayment standards under gainful employment regulations (which have since been thrown out in court) and notes that certain programs may be disproportionately affected by the rules. He finds

that at least one-third of programs in cosmetology, alternative medicine, vehicle maintenance, and culinary arts could not meet the loan repayment standard. Since the for-profit sector is a disproportionate producer of graduates in many of these programs, gainful employment rules could have a rather broad impact on these fields and have more extensive economic impact than federal regulators expect. In a separate analysis, Kinser (2013b) examines the impact of debt-to-income on the for-profit sector. Using Labor Department data on average wages and net price statistics for gainful employment programs, he estimates that 63 percent of all for-profit institutions could be at risk of a program failing this gainful employment test if students borrowed the full cost of the program. On the other hand, using average student loan disbursements against average entry level wage, approximately one-quarter are at risk. The ratio of debt to potential income, therefore, is a significant regulatory measure for the for-profit sector because program prices are relatively expensive compared to entry level wages.

Finally, there is research that looks at cohort default and repayment rates and whether they represent appropriate measures to evaluate program eligibility for Title IV programs. Studies such as those by Belfield (2013) and Hillman (2014), for example, suggest the measures are appropriate because of clear institutional effects on loan repayment rates. If institutions make a difference, it seems reasonable to hold them accountable for student debt repayment outcomes. Anecdotally, there is evidence that some for-profit institutions are changing their practices to respond to student repayment concerns (e.g., Wiseman, 2011). Other observers, however, argue that for-profit institutions are manipulating the cohort rate default statistic. The Senate HELP committee report in 2012 documented what it claimed were strategies to artificially lower cohort default rates. These included combining campuses to offset high default rates at some locations with lower default rates at other locations, and using forbearances to delay defaults until they occur outside the two year regulatory window.

Scholarship is weak here, though, with none of these claims empirically tested in the peer-reviewed literature.

Conclusions

The growth of the for-profit sector in the United States has been remarkable. But with growth has come additional scrutiny and scholarly attention. Researchers are beginning to ask and answer key questions about the sector. Supporters of for-profit higher education have been distrustful of and even resistant to outside analysis in the past. Lechuga (2006), for example, gives an account of how his research on the sector was challenged by for-profit university administrators. Gramling (2011) documents the media battle over the narrative about the for-profit sector that occurred during the beginning of the Obama administration. Although there are still plenty of partisans on both sides offering arguments to support their view of for-profit higher education, increasingly data are available that can lead to a more robust empirical analysis. The peer-reviewed journals have demonstrated the capacity to publish objective scholarship on the sector, and from this work has come a few basic conclusions about for profit higher education.

- By almost any measure, for-profit higher education grew very fast since the turn of the century. It did so mainly through expanding large corporate chains and through online enrollments. The expansion was funded largely through an increasing reliance on federal financial aid.
- The sector is diverse, with a range of ownership models, programs, and enrollment patterns. The most basic distinctions are between levels, with four-year, two-year, and less than two year institutions having distinctive enrollment profiles and student outcomes. An additional level of largely unacknowledged diversity comes from the large numbers of non-Title IV for-profit institutions.
- The sector enrolls a diverse student body, and has been successful in attracting low-income, minority, and adult students to its programs. In some fields, the for-profit sector is a significant

producer of minority credentials. However, students are more likely to default on their loans, and they are particularly at risk if they drop out before receiving a credential.

- Overall most faculty in the for-profit sector are part-time, but that is driven by the skewed percentages among four-year institutions. Student faculty ratios have remained fairly constant, however, and are comparable to the public and private nonprofit sectors. Tenure is largely absent among for-profit faculty and they are primarily responsible for delivering the curriculum rather than designing it.
- The for-profit sector provides a cost-effective education for the perspective of returns on public funding. For students, the for-profit sector tends to charge high tuition relative to anticipated income for two-year degrees and certificates.
- Federal regulations have a significant impact on the for-profit sector, and some programs and institutions would be disproportionately affected by proposed regulations.

The conclusions that can be stated with confidence are relatively few. And the questions that still need to be addressed are numerous. Several have been noted in this review. It would be very helpful, of course, to have access to comprehensive data on the for-profit sector with the same fidelity as the public and private nonprofit sectors, as well as a proportionate volume of researcher attention. But those days are in the future. That future, though, would be facilitated by linking and exploiting information that already exists in national data sets such as IPEDS and the National Student Clearinghouse. It is important to recognize, however, that current longitudinal data should be viewed with caution: a 2004 cohort of students entered a very different sector than the one which is entering in 2014. Also, because many potential questions need access to information about institutions and their staff and students, the for-profit sector should be open to external researcher inquiries, surveys, and qualitative investigations. For-profit web sites, for example, do not provide the same level of detail about their faculty and programs as do web sites from public sector institutions (e.g., Iloh and Tierney,

2013). There needs to be a more transparent and collegial for-profit sector in order to advance the understanding of the sector within the U.S. system of higher education.

But even given the current status of data, there are several policy relevant questions that can probably be answered now, at least with respect to Title IV eligible institutions. The following is a subjective list.

- To what extent is the distinctiveness of the for-profit sector empirically justified? What cross-sector groupings of institutions are conceptually valid for comparative purposes?
- Which for-profit higher education business models and academic models are linked to improved or diminished student outcomes? Do these patterns vary by institutional size, geographic (or virtual) location, accreditation status, student demographics, broader economic context, etc.
- How does the for-profit sector recruit low-income and minority students? Do existing models of student choice apply to students in for-profit higher education?
- How is the for-profit student academic experience similar to and different from the student experience at similar public and private nonprofit institutions? To what extent are theories of adult learning, student engagement, student development, etc. applicable in the for-profit sector?
- How efficient is the for-profit sector in its use of student financial aid? What is the student cost for a credential compared to government investments via grants and institutional investments via tuition discounting?

As the research on the sector has ramped up, and as more scholars publish independent analyses of the sector, unfounded rumors and flawed assumptions about for-profit higher education will have less traction. As this review has shown, some findings suggest the positive role and function of the for-profit sector while others identify critical failings. But problems cannot be fixed unless they are acknowledged, and benefits cannot be realized if they remain hidden. A higher education research

agenda that includes for-profit institutions will serve to improve not just one sector but the broader goals of access and accountability for outcomes in the postsecondary system as a whole.

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DRAFT

*What Might We Learn From Research About
Traditional Colleges And Universities*

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**Developing a Research Agenda: Tax-Paying Colleges and
Universities/For-profit higher education**

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What Might We Learn From Research About Traditional Colleges And Universities

Laura W. Perna
March 24, 2014

This conference seeks to establish the foundations of a research agenda for determining the performance of tax-paying colleges and universities and the contributions of these institutions to societal goals. This paper advances this agenda by considering lessons learned from research on “traditional” (that is, public and private not-for-profit) colleges and universities. The paper first identifies the societal purposes of higher education and then considers what we know from research about how well traditional higher education institutions achieve these societal purposes. The paper concludes with recommendations drawn from research on traditional colleges and universities that may help guide the establishment of a research agenda on the performance and accomplishments of tax-paying colleges and universities.

What Are the Societal Purposes of Higher Education?

Higher education has many societal benefits. The most commonly articulated societal outcomes pertain to the contributions of higher education to the economic prosperity of individuals and communities. The economic benefits that accrue to individual participants are numerous and well-documented. For instance, compared with those who have lower levels of education, individuals who enter and complete college have higher earnings and rates of employment, lower rates of unemployment and poverty, greater job satisfaction, better health, longer life, and numerous other advantages (Baum,

Ma, and Payea, 2013). The earnings premium associated with higher education is especially noteworthy. Over the past 15 years, earnings have increased only for those who have earned at least a bachelor's degree, whereas incomes of those who have completed lower levels of education have remained flat or even declined (Baum et al., 2013; Carnevale, Smith and Strohl, 2010).

Although often framed as benefits to individual participants, these outcomes have critical inter-related benefits to society (Perna & Finney, 2014). For instance, higher earnings create a larger tax base and thus result in higher tax payments. Lower unemployment and better health translate into less reliance on social welfare programs like unemployment insurance, food stamps, and Medicaid (Baum et al., 2013).

The societal benefits of higher education also include the advancement of economic productivity. According to human capital theory, individuals who have attained greater education receive higher earnings because they are more productive workers. By building the human capital (and thus the productivity) of individual workers, higher education increases the productivity of businesses, communities, states, and nations. Through its research functions, higher education also advances productivity and produces other outcomes that promote societal well-being through the creation of new knowledge and technologies (McMahon, 2012).

Beyond the economic benefits, higher education produces numerous other benefits that are central to an economically prosperous democratic society. With higher levels of education also come greater civic engagement and community involvement, as demonstrated by the positive correlation between educational attainment and measures of voting and volunteering (Baum et al., 2013). At a more macro level, greater educational

attainment fosters the development of civic institutions, social cohesion, democratic processes (including the rule of law), and political stability (McMahon, 2012).

A final fundamental public purpose of higher education is the promotion of social mobility. Higher education has become increasingly important to accessing “the middle class” (Carnevale et al., 2010). Nearly half (47%) of individuals who came from families with incomes in the lowest quintile and who did not attain a bachelor’s degree were in the lowest income quintile themselves (Baum et al., 2013). By comparison, just 10% of those who grew up in the lowest family income quintile but earned a bachelor’s degree remained in the lowest income quintile. Higher education also helps to maintain high social status. Of those who grew up in the highest income quintile, half (51%) of those who earned a bachelor’s degree, but only 25% of those who did not earn a bachelor’s degree, were themselves in the highest income quintile (Baum et al., 2013).

Some research has examined the extent to which the individual benefits of higher education attainment (typically measured by earnings) vary based on the selectivity of the four-year college or university attended. Most reporting on the individual and societal benefits, however, focuses only on the degree level attained, without considering the extent to which attending different types of colleges and universities produces differential benefits. In particular, few studies have disaggregated the benefits based on the tax-paying status of a higher education institution.

How Well Is Higher Education Advancing Societal Purposes?

Although documenting the many societal contributions of higher education, available data and research also raise important questions about the extent to which

higher education institutions are achieving these purposes.

Preparing Workers for Employment

A primary challenge facing higher education in the U.S. is to ensure the readiness of both younger and older adults for available jobs (McMahon, 2012). Because “workforce readiness” is not clearly or consistently defined, educational attainment is a common proxy for whether an individual has the required knowledge and skills (Perna, 2012).

Available data suggest that the educational attainment of the U.S. population is insufficient to meet projected workforce needs. Based on their projections of the educational requirements of available jobs, Carnevale and colleagues (2010) conclude that, at current rates of production, the demand for workers with at least an associate’s degree will exceed the supply by 3 million by 2018; eliminating this deficit will require increasing degree production by 10% each year. Currently about 60% of all jobs nationwide require some education beyond high school, compared with just 28% of all jobs in 1973. Reflecting the nature of our global, technology-driven economy, the share of jobs requiring some postsecondary education is projected to continue to increase over the coming years (Carnevale et al., 2010).

These data suggest the importance of improving the performance of higher education, so as to raise the educational attainment of the nation’s population. Research demonstrates that raising educational attainment requires attention to multiple outcomes along the pathway to attainment, including improving academic readiness to enroll and succeed in higher education, ensuring the affordability of higher education, increasing the

rate of completion for those who enter, and ensuring that students may move/transfer from one college or university to another without loss of academic credit (Perna & Finney, 2014). A substantial body of research focuses on identifying the effects of particular policies and practices on these intermediary outcomes for students attending traditional colleges and universities. Attention to the policies and practices that promote academic readiness for college, ability to pay college cost, completion of college, and transfer among colleges at tax-paying colleges and universities will produce additional useful insights for how to raise the nation's educational attainment to the level required for international competitiveness and workforce readiness.

Promoting Student Learning

Data from the Organization of Economic Cooperation and Development (OECD)'s Survey of Adult Skills (released fall 2013) illustrate the limitations of relying only on educational attainment for understanding the alignment between the skills of workers and the knowledge requirements of available jobs. The OECD data show that relatively small shares of adults in the U.S. have strong literacy and numeracy skills and that higher shares of adults in the U.S. than in many other nations have weak literacy and numeracy skills (Soares & Perna, 2014). On measures of problem solving, the performance of U.S. adults more closely mirrors the average of adults in other participating nations. Although generally rising with educational attainment, proficiency in literacy, numeracy and problem solving with information tools varies within education levels. About 80% of U.S. workers who are "under-qualified" or "over-qualified" for their jobs as measured by their educational attainment are actually well-matched in terms

of their actual literacy skills. Many of those who are “under-qualified” for their jobs in terms of formal education actually have higher literacy proficiency scores than their well-matched peers, whereas many of those who are “over-qualified” have lower literacy proficiency (Soares & Perna, 2014).

The OCED and other data suggest the need to understand the learning outcomes and competencies produced by various educational providers. There have been some efforts to assess the learning produced by higher education institutions after taking into account the knowledge and skills possessed by entering college students (e.g., the Collegiate Learning Assessment). More research considers the effects of particular pedagogical practices. For instance, the components of the National Survey of Student Engagement (NSSE) reflects the conclusion by George Kuh and his colleagues (2006) that use of educationally-effective learning practices will promote student engagement in academic material. The five educationally-effective practices that are operationalized in the NSSE are: academic challenge; active and collaborative learning; student-faculty interaction; enriching educational experiences; and supportive campus environment. In short, Kuh (2001) urges attention to how students are spending their time, as well as how an institution is structuring experiences and providing opportunities for all students to become academically engaged.

The challenges associated with measuring learning outcomes for students attending traditional colleges and universities have important implications for accountability and oversight. In short, accountability systems tend to emphasize outcomes that are currently measured, including program/degree completion, employment rates, and employment compensation.

Providing Equal Opportunity to Participate in and Benefit From Higher Education

Although higher education attainment is associated with many economic and non-economic benefits for individuals and society, research on traditional colleges and universities shows that the opportunity to realize these benefits varies based on an individual's demographic characteristics (including gender, race/ethnicity, family income, and age), characteristics of the high school an individual attended, and the community and state in which an individual resides (Perna & Finney, 2014). As manifest across a host of college-related outcomes, these differences persist despite the considerable investment of the federal government, state governments, colleges and universities, philanthropic and nonprofit organizations, and other entities in policies and programs designed to reduce the gaps. For instance, rates of college preparation, enrollment, and completion are higher, on average, for women than for men, Whites and Asians than for Blacks, Hispanics, and American Indians, and students from lower- than higher-income families (National Center for Education Statistics, 2013a). Because of these gaps, the many benefits of higher education accrue differentially across various groups (Perna & Finney, 2014).

Most available research on students' college-related outcomes continues to be based on a "traditional" pattern of college enrollment, in which students graduate from high school, enroll full-time in a non-for-profit college or university, stay enrolled continuously, and graduate within four to six years (Perna, 2006). Less is known about the forces that contribute to college entry, persistence, and reentry for adult and "non-traditional" learners. About two-thirds of undergraduates enrolled in fall 2011 were

attending full-time. More than three-fourths (78%) of undergraduates who were attending full-time were age 24 or younger, compared with only half (49%) of undergraduates age 25 and older (National Center for Education Statistics, 2013a).

Available research suggests that the primary predictors of traditional patterns of college enrollment and completion fall into the following four categories: academic readiness for college; financial resources to pay the costs of attending; and knowledge and information about college- and financial-aid related processes (Perna & Jones, 2013). Research also demonstrates that limitations in academic readiness, financial resources, and information limit college-related outcomes for many students. As an example, the absence of sufficient academic readiness for college-level coursework is indicated by the high rates of participation in developmental or remedial coursework (National Center for Education Statistics, 2013b).

Research on traditional patterns of college enrollment also demonstrates that students do not make decisions to enroll or persist in college in a vacuum. Instead, these decisions are influenced by the multiple contexts in which students are embedded, including characteristics of their families, the high schools and colleges they attend, the states in which they live, and other aspects of the economic, social, and political context (Perna, 2006). For instance, entrance into college-level coursework without the need for remedial or developmental education depends in part on the availability of and participation in rigorous academic coursework during high school. Academic readiness for college-level coursework is also influenced by the extent to which the K-12 and higher education institutions in the state in which a student lives have aligned their curricular assessments and expectations. The sufficiency of financial resources to pay

college costs depends on a student's (and perhaps the student's family) income and other financial resources, the tuition and fees charged by the higher education institution, and the availability of financial aid by federal and state governments, the college/university attended, and other entities. Having the required knowledge and information about college-related requirements and procedures depends in part on whether the student's family has prior experience with higher education, the availability of sufficient counselors at the high school and college attended, and the simplicity of required procedures. Whether a student who enters one higher education institution can transfer to another institution without the loss of academic credit depends in part on the presence of articulated transfer curricula and knowledge of transfer requirements (Perna, 2006; Perna & Finney, 2014).

The characteristics of the high school context are likely less relevant for understanding college-related outcomes for students attending tax-paying higher education institutions, as many of these students are on a non-traditional path. Other contextual forces, including the availability of federal, state, and institutional financial aid for students attending tax-paying institutions, are likely quite relevant for this population.

Providing Affordable Higher Education

In addition to providing high-quality and accessible higher education, many public and private not-for-profit colleges and universities are being called to deliver higher education at a more affordable cost to students. Over the past three decades, tuition and fees have increased considerably, rising, on average, by 231% at public four-year institutions, 164% at public two-year institutions, and 153% at private not-for-profit

four-year institutions after controlling for inflation (College Board, 2013). One reason that tuition and fees have been increasing is that state appropriations per FTE have declined in most states over the past 25 years (SHEEO, 2013).

Available research considers a number of the implications of the rising costs of attendance on a range of college-related outcomes. Some research points to the problematic effects of the increasing need for students to borrow to pay college costs (given differences in willingness to borrow, for example, Perna, 2008) and/or through high numbers of hours of paid employment while enrolled (Perna, 2010b). Other research demonstrates the positive effects on student enrollment, persistence, and other outcomes of grant aid, especially grant aid that is awarded based on financial need rather than non-need criteria (for one review of the effects of financial aid see Perna, 2010a).

Research on traditional colleges and universities also examines the forces that contribute to rising higher education costs. These forces include the declines in state appropriations per FTE, as well as the tendency of traditional higher education institutions to spend all the revenue that they have (that is, Bowen's revenue theory of cost), the heavy reliance of the higher education production function on people (faculty) to produce higher education, and the quest of many traditional colleges and universities to maximize prestige (see for example, Ehrenberg, 2002). These forces likely play less of a role in driving costs at tax-paying institutions than at traditional colleges and universities. Nonetheless, determining how to provide high-quality higher education at an affordable cost to students is one of the most pressing issues facing all types of higher education institutions in the U.S. and across the globe.

Recommendations for a Research Agenda on Tax-Paying Colleges and Universities

A considerable amount of research has utilized student- and institution-level to examine various aspects of the societal contributions and public purposes of higher education institutions. This research provides many useful insights into the forces that promote and limit institutional contributions and student outcomes. Most available research on these issues focuses on traditional colleges and universities, raising questions about the transferability of findings to tax-paying colleges and universities. Greater attention to the applicability of these findings to tax-paying colleges and universities is needed, given the differences between tax-paying and non-tax-paying institutions in governance structures, faculty roles, financial models, and other dimensions.

In addition to considering the ways that tax-paying colleges and universities may advance the public purposes of higher education and address the challenges identified above, I offer five additional recommendations to guide a research agenda on tax-paying colleges and universities.

1) Recognize the heterogeneity of higher education institutions

Research on the performance and contributions of traditional higher education demonstrates the need to explicitly take into account the great diversity within the nation's system of higher education. Student and institutional outcomes vary based on countless characteristics of traditional colleges and universities, including mission, level (two-year or four-year), control (public or private), size, costs of attendance, wealth, credentials awarded, and more.

Institutional diversity is one of the greatest strengths of higher education in the

U.S., as it (hypothetically) ensures that there is a postsecondary educational opportunity for all students. But diversity within both the tax-paying and non-tax-paying segments of higher education also complicates efforts to identify appropriate measures of performance for particular institutions. The contributions of both traditional and tax-paying colleges and universities to individuals and society should be considered in light of the mission and other characteristics of the institutions being examined.

2) Recognize the heterogeneity of enrollment in institutions

Understanding the contributions and performance of tax-paying colleges and universities also requires explicit attention to the demographic and academic characteristics of the students attending particular institutions. Available data documents that student characteristics vary based on institutional characteristics. For instance, compared with students attending four-year colleges and universities, students attending tax-paying higher education institutions and community colleges are typically older, from lower-income families, attending part-time rather than full-time, and employed while also taking college courses.

Taking into account the characteristics of the students attending particular institutions (both tax-paying and non-tax-paying) is important because outcomes vary based on these characteristics. For instance, completion rates at traditional colleges and universities are higher for students who enter with higher rather than lower SAT/ACT scores and are from higher- rather than lower-income families (National Center for Education Statistics, 2013a). To understand the “value-added” of attending a particular higher education institution, research must take into account characteristics of the

institution and the student body. Understanding the value-added is especially important when the students served are disproportionately from groups that are at-risk of not completing and when institutional completion rates are low.

3) Recognize the role of the national and state context

The contributions and performance of traditional colleges and universities cannot be understood without explicit attention to the contexts in which these institutions are embedded (Perna, 2006). The performance of higher education institutions in the U.S. is influenced by many national characteristics, including the absence of a national university; the absence of a single national test that determines college admission and placement; and the tremendous number of postsecondary educational options available to students.

Higher education in the U.S. is also influenced by the considerable role that state governments play in determining the educational attainment of their populations (Perna & Finney, 2014). The 50 U.S. states vary greatly in terms of the current educational attainment of their populations and the projected educational needs of employers, the racial/ethnic and other demographic characteristics of their populations, their historical, economic, and political contexts, and the array of policies that a state uses to promote educational attainment. Relevant state policies include the extent to which states: promote the alignment of K12 and higher education curricular requirements and expectations, use available fiscal levers (e.g., appropriations, tuition-setting, and financial aid) to encourage the affordability of higher education, and align available higher education options with the educational needs of state residents (Perna & Finney, 2014).

A research agenda for tax-paying colleges and universities should include attention to the national and state contexts in which institutions are embedded. For instance, although all states have some mechanism for licensing and regulating tax-paying colleges and universities, some evidence suggests that few states consider tax-paying colleges and universities in their higher education master plans (Perna & Finney, 2014). An examination of different state policy contexts may produce insights into the types of policies that are productive, efficient, and effective for regulating tax-paying colleges and universities and maximizing the individual and societal contributions of these institutions.

4) Identify and ensure availability of measures of valued outcomes

Colleges and universities are increasingly being called to be accountable for their performance. Common measures of performance focus on outcomes for which data are now readily available, including completion rates, employment rates, starting salaries, borrowing rates and amounts, and default rates. The emphasis on such measures is seen in state performance funding programs and the federal government's efforts to enact gainful employment legislation. To demonstrate accountability, institutions must have, and must be able to demonstrate performance on, the full set of outcomes that are valued by institutions and society.

5) Recognize the contributions of multiple research methods

Current understandings of the contributions and performance of traditional colleges and universities are the result of a large and comprehensive array of research

studies that utilize a range of theoretical perspectives, drawing from such disciplines as economics (e.g., human capital theory), sociology (e.g., social capital theory, cultural capital theory), psychology (e.g., self-efficacy), public policy, education, and more.

Available research also employs quantitative and qualitative methodological perspectives to incorporate a range of research methodologies and data sources. Clearly no one study, theoretical perspective, or methodological approach is sufficient to understand a large and complex issue like the contributions and performance of higher education. A research agenda for understanding the contributions of tax-paying colleges and universities should recognize the merits of multiple and multi-faceted approaches.

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DRAFT

Perils in the Provision of Trust Goods

Consumer Protection and the Public Interest in Higher Education

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California Competes: Higher Education for a Strong Economy

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Perils in the Provision of Trust Goods

Consumer Protection and the Public Interest in Higher Education

By Robert Shireman

In its accreditation standards the Higher Learning Commission points out that college is not like most consumer products or services:

[T]he provision of higher education requires a more complex standard of care than, for instance, the provision of dry cleaning services. What the students buy, with money, time, and effort, is not merely a good, like a credential, but experiences that have the potential to transform lives, or to harm them.¹

Higher education is still a business, though, says economist Gordon Winston: “it produces and sells educational services to customers for a price and it buys inputs with which to make that product.” But it is a different type of business because of the *trust* involved in delivering a quality product. In education, as in medicine and in some other industries, customers “can easily be taken advantage of—at the extreme, consumers may not be informed about whether they have bought anything at all.” By the time an adult figures out the value of the education they purchased “it is far too late to do anything about it.”²

Consider the professor who is supportive (“good job!”) but fails to take advantage of the opportunity to encourage a student’s further intellectual engagement in the subject matter. As long as the student gets a decent grade in the class, he will go away satisfied, never knowing what might have been if he had been challenged more. While the student plays a major role in

¹Higher Learning Commission, North Central Association, “Criteria for Accreditation: Guiding Values,” accessed on March 20, 2014, at <https://www.ncahlc.org/Information-for-Institutions/guiding-values-new-criteria-for-accreditation.html>

²Gordon C. Winston, “Subsidies, Hierarchy and Peers: The Awkward Economics of Higher Education.” *Journal of Economic Perspectives*, Volume 13, Number 1 (Winter 1999), Pages 13–36.

his own education, what he does or doesn't do, and whether it is adequate, is guided by the expertise of the instructors employed by the college. Ultimately, as the founder of the University of Phoenix declared: A bachelor's degree is "what any college or university says it is."³

Contract failure and the non-distribution constraint

Higher education exhibits what Henry Hanssman, in his seminal article on nonprofit enterprises, called contract failure. When it is difficult to evaluate the quality of the promised or delivered good,

market competition may well provide insufficient discipline for a profit-seeking producer; the producer will have the capacity to charge excessive prices for inferior goods. As a consequence, consumer welfare may suffer considerably.⁴

In these circumstances, a nonprofit entity may be the more effective provider because of the **non-distribution constraint** imposed on those who control it. The nonprofit has less incentive to take advantage of consumers "because those in charge are barred from taking home any resulting profits." These altered incentives, economists argue, serve as an internal regulatory control, muting the temptation to "cut corners on quality or otherwise take advantage of user vulnerability." As a result, nonprofits "are more immune against moral hazards than for-profit firms would be under similar circumstances."⁵

³ National Center on Public Policy and Higher Education, "An Interview: John G. Sperling," *National Crosstalk*, May 1998. Accessed on May 10, 2013 at <http://www.highereducation.org/crosstalk/ct1098/interview1098-sperling.shtml>.

⁴ Hansmann, H. (1980). "The role of nonprofit enterprise," *Yale Law Journal*, 89, 835-901.

⁵ Anheier, Helmut K. and Kendall, Jeremy (2000). *Trust and voluntary organisations: three theoretical approaches*. Civil Society Working Paper series, 5. Centre for Civil Society, London School of Economics and Political Science, London, UK. Accessed at <http://eprints.lse.ac.uk/29035/>

The point of a nonprofit is *not* tax treatment. Tax status is the *consequence* of an accountability choice. Leaders of an entity must declare either:

- *Our plans and budgets will be determined by people whose goal is to produce net earnings they can share with other owners (for-profit).*

OR

- *We will subject all of our plans and budgets to oversight by people **without** any claim on net earnings (nonprofit).*

As corporate entities, nonprofits evolved from the common law concept of “trusts,” in which a person holds property for the benefit of another. While a trustee controls property, he does not control it for his own personal benefit but instead is required to “act in good conscience” in favor of an intended beneficiary.⁶ To accommodate organizations dedicated to a public purpose, such as churches, schools and soup kitchens, states extended the trust concept beyond property held on behalf of specific people to trusts for a public purpose. These organizations were governed by volunteers whose duty was to protect the underlying purpose and to not personally profit. When the United States began taxing corporate earnings, the law recognized these special entities and exempted them from the tax because their “earnings” are already fully dedicated to a social purpose.⁷

⁶ Hudson, Alastair (2009). *Equity and Trusts* (6th ed.). Routledge-Cavendish.

⁷The Corporation Tax of 1909 exempted “any corporation or association organized and operated exclusively for religious, charitable, or educational purposes, no part of the net income of which inures to the benefit of any stockholder or individual”. Internal Revenue Service, “History of the Tax-Exempt Sector: An SOI Perspective,” Winter 2008. <http://www.irs.gov/pub/irs-soi/tehistory.pdf>

Fundamentally Different: Governance and Conflicts of Interest	
For-Profit Corporations	Nonprofit 501(c)3 Corporations
Owned by shareholders	No owners; controlled by trustees on behalf of an educational, charitable or religious purpose
Salaries and other compensation is <i>unlimited</i>	Compensation must be reasonable
Any revenue exceeding expenses may be distributed to owners	Revenue exceeding expenses may <i>not</i> be distributed; it must be allocated toward the corporation's purpose
Board and executive compensation not disclosed (except some executives' compensation is disclosed at publicly-traded corporations)	Compensation of board, executives, and key employees must be disclosed; major contractors also disclosed
Board members and managers may take actions to increase the value of their shares. When educational goals conflict with profit goals, they may choose any course of action: there are no restrictions and no public disclosure	Board members are <i>prohibited</i> from involvement in issues that would affect them financially. Potential conflicts between corporation's purpose and personal financial interests of board and executives must be publicly disclosed
No restrictions on lobbying or on independent political expenditures or activities	Lobbying is restricted, partisan activities by the corporation are prohibited
Not Really That Different: Tax Treatment	
For-Profit Corporations	Nonprofit 501(c)3 Corporations
Investors may deduct losses on income taxes, and pay reduced taxes on capital gains	Donors may deduct donations on income taxes
Corporation pays income taxes* and payroll taxes; employees pay income taxes	Corporation pays payroll taxes; employees pay income taxes
Net revenue that is reinvested in the corporation as an expense is not taxed	All net revenue must be reinvested in the corporation
May benefit from various state, local, and federal tax incentives or exemptions.	

*The less a for-profit college spends on education, the more corporate income taxes it will owe.

Arthur C. Brooks, president of the American Enterprise Institute (AEI) and author of *The Road to Freedom: How to Win the Fight for Free Enterprise*, points out in his research on the economics of the arts that “the intangible nature of some of the products” leads to market failure and to “structural differences between an orchestra and, say, a steel mill.”⁸ Higher education has traditionally been provided through nonprofit and public entities for precisely the reason that nonprofit status exists: to address market failure in socially optimal production of intangible goods. Imposing a non-distribution constraint “increase the probability” that customers and donors get what they are paying for.⁹ Nonprofits need money. But as Brooks points out, while a for-profit has one clear goal—value for shareholders—nonprofits must balance “a double bottom line:” making ends meet financially , and pursuing their social impact.¹⁰ Importantly, the people ultimately responsible for that difficult balancing act are prohibited from having a personal financial conflict of interest.

(Except when indicated, for the remainder of this paper I will use the term “nonprofit” to refer both to those entities operating under section 501(c)(3) of the Internal Revenue Code as well as to public institutions, which generally operate under similar if not stricter rules.)

The non-distribution constraint has been effective

Every indication is that nonprofit status has resulted in a reduced incidence of predatory behavior in higher education. Peer-reviewed research by economists found that after controlling for student demographic factors, those in nonprofit and public certificate programs:

- had lower debt burdens,

⁸ *Arts, Markets and Governments*. RAND Graduate School, 1998.

⁹ Winston *op. cit.*

¹⁰ *Social Entrepreneurship: A Modern Approach to Social Value Creation*, Pearson Prentice Hall, 2009.

- had higher earnings and lower unemployment six years later,
- had lower student loan default rates, and
- were more satisfied with their programs

than did similar students at for-profit institutions.¹¹ Comparing open-enrollment four-year institutions across sectors, Education Trust found graduation rates at for-profit colleges were less than one-third the rates at colleges subject to the non-distribution constraint.¹² Even the for-profit industry’s own study found that after accounting for differences in student demographics, students attending for-profit colleges are at least twice as likely to default as students at other types of colleges.¹³

There will always be arguments about causation due to the variety of outcomes (many of them difficult to measure) and the enormous number of relevant variables. (Indeed, these measurement challenges are the reason for nonprofit provision). The data that are available, however, strongly support the underlying hypothesis that education is improved when the provider opts for the non-distribution constraint. The evidence is so strong that AEI’s Frederick Hess, an ardent advocate of the for-profits, bluntly called it “absolutely a no-brainer that the proprietary higher ed sector is rife with sleazy operators.”¹⁴

Does the non-distribution constraint have the same effect in other industries? In health care, patients who have fair or poor health are more satisfied with nonprofit plans, while the

¹¹ David J. Deming, Claudia Goldin, and Lawrence F. Katz, “The For-Profit Postsecondary School Sector: Nimble Critters or Agile Predators?” *Journal of Economic Perspectives*, 26:1 (Winter 2012). http://scholar.harvard.edu/files/ddeming/files/deming_goldin_katz_jep.pdf

¹² The Education Trust. *Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities*. November 2010. http://www.edtrust.org/sites/edtrust.org/files/publications/files/Subprime_report_1.pdf.

¹³ Charles River Associates for the Career College Association. *Report on Gainful Employment*. April 2010. http://www.whitehouse.gov/sites/default/files/omb/assets/oira_1840/1840_04232010-h.pdf.

¹⁴ Quoted in Jennifer Epstein, “Congressional Chaos?” *Inside Higher Ed*, November 10, 2010. <http://www.insidehighered.com/news/2010/11/10/aei>

for-profits “spend less on overall patient care, provide less preventive care, have higher disenrollment rates, and reject more beneficiary claims.”¹⁵ Even with government licensing of individual doctors, and price caps imposed by insurance companies and by Medicare and other government programs, nonprofit hospitals and health plans are found to do a better job than their for-profit counterparts.

In child care, according to an AEI study, “the quality of for-profit programs is generally lower than that of government-provided and private nonprofit programs.” The report explains the reason for the market failure—the difficult in measuring and monitoring quality:

Before enrolling their child, a parent can inspect if a facility is safe and clean. A particularly thorough parent might track down information on the program’s child-to-teacher ratio or the number of books in the classroom. Yet the important day-to-day interactions between remain largely hidden from view. . . Moreover, the young children who are the direct consumers of these early care and education services are often unable to determine the quality of these services. . . ¹⁶

In nursing home care, a meta-analysis in the British Medical Journal found that “on average, not-for-profit nursing homes deliver higher quality care than do for-profit nursing homes.” ¹⁷

Executives of for-profit colleges are not unaware of the problematic behavior that their organizational incentives can encourage. John D. Murphy was justifiably proud of the innovative model for working adults that he and his partner, John Sperling, created at the University of Phoenix. Still, Murphy considers the company’s evolution “a cautionary tale of what can happen when the financial values of the corporate world are applied to the provision of

¹⁵ Daniel Callahan and Angela A. Wasunna, *Medicine and the Market: Equity vs. Choice*, Johns Hopkins University Press, 2006, pp. 221-222.

¹⁶ Todd Grindal, “Unequal Access: Hidden Barriers to Achieving Both Quality and Profit in Early Care and Education,” American Enterprise Institute, June 2012. http://www.aei.org/files/2012/06/26/-unequal-access-hidden-barriers-to-achieving-both-quality-and-profit-in-early-care-and-education_143725989252.pdf

¹⁷ “Quality of care in for-profit and not-for-profit nursing homes: systematic review and meta-analysis,” August 2009, *BMJ* 2009;339:b2732. <http://www.bmj.com/content/339/bmj.b2732>

postsecondary education.” Ultimately the good reputation and educational mission of the university was sacrificed on the “altar of commerce,” in which the growth in the value of Apollo stock became the *sine qua non* of the university’s existence.¹⁸

Murphy’s anguish is a useful backdrop for anyone who spends time listening to the earnings calls that the publicly-traded companies hold for investors and analysts. Pick any call and the themes are the same. For example, on DeVry’s February 2013 call the CEO describes how the company’s three-part performance plan -- reduced costs, short-term growth, and long-term growth – add up to “value creation” for investors.¹⁹ The company, he says, plans to “improve” class sizes to reduce costs; in other words, *improve* means to *increase* class sizes. He assures investors that academic quality will be maintained, but there is no measure that holds that line in the same way that investors hold executives’ feet to the fire on costs. The CEO continues:

So all these actions and others are designed to create a leaner cost structure. Last quarter, we increased our goal for efficiencies and value creation for the year to at least \$60 million. Well, now we believe we can generate at least \$80 million from efficiencies for fiscal 2013.

Will these “efficiencies” actually be achieved without hurting quality, or will they rob students of intellectual interactions in ways that are real but extremely difficult to monitor or measure? There is no way for us to know because higher education is a trust good. We have no choice but to trust what the CEO tells us about quality. Where is DeVry aiming? How low might

¹⁸ John D. Murphy, *Mission Forsaken: The University of Phoenix Affair With Wall Street*, Proving Ground Education: 2013.

¹⁹ “Management Discusses Q2 2013 Results,” Earnings Call Transcript, Seeking Alpha, acquired on March 4, 2014, at <http://seekingalpha.com/article/1162901--management-discusses-q2-2013-results-earnings-call-transcript>. “[T]he plan has 3 priorities: aligning our cost structure with enrollment levels; regaining enrollment growth; and making targeted investments to drive future growth.”

instructional spending go in the pursuit of investor value? A U.S. Senate investigation found that in one recent year Bridgepoint Education spent only \$700 per student on instruction and \$2,700 on recruiting and marketing; University of Phoenix spent \$892 on instruction and \$2,225 on marketing.²⁰

In his book describing the promise of the for-profit college industry, Andrew Rosen, the Kaplan CEO, admits a constant hazard exists that executives will “shortchange the educational offering in order to minimize costs and maximize short-term profits.” Publicly-traded companies in particular suffer from pressure to “exploit the short-term opportunity for profits that’s inherent in this model in a way that hurts students, taxpayers and the entire industry.” Managers at for-profit colleges have both the means and the incentive to “rev up the recruitment engine, reduce investment in educational outcomes” and deliver “a dramatic return on investment.”²¹

Student recruitment provides a clear example where financial incentives have driven divergent behavior between the for-profit and non-profit sectors. The college counseling profession has long taken the position that when college recruiters are paid by commission – a bounty payment for each successful recruit – the interaction is fundamentally altered in ways that are bad for the student. It turns them into the classic used-car-salesperson, using every trick available to get the sale.²² Congress in 1992 agreed that bounty-paid admissions are problematic and outlawed the practice for *any type of college*. Yet the for-profit colleges have

²⁰ See company-specific documents available at <http://www.harkin.senate.gov/help/forprofitcolleges.cfm>

²¹ Andrew S. Rosen, *Change.edu: Rebooting for the new talent economy*, Kaplan Publishing, New York. Rosen attempts to reassure readers by explaining that the majority of for-profit college leaders “work very hard to avoid succumbing to these short-term temptations.”

²² Yes, research does indicate that car salespeople who are paid by commission rather than a fixed salary are more likely to lie. Earl D. Honeycutt, Jr., Myron Glassman, Michael T. Zugelder, and Kiran Karande, “Determinants of Ethical Behavior: A Study of Autosalespeople.” *Journal of Business Ethics* 32: 69-79, 2001

time and again been found to be violating the ban. When the U.S. Justice Department joined a whistleblower suit against Education Management Corporation (owner of the Art Institutes and other colleges), the New York Times summarized the charges:

- The company had a “boiler-room style sales culture” in which recruiters were instructed to use high-pressure sales techniques and inflated claims about career placement to increase student enrollment, regardless of applicants’ qualifications.
- Recruiters were encouraged to enroll even applicants who were unable to write coherently, who appeared to be under the influence of drugs or who sought to enroll in an online program but had no computer.
- Recruiters were also led to exploit applicants’ psychological vulnerabilities — for example, a parent’s hopes of moving a child out of a dangerous neighborhood.²³

Rather than demonstrate a commitment to abide by the bounty ban, the trade association has filed a lawsuit and pursued legislation to weaken it.²⁴

Why the different behavior by sector? The whistleblower laws apply to all types of institutions, and if it was happening at public institutions the deep pockets would certainly draw the interest of trial lawyers. I can think of no explanation other than the one predicted by economic theory: Governance by self-interested investors motivates the for-profit sector to care less about the damage that can result from paying bounties to recruiters. It is a behavioral outcome of the moral hazard of the for-profit model.

²³ Tamar Lewin, “For-Profit College Group Sued as U.S. Lays Out Wide Fraud,” *New York Times*, August 8, 2011. http://www.nytimes.com/2011/08/09/education/09forprofit.html?_r=2&

²⁴ The latest lawsuit can be found at <http://www.republicreport.org/wp-content/uploads/2014/02/apscucompl-02-21-14.pdf>

But nonprofits have problems too

In its initial decision to deny accreditation to the 77,000-student for-profit Ashford University, the Western Association of Schools and Colleges faulted the institution for focusing excessive attention and resources on growing its enrollment rather than on the integrity and quality of the academic programs. The accreditor cited the online interactions between faculty and students, which it said were “often limited to a few words of encouragement and lacking in substantive exchange between student and teacher.”²⁵

Derek Bok, the former president of Harvard, warns that “For-profit, on-line education aimed at unwary audiences carries a grave risk of exploiting students.” But he was focusing his attention *not* on for-profit colleges, but instead at *traditional* colleges that seek to pad their institutions’ bottom lines with low-cost courses. “In order to enlarge the size of their audience,” he predicted, “providers will favor simpler material over more intellectually demanding coursework. By minimizing interactivity, they will cause their students to learn less.” Even in the brick-and-mortar campus environment:

No responsible observer claims that university faculties pay enough attention to the quality of their instruction or that their educational programs serve the interests of their students as well as they might. By common account, lectures are frequently boring, most of the teaching is too passive, and feedback to students is often too skimpy and too late to be effective.²⁶

William G. Tierney laments the inadequate attention that faculty members pay to student learning:

²⁵ “Commission Action Letter” from the WASC Accrediting Commission for Senior Colleges & Universities, to Elizabeth Tice, President and CEO, Ashford University, July 3, 2012. Available at <http://www.wascenior.org/institutions/ashford-university>

²⁶ *Universities in the Marketplace: The Commercialization of Higher Education*, Princeton University Press, 2003, p. 171.

We know students learn more when expectations are high and when feedback on what they need to do to improve is constant. . . Even when class size is not a barrier, the incentives for engagement between student and faculty are few.²⁷

Tierney says students would work harder if it was expected of them. But professors who demand more of students risk losing enrollment: the rational response for students is to abandon the class for others with a higher “easiness” rating on professor rating sites. The traditional business drive to *satisfy the customer* in the education space can portend a race to the bottom in terms of the educational goal. (Students who are challenged *ultimately* are quite pleased, but it can be a struggle to get there).

Why hasn't the non-distribution constraint solved the problem of contract failure in higher education? Hanssman explains that the provision of any trust good is likely to be sub-optimal. Because of the difficult-to-judge nature of the product, “any approach to organizing production is likely to be a question of ‘second best.’”²⁸ If the problem with for-profits is that they have too much single-minded clarity of purpose, the problem with nonprofits is that they have too little. Nonprofit boards know what they are prohibited from doing – taking the money for themselves – but what they *should* be focusing their efforts and the college's resources on is often a matter of constant, and sometimes agonizing debate. As a result, there is a vast literature on improving higher education governance,²⁹ at least two initiatives aimed at

²⁷ “Creating a Meaningful College Experience in an Era of Streamlining,” *Chronicle of Higher Education*, June 17, 2011.

²⁸ Hanssman, *op. cit.*

²⁹ See for example William G. Tierney, ed., *Governance and the Public Good*, State University of New York Press, 2006.

energizing or redirecting the focus of university trustees,³⁰ and my own efforts to address governance dysfunction in the California community colleges.³¹

Sub-optimal is a frustrating place to be, and we are not alone in wanting to figure out if there is a way to harness the profit motive to address the inadequacies of nonprofit provision. In fact, the issues in health care are so similar to higher education that I barely need to change this quote to transform it into a spot-on description of current higher education policy discussions:

Even where there has been skepticism, the possibility of using market practices to make ~~health care systems~~ higher education more efficient, more innovative, more open to patient choice—and perhaps even more equitable—has been a strong lure. As more than one commentator has asked, in the face of inefficiency, public discontent, and seemingly unmanageable costs, where else might we better look for some solutions?³²

Solutions under our noses

Before I dive into a discussion of solutions, I must clarify the problem, because I have so far described two of them. First, there is the problem that too often – not always, but too frequently – for-profit colleges engage in practices that are destructive to their students, or that fail to advance students despite large investments of taxpayer dollars. The non-distribution constraint adopted by nonprofit institutions dramatically reduces the instances of this type of predatory behavior. However – and this leads to the second problem statement – nonprofit and public institutions are not nearly as effective in educating students as they could be. The second

³⁰ Here I refer to the American Council of Trustees and Alumni, and a commission recently launched by the Association of Governing Boards of Colleges and Universities.

³¹ A unique joint governance structure has led to frequent stalemates between elected governing boards and elected faculty members who both lay claim to decision rights. See <http://californiacompetes.org/issues/local-community-college-governance/>

³² Callahan and Wasunna, op. cit. (alterations added)

problem is related to the first in that there is policymaker interest in finding a way to harness the profit motive in ways that address the second problem without stoking the first problem.

Because the for-profit lobbyists portray the public policy dilemma differently, I will first spend a moment addressing their argument. They say the problem is that they have been “unfairly targeted” because of “prejudice” against the sector.³³ They say they simply seek a “level playing field” of regulations, a single set of rules for all college regardless of sector.³⁴

While the request sounds reasonable, the table below shows why it is nonsensical.

Regulation	Sector application		
	Nonprofit	Public	For-profit
Non-distribution constraint (assets must be controlled by people with no personal financial interest)	Yes	Yes	No
Accreditation reports publicly available	No	Yes	No
Resource allocation occurs in public meetings	No	Yes	No
Compensation of executives and administrators disclosed	Yes	Yes	No
Incentive-based compensation of recruiters prohibited	Yes	Yes	Yes
Programs must lead to gainful employment in a recognized occupation	Applies to all non-degree programs in all sectors. For-profit provision (degree or non-degree) is allowed <i>if</i> the program meets this requirement		
Demonstrate 10% market-based customers (90-10 rule)	No	No	Yes
Institutions with high loan default rate eliminated from eligibility.	Yes	Yes	Yes

By definition, for-profit institutions are not subject to the regulation that is most effective in preventing predatory practices: the non-distribution constraint. The for-profit lobby is asking for special treatment, not equal treatment. Applying regulations equally would mean that the

³³ See http://careercollegecentral.com/news/apscu_lawsuit_misunderstood

³⁴ See for example the DeVry earnings call already cited.

for-profit colleges would subject their net revenue to the same restrictions that apply to nonprofits. They have obviously rejected that option.

For-profit colleges have shown a disproportionate tendency to engage in problematic behavior because they have opted for less regulation. If for-profit colleges are more suspect, it is based not on discrimination³⁵ or “second class citizenship”³⁶ but on their own choice. As with a shopper who refuses to check his backpack at the store’s door, some alternative method of scrutiny is warranted. Below I offer three practical, easily-implemented proposals that could serve to better direct the profit motive toward socially optimal ends. In a postscript, I offer an admittedly less practical idea that could address the problem of teaching and learning in higher education more broadly, while rendering the sector distinctions less important.

1. Front-end market test

In its first two decades, University of Phoenix built a strong reputation, and by all accounts it was well-deserved. The company “catered to middle managers whose employers paid for them to finish their degrees. Students had to be at least 23 years old and have two years of work experience as well as prior college credits.”³⁷ The employers who were paying the bills for some students would not put up with a program that failed to offer what its employees needed, or charged too high a price. As Derek Bok notes, the “customers” for executive education programs “are corporations that know their own needs and are quite capable of

³⁵ “Regulations should not discriminate based on tax status”

(<http://www.insidehighered.com/news/2013/09/09/horn-and-kelly-book-about-role-profits#ixzz2wtz1TSTj>).

³⁶ Mark L. Pelesh, “Markets, Regulation, and Performance in Higher Education,” in Guilbert C. Hentschke, Vicente M. Lechuga, and William G. Tierney, ed., *For-Profit Colleges and Universities: Their Markets, Regulation, Performance, and Place in Higher Education*, Stylus Publishing, 2010, pp. 91-107.

³⁷ Daniel Golden, “Plunge of For-Profit College Shares Makes Patriarch Sperling Rail at Obama,” Bloomberg News, December 29, 2010. <http://www.bloomberg.com/news/2010-12-29/plunge-of-for-profit-college-stock-makes-sperling-rail-at-obama.html>.

protecting their interests.”³⁸ In addition, the prospective students themselves had some experience in college and so knew what they should expect. The knowledgeable customers who were paying out of their own pockets or supported by an employer served as a form of accountability, keeping the University of Phoenix honest. It was the company’s 2001 decision to drop those requirements—to pursue more students using federal aid—which led to enormous profits but declines in quality and reputation.³⁹

We all benefit from the other customers who are more demanding than we are, the people who insist on returning the poor-quality product or complaining about bad service. In the case of complicated products like stocks and bonds, everyone who owns stocks or mutual funds benefits from the scrutiny that well-heeled investors give to SEC reports and to companies’ plans. In efforts to promote quality childcare, experts emphasize the importance of mixed-income programs both for the market forces that promote quality and for the child and parent interactions.⁴⁰ Similar efforts are made in low-income housing programs, where experts recommend that developments have fewer than 40 percent subsidized units. As the CEO of the Atlanta Housing Authority explains,

The long-term success of mixed-income communities must be driven by the same market factors that drive the success of every other real estate development. Daily competition to attract market rate renters . . . require that the properties are managed and operated at a superlative level.⁴¹

What are we to think, then, of the for-profit college industry’s insistence that there is no problem at all with colleges in which nearly every student is disadvantaged and subsidized?

³⁸ Op. cit., p. 165.

³⁹ Golden, op.cit.

⁴⁰ See, for example, Seattle’s five-year action plan for quality pre-K.

http://www.seattle.gov/neighborhoods/education/documents/FinalPreK3rdActionPlan_RevJune2011.pdf

⁴¹ Renée Lewis Glover, CEO of the Atlanta Housing Authority, in a presentation at the Center for American Progress, October 2005. <http://www.americanprogress.org/kf/glover.pdf>

Citing his member colleges' large enrollments of African American and Latino students, APSCU chief Steve Gunderson declared "Our students are President Obama's constituency."⁴² Rosen, the Kaplan CEO, said for-profit colleges "are built to serve riskier students."⁴³ (Note: I reviewed the mission statements of more than a dozen of the major for-profit colleges and not one of them identified itself as designed exclusively or primarily for a disadvantaged clientele.)

This is not a new issue to higher education. A hundred years ago, the seminal report that led to the modernization of medicine lamented the "poor boy" who is steered by advertising into a "hopelessly inadequate" medical school. Responding to the school owners' claims that their programs are worthy because they serve the poor, the report labels the argument insincere: "the excuse which has hitherto been put forward in the name of the poor boy is in reality an argument on behalf of the poor medical school."⁴⁴

The same issue emerged in the early history of the GI Bill. For-profit providers were targeting veterans with programs that were of low quality but captured the full GI Bill benefit. To force some market accountability on both price and quality, Congress required that no more than 17 of every 20 students in a program could be on the GI Bill. The Senate Committee explained that "if an institution of higher learning cannot attract sufficient nonveteran and nonsubsidized students to its programs, it presents a great potential for abuse."⁴⁵ The U.S. Supreme Court ruled that the policy made sense as a "free market mechanism" designed to

⁴² Steve Gunderson, president of the Association of Private Sector Colleges and Universities, in a November 2013 message to his members available at <https://www.youtube.com/watch?v=jMfVTiysEtk>

⁴³ Rosen op. cit. page 157.

⁴⁴ Abraham Flexner, *Medical Education in the United States and Canada*, Carnegie Foundation for the Advancement of Teaching, 1910 (emphasis added). Available at http://www.carnegiefoundation.org/sites/default/files/elibrary/Carnegie_Flexner_Report.pdf.

⁴⁵ U.S. Senate Committee on Veterans' Affairs, cited in Max Cleland, Administrator of the Veterans Administration, et al. v. National College of Business 435 U.S. 213 (1978).

“minimize the risk that veterans' benefits would be wasted on educational programs of little value” by “weed[ing] out those institutions [which] could survive only by the heavy influx of Federal payments.”⁴⁶

In 1992, Congress adopted a similar requirement for Education Department aid, now referred to as the 90-10 rule.⁴⁷ Unfortunately, flaws in the design of the Education Department’s rule have severely undermined its effectiveness. First, because it counts revenue rather than students, a school can have more than 90 percent aided students (complying with the letter but not the spirit of the law) by charging more than the total federal aid that is available. Second, it fails to treat aid administered by other agencies as federal aid, again allowing an institution to evade the law’s purpose of demonstrating the program’s market viability and value. The for-profit colleges’ aggressive efforts to recruit soldiers and veterans are a result of the colleges’ efforts to fill the 10 percent portion of 90-10, because the GI Bill and support from the Department of Defense is treated in the formula as if it is not government aid.

For-profit colleges that provide good value should have no difficulty enrolling customers from a variety of backgrounds, a few of whom can pay on their own or through an employer or private scholarship program. Businesses and higher-income consumers do not demonstrate any irrational objection to for-profit entities providing goods and services. Indeed, economists note that the more knowledgeable a consumer is about a trust good like education, the less reason

⁴⁶ Max Cleland, Administrator of the Veterans Administration, et al. v. National College of Business 435 U.S. 213 (1978).

⁴⁷ Originally it prohibited a school to have no more than 85 percent of its revenue from Education Department aid (based on the GI Bill’s proportion of students in a program). It was later weakened to 90 percent, and still later weakened again by applying a multi-year test.

he has to prefer a nonprofit based on nonprofit status alone.⁴⁸ A case in point is for-profit hospitals, many of which cater to higher-income consumers.

Accordingly, when a large for-profit college is avoided by knowledgeable consumers, it is a sign that those consumers do not see value: the quality, given the price, is inadequate. A study that compared federally-supported vocational programs at for-profit colleges to similar programs at for-profits that were not receiving federal aid found that the former charged on average 75% more.⁴⁹ The likely explanation is the aggressive pursuit of the government aid, with no market value reference point.

APSCU is opposed to efforts to repair the 90-10 rule, and is even seeking to weaken it. When researcher Suzanne Mettler pointed out the problem of a caste system of separate and unequal colleges,⁵⁰ the University of Phoenix labeled her an elitist who would deny opportunity to needy students such as “hard-working veterans.”⁵¹ But this is a case of the pot calling the kettle black. There is nothing more elitist than the idea of sending the poor to training programs that employers and other knowledgeable consumers find inadequate.

My first proposal: repair the 90-10 rule, and enforce it, as a partial alternative to the non-distribution constraint that for-profit colleges have chosen to forgo. If they object, the burden should be on them to offer an alternative that protects students and taxpayers at least as effectively as does the non-distribution constraint.

⁴⁸ Burton Weisbrod, *The Nonprofit Economy*, Harvard University Press, 1988, page 146.

⁴⁹ Stephanie Riegg Cellini and Claudia Goldin. “Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges,” NBER Working Paper No. 17827 (February 2012). <http://www.nber.org/papers/w17827>

⁵⁰ “College, the Great Unelevator,” *New York Times*, March 1, 2014.

<http://opinionator.blogs.nytimes.com/2014/03/01/college-the-great-unleveler/>

⁵¹ Letter to the editor from Mark Brenner, *New York Times*, March 4, 2014.

http://www.nytimes.com/2014/03/10/opinion/for-profit-colleges.html?_r=0

2. Back-end market test

Nonprofit provision of higher education is justified by the difficulty of measuring and monitoring quality, which invites providers to educate too little and charge too much. For this reason, the original Higher Education Act did not allow for-profit providers to participate in the Act's programs. But what if the goal is not a liberal arts education but instead something more definable? The more a product can be tested for effectiveness, the safer it becomes to apply profit-focused enterprises to the task. As Eduardo Porter, economics writer at the New York Times, points out, the profit motive works best "if the task is clear-cut and it's possible to define concrete goals and reward those who meet them."⁵²

When Congress opened the door a crack to allow for-profit programs, it applied that concept. Aid became available for programs that lead to a specific type of job (or, as the law describes it, "prepares students for gainful employment in a recognized occupation").⁵³ At the time, for-profits were offering training that arguably met Porter's test of a clear-cut task: preparing electricians, auto mechanics, and cosmetologists. These shorter-term programs are still the types of training where for-profits perform at their best, to a large extent because the skills taught are more objectively assessable than are the goals of longer-term degree programs.

In opening the door to for-profit providers, however, the Department of Education essentially asked colleges to self-certify that a particular program was occupational in nature. While a program labeled "liberal arts" or "philosophy" might not pass muster, the colleges'

⁵² "When Public Outperforms Private in Services," *New York Times*, January 16, 2013, page B1.

⁵³ See the history included in the proposed regulation at <http://www.gpo.gov/fdsys/pkg/FR-2014-03-25/pdf/2014-06000.pdf>

assertions in most cases were not questioned by the agency as long as the college could point to an occupation that was somehow related. As a result, over time, the colleges broadened and extended their offerings while continuing to check the box that would gain them access to Education Department financial aid for the program. In other words, the colleges were able to sneak in almost anything because the Education Department wasn't watching closely.

In the wake of rapid growth in federal aid at some institutions, combined with evidence of predatory practices, the Department in 2011 established clearer standards for gainful-employment programs. The regulations would have eliminated, over time, programs with the worst records of high debt and low earnings, if those programs failed to improve. The goal was consistent with the idea Porter describes: to define concrete goals and reward them. And there was every indication that the strategy was working. Despite being quite weak, the rules began to steer the industry in a constructive direction. Colleges shut down some of their worst programs, reduced tuition charges and, in some cases, made more efforts to ensure that entering students were adequately prepared. Some institutions began to offer students free trial periods before laying claim to their federal aid. Former Kaplan CEO Jonathon Grayer praised the Education Department's efforts to clarify expectations of for-profit colleges: "the industry needed to stand for the value proposition and we had no metrics."⁵⁴ (Grayer was paid \$76 million when he left the company in 2008).⁵⁵

ITT Tech reported to its shareholders in February, 2012, that the regulations spurred "offering programs at lower costs or in fields with higher earnings potential." The rule "will continue to put downward pressure on tuition prices" and prompted the company to

⁵⁴ Author's notes from the Credit Suisse 14th Annual Global Services Conference, March 13, 2012.

⁵⁵ David Halperin, *Stealing America's Future*, 2014, page 72.

“substantially increase our efforts to promote student loan repayment.”⁵⁶ And Wall Street analysts indicate similar movement across the sector:

Over the past eighteen months, many of our covered [for-profit college] companies have made substantial changes to their offerings in an attempt to position better for the changing regulatory environment. This has included teaching out programs, introducing new program offerings, changing tuition, reducing the duration of programs, and even more dramatic steps including the closure of poorly performing campuses.... As companies weigh their options, we expect further changes ahead in the form of adjustments to tuition and program durations, enrollment caps, and program/campus closures.⁵⁷

But industry analysts also made it clear, when the initial regulations were struck down in court, that the companies would revert to their old ways if the Education Department didn’t follow through with a new version of the rules. made clear that if the Department doesn't promptly initiate rulemaking, the companies will reverse these and other reforms they implemented in response to the rule.⁵⁸

These actions demonstrate that the for-profit education industry is capable of improving *if the Department of Education continues to guide the way by establishing and enforcing clear goals*. With clearer targets required, for-profit colleges had the opportunity to demonstrate their potential in education. The gainful employment rules respond directly and appropriately to for-profit advocates’ assertions that they should be judged by outputs instead of inputs.

⁵⁶ Available at <http://www.sec.gov/Archives/edgar/data/922475/000119312512077917/0001193125-12-077917-index.htm>

⁵⁷ Barclays U.S. Education Services, “Another Challenging Quarter in the Books,” Aug. 2012. Also see PiperJaffray Investment Research, “Where We Stand on the Education Stocks: Education Industry Benchmark Analysis” March 2013: “Most industry participants have already implemented steps to improve GE compliance...”

⁵⁸ Stifel Nicolaus, Postsecondary Education Industry Update (July 2, 2012): “We would not expect any of the public companies to change their strategic thinking regarding GE preparation and reporting as a result of this decision, pending the outcome of an appeal.” Credit Suisse Education Services Catalyst Report (July 2, 2012): “[W]e don't think the decision is definitive enough to cause these companies to roll-back ongoing efforts to phase out or modify programs that do not comply with the most recent version of the GE regulation.”

Unfortunately, APSCU successfully sued to block the 2011 rule, and continues to lobby to prevent a new version from being implemented.⁵⁹

My second proposal: adopt and implement a strong gainful employment rule, to keep for-profit colleges focused on the right ends given their refusal to adopt the non-distribution constraint. Again, should the for-profit colleges object, the burden is on them to offer an alternative that protects students and taxpayers at least as effectively as does the regulation they spurned.

3. Disclosure

No one should be under any illusion that providing “more information” to consumers would accomplish much good on its own. The volume and complexity of the relevant information for prospective college students is more likely to produce information overload than to provide useful guidance, particularly when disadvantaged populations are involved.⁶⁰ Information disclosure can be useful, however, when it is available to third parties who can help to analyze it on behalf of consumers. Consider, for example, the detailed prospectuses that come from stocks and mutual funds. Very few individual investors read them, but they and other filings required by the Securities Exchange Commission have resulted in a relatively clean system for the sale of company stock to the public. Investment scams are rare because company information is scoured by the media, institutional investors and their analysts, and by watchdog groups, essentially serving as monitors on behalf of all potential investors.

⁵⁹ See “A Call to Action: How You Can Help APSCU in Blocking the Gainful Employment Rule” at http://careercollegecentral.com/news/help_apscu_block_gainful_employment.

⁶⁰ Ben Castleman, “Prompts, Personalization and Payoffs: Strategies To Improve The Design And Delivery Of College And Financial Aid Information,” George Washington University, September 2013.

In higher education, some information disclosures that should be made available by all institutions include:

- **The names and qualifications of instructors.** Currently there is no requirement that colleges tell prospective students who the teachers are or provide information about their backgrounds. Many colleges already include this information on their web sites, but some do not.
- **The college's most recent accreditation self-study and visiting team reports.** Accreditation is supposed to give us confidence that a college meets at least some minimum level of quality, but the actual substance of accreditation reviews are too often hidden from public view.
- **The compliance audit, financial statement, and application for federal funds required by the Education Department.** Like SEC filings, the Education Department should post these automatically on the web for public inspection when a college submits them.

Making all of these documents available on a timely and regular basis would not transform higher education, but would offer some early warnings that could prevent consumers and taxpayers from being taken advantage of.

Postscript: Could radical transparency be an optimal solution?

I have presented some ways that for-profit colleges could be steered away from predatory practices and toward providing more value. Those are all actions that policy makers could take now, and the policies would make a difference for the better. Over the long term, however, we will still have Hanssman's problem of the second-best, a higher education system that is sub-optimal because of the nature of the product. I conclude with an idea that is worthy of discussion, even if it seems impractical at first blush.

The intellectual rigor of the interaction between instructor and student is the single most important defining element of a quality college education. Yet it is not available for independent analysis (the once-a-decade visit by accreditors notwithstanding). It is not enough to review curriculum plans or syllabi. As Michigan State University officials recently pointed out in refusing to provide syllabi for a quality review, judging a program on the basis of syllabi "is like a restaurant reviewer deciding on the quality of a restaurant based on its menu alone, without ever tasting the food."⁶¹

To improve learning outcomes requires getting inside that student-faculty interaction – the meat of what a college is supposed to do. What if the actual artifacts of the learning process could be made available for scrutiny? By surfacing the raw material of the education process – the student papers, presentations, and tests along with the grades and other feedback that faculty provide – the teaching process opens up to constructive review, and to change. The artifacts that emerge may be impressive, or may be horrifying, and most likely some of each and a lot in between. But the material will be specific enough, connected to the colleges and

⁶¹ Donald Heller, Avner Segall, and Corey Drake, "An Open Letter to NCTQ on Teacher Prep," *Education Week*, December 11, 2013.

departments themselves, that it has the potential to demand the attention that can lead to improvements in expectations and in pedagogy. Few academics want the black mark of teaching at the institution with meager standards.

If this type of radical transparency could be achieved, perhaps with new technologies and a mindful focus on student privacy, it could have a constructive and material effect on the investment that all colleges make in the tangible value that their students receive for the price that they pay.

About the author

Robert Shireman served as U.S. deputy undersecretary of education in 2009-10, and now directs California Competes, a nonprofit project aimed at addressing the state's higher education challenges. In the Obama Administration, Shireman led successful efforts to reform student lending, increase Pell Grants, simplify the financial aid process, and strengthen consumer protections, efforts that earned him Money Magazine's "money hero" status and a Voice of Conscience award from Public Advocates, a civil rights law firm. In 2004, Shireman launched the Institute for College Access and Success, where his early leadership on the issue of rising student debt prompted Congress to adopt income-based repayment for student loans. Shireman serves on the board of uAspire and on advisory committees for Ideas 42 and the National Center for Education Statistics. He occasionally consults with foundations, associations, and companies on efforts to improve college access and success.

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