

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

This text version is for your personal study only. Reproduction and/or redistribution is not allowed.

Please note that this is a text-only version. All links and animations are not activated in this version. It is recommended that you view the topic online for an interactive learning experience.

Table of Contents

1. Introduction
2. Role of For-Profit Institutions
3. Profit as the Objective
4. Import and Export of Education
5. Summary

1. Introduction



We will now discuss the role of for-profit institutions in the realm of higher education. The topic highlights the positive aspects of for-profit institutions and debunks some popular myths. The topic moves on to discuss the application of existing standards to accredit or audit for-profit institutions. We will consider factors that contribute to the success of these institutions. The topic closes with a detailed discussion on education as a commodity that can be traded and the corresponding challenges.

Objectives: For-Profit / Not-for-Profit Institutions

Upon completion of this topic, you should be able to

- describe the functioning of for-profit institutions
- identify the positive aspects of for-profit institutions
- describe how for-profit institutions can be accredited and audited
- identify the factors contributing to the success of for-profit institutions
- describe the impact of General Agreement on Trade in Services (GATS) on international education
- discuss the argument against education as a trade

2. Role of For-Profit Institutions

Cutting across the public/private categories is the notion of 'for-profit/not-for-profit' institutions. For-profit institutions are established by private, profit-seeking companies. For-profit institutions may have a single owner, a purely local presence and a smaller enrollment. These are sometimes called 'Enterprise' institutions. 'System' institutions are publicly traded and have multiple campuses, sometimes in several countries.

While most public institutions are not-for-profit (at least in their home country), private institutions may be for-profit or not-for-profit. However, the terms 'private' and 'for-profit' are sometimes used, erroneously, as synonyms. Further confusion arises because in many cases not-for-profit institutions may realise a profit but the profit is absorbed in-house or by a government budget authority -- and not distributed to shareholders. Another hazy area is that some organisations are

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

registered as businesses and some as educators, under different laws but doing the same things.

In some countries, for-profit institutions are banned by law, so any income must be used within the educational enterprise itself. In other countries, they are banned, but donors to such institutions may receive tax concessions on their contributions. Situations exist where profits can be made but the profit cannot be taken out of the country – a significant issue if the for-profit institution is an overseas extension of a foreign institution. Nonetheless, "a number of for-profit education corporations have invested millions of dollars purchasing schools in Latin America," although they are not necessarily welcomed by local educators (Kuchment et al., 2003). Perhaps you have similar situations in your country.

For-Profit vs. Non-Profit Institutions

The emergence of for-profit education providers has engendered concern and confusion, as if there were something innately inappropriate about making a profit from providing education. Yet, we readily accept that most service-providers operate for a profit, and in the educational field itself there are many profit-seeking companies providing short courses. Consistent with this slightly conflicting attitude, discussion of for-profits rarely dwells on the profit-seeking characteristic but on matters such as organisation, mix of full- and part-time staff, practitioner teachers, student characteristics, target markets, and speed of operation – none of which are necessarily confined to a for-profit mode. On the contrary, many not-for-profit institutions have arms set up precisely to exhibit these characteristics and thereby earn money. Wolfe (1998) contends that the traditional non-profit universities pioneered the supposedly negative aspects that characterise for-profit institutions. Night classes, trimesters, reliance on adjunct/casual staff, and an emphasis on practical skills have been accepted practices at traditional non-profit universities for some time. The situation is summed up in these quotes:

"We ...have had particular difficulty in distinguishing between non-profit and for-profit private provision" (Middlehurst & Woodfield 2004); and "many institutions legally labelled non-profit are in fact for-profit in practice" (Levy, 2009).

Less often discussed by the – usually critical – not-for-profit sector is the high level of attention paid by the for-profits to getting and acting on student feedback and ensuring an employment orientation of their courses. According to several leaders of for-profit universities, four characteristics distinguish for-profits from traditional non-profit institutions (Kelly, 2001):

- career orientation;
- customer focus;
- hands-on learning approaches; and
- convenience.

One view is that:

"Private and for-profit providers are perceived as potentially more flexible, entrepreneurial, employment-related and innovative than the more 'structurally rigid' public sector (by governments and students alike)" (Middlehurst & Woodfield 2004).

Blumenstyk (2000) identifies other positive aspects of for-profit institutions.

"Many state universities have unclear transfer policies and articulation agreements, making it difficult for students to transfer credits from community-colleges. For-profit institutions are taking advantage of this by

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

creating partnerships with community colleges that allow students to easily flow into a Bachelor's program at a for-profit institution."

Cook & Fennell (2001) observe that:

"For-profit colleges are managed as businesses; where presidents are aware of program costs and concern themselves with the 'bottom line'."

It is noteworthy that when a public not-for-profit institution operates overseas, it is usually regarded as private, and it is usually there for a profit. Most Australian (not-for-profit) universities offer overseas courses that are unashamedly for-profit enterprises. As Marginson puts it:

"One can readily find instances where the market model and the public model appear to have blended, or crossed over each other, or swapped features..."

Another example is the international franchising of degrees, with teaching provided partly or wholly by foreign providers, mostly operating on a for-profit basis." (Marginson, 2002)

In relation to online education, Marginson observed that 'programs with substantially different purposes require different kinds of QA'; also that 'systems should distinguish between commercial programs and non-commercial ones' (Marginson, 2002). It is not obvious, however, that this is necessary or useful.

For-profit institutions can be accredited using the same standards as for not-for-profit ones (Brimah, 2000), just as the online University of Phoenix is accredited by the North Central Association in the USA. When Phoenix first sought accreditation, the process took some time because the accreditor needed to work through the accreditation standards to see which procedures and requirements were needed and made sense. For example, were requirements like percentage of tenured staff or number of books in the library essential or were they proxies for something else?

Butterfield et al. (1999) investigated the audit of 'virtual institutions' and identified that some questions needed to be re-phrased in a more basic form, with allowance for a greater range of answers. For example, instead of asking "how many books in the discipline are there in the library?" and "what are the library's opening hours?", the questions would be "what learning resources are provided and how?" and "how do you ensure that they are appropriate and accessible?". The answers to the second two questions **could** be rolled up in one answer, but more answers are possible. Similarly, questions about professional development for tenured staff can be re-phrased in terms of access to staff with the necessary characteristics and qualifications. It might be good to add a line about maintaining a qualified cadre of instructors.

As Ewell and Schild have said:

"Most accrediting agencies do not have separate standards regarding for-profit institutions, but many apply their existing standards differently, especially standards regarding governance and finance, with governance posing one of the largest obstacles to for-profit institutions by regional accrediting agencies. The lack of independence of governing boards from CEO's is the main concern of regional accrediting bodies, with two accrediting agencies reportedly having to 'educate' for-profits about participatory governance." (Ewell & Schild, 2000)

Likewise, for-profit institutions can be audited using the same approach as for not-for-profit ones. In fact, the major concern of for-profits required to undergo audit is that the QA agency will impose requirements that will be so expensive as to make

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

the business unprofitable. This is not solely a concern of for-profit institutions, however, as not-for-profit institutions are equally concerned about the cost of both preparing for and acting on external QA.

3. Profit as the Objective

In January 2006, StreetAuthority.com stated that:

"Publicly traded for-profit universities in the U.S. also offer investors a golden opportunity to cash in....Thanks to steady growth in admissions and unusually high profit margins, for-profit education providers have delivered exceptional revenue and earnings growth over the past several years." (Tracy, 2006)

The attractions touted in this article include online operations, said to reduce costs compared those of a campus, and their popularity and convenience for busy, working adults, for foreigners having trouble obtaining a student visa, and for their orientation toward working adult students who "often have at least part of their education paid for by their employers... and are more likely to pay in a timely manner and can be charged higher rates".

John Quiggin (2008) argued that "for-profit education has been a consistent failure in all times and places" with some 'limited exceptions' in vocational training. In a subsequent blog discussion, Andrew Norton (2008) was able to counter this with a number of examples, even if the vast profits foreshadowed by Tracy two years before seemed not to be realised.

By the end of 2008, as the global economic crisis proceeded, Rotblut (2008) pointed out that for-profit education providers are "counter-cyclical companies". He reported that Apollo Group (APOL), DeVry (DV), ITT Educational Services (ESI) and Strayer Education (STRA) generated revenue and profit growth in the preceding quarter, with increases in student enrolment as the weakening job market pressured more adults to enhance their educational backgrounds and layoffs were causing some workers to acquire new job skills.

Norton (2008) did, however, raise an alternative question, namely "why is for-profit higher education relatively rare?" (about 5% of students in the USA are in for-profits). Back in 2000, four-year, U.S. for-profit degree-granting institutions accounted for about 7% of all four-year postsecondary enrollments. (Breneman et al., 2000). Norton (2008) is of the view that:

"Public and private not-for-profit institutions almost always price their courses below cost, with taxpayer subsidies and endowment income/donations making up most of the difference. ... So what we see in both the US and Australia is that, for the most part, the for-profit sector targets either fields of study (e.g., applied technologies, natural medicine, narrow forms of professional education), modes of delivery (online, easily accessible campuses, small classes) or clienteles (working adults, academically weak students) which the other sectors don't service or under-service."

In conclusion, while for-profit institutions set out to make a profit, the degree of success in this aim is mixed. It depends to some degree on at least general economic circumstances and identification of niche markets or modes of delivery favoured by students.

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

4. Import and Export of Education

Education as Trade

There are many things that nations buy from and sell to each other. There is trade in primary products, such as minerals, agricultural products, seafood, and so on, and manufactured goods such as cars, radios and medical supplies. There is also a trade in services, eg as consulting engineers provide advice in other countries. In some cases, the client for the service does the travelling, as for example do tourists, or patients travelling to take advantage of medical facilities in another country. Education also is a service, and can therefore also be seen as a trade 'commodity'.

We have seen that education crosses national boundaries in many ways and also that education costs money (even if it is free to the student, someone is paying). And educational institutions can operate in a 'for-profit' mode, just like any other commercial enterprise (Woodhouse, 2008). Higher education is increasingly seen as a commercial product to be bought and sold like any other commodity (Altbach, 2001) and as much a private as a public good. Hence, it is possible to speak of the export and import of education.

GATS

The General Agreement on Trade in Services (GATS) is a set of international trade rules that promotes progressive liberalisation of trade in services. The agreement embodies three principles:

- Market access, under which each member treats other members' suppliers at least as favourably as set out in the Schedule
- National treatment, in relation to competition within a members' country
- Most favoured nation, prohibiting discrimination between members

The agenda behind these principles is directed towards a progressive liberalisation of trade regulations (McBurnie 2002). However, the actual effects are yet to emerge and are still being debated as the meaning of various phrases are tested out.

"Very little is known about the consequences of including trade in education services in the GATS such as on the quality, access and equity of higher education, on domestic authority to regulate higher education systems, and on public subsidies for higher education" (AUCC et al. 2001 p3).

As the Doha round of trade negotiations continues (2009) to be stalled, this uncertainty still exists, and it is prudent to proceed cautiously and limit commitments under GATS (Allport 2002), so the effects can be progressively monitored. According to Altbach (2001),

"Every country needs to maintain essential control over its academic institutions. ... Third World universities are now involved in many international relationships, but these arrangements are based on national needs and allow choice among programs and partners." (Altbach, 2001)

It should be noted that countries need not opt in to GATS, and can opt in to parts of the system without adopting the whole. It is, however, difficult if not impossible to reduce a commitment already made (Woodhouse, 2006). Furthermore, the rules of the WTO and GATS are legally binding. There is a danger that regulations relating to an area (e.g., higher education) may be included in an international agreement 'under the radar' and without much analysis. (Altbach, 2001)

The impact of GATS in international education can be seen in:

- Cross-border supply (such as distance education)

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

- Consumption abroad (such as students travelling abroad to study)
- Commercial presence (such as foreign branch campuses, or foreigners partnering with local providers)
- Presence of natural persons (such as faculty members/academics travelling temporarily abroad to teach)

In the situation where students travel to study at the home campus of the institution in the institution's home country is most convenient (and profitable) for the institution, as all (or almost all) the academic, administrative and support systems are already in place. Some extra systems and resources are required to support the foreign students and to ensure that the institution is able to cater appropriately for the totality of its student population, whose total nature and composition is changed by the advent of foreign students, but this is not too difficult.

In practice, the range of forms of transnational education / cross-border education is so great that it is not well-captured by the categorisation of categories 1, 3 and 4 in the GATS list above. There are many more variations and much greater mobility than the scheme of 4 modes suggests. For example, much of education provided in Singapore by US or UK institutions is not provided to Singaporean students, but to students who have travelled from China or Vietnam to Singapore to get a US or UK degree.

Export and import of education is a major activity. Australia, the fifth largest exporter of educational services in the world, reports that in 2009 education is its third most profitable export industry (after coal and iron ore). Other countries make similar observations about the value to them of an 'educational export industry'. Until recently, export of education was seen as being solely from the developed to the developing world ('north-south') but this strong 'import/export' categorisation is breaking down, as exporters import and importers export. India exports education to the Middle East, Africa, and elsewhere; Malaysia seeks to be an educational hub, and Singapore has a project to be a 'global schoolhouse'.



[Criticism against Export and Import of Education](#)

Criticism against Export and Import of Education

The critics of for-profit providers operating within one country say that education is about such things as society-building and personal development, and should be provided as a public good. And there are critics of the export of education who say that education is about society-building and reinforcement of national culture and should not be provided by foreign institutions.

Throughout the late 1990s and early 2000s, export of education was often seen as exploitation by the exporting country, but then the value to the importing country became increasingly acknowledged. Many countries, unable to meet the demand for higher education, are encouraging the establishment of private institutions, and many such private institutions are foreign ones. This augments the educational capacity of the importer. Nonetheless, such import should be done with care, and the government of the importing country should actively decide whether the education to be imported is culturally or academically appropriate for the society. The extent to which the exported system is built into the importing country's planning and quality systems is a major policy matter

Subject	External Quality Assurance
Module	External Quality Assurance Agencies Emerging Challenges
Topic	5.5 For-Profit / Not-for-Profit Institutions

Conversely, an institution or country considering the role of a transnational exporter should consider whether it will be constrained in ways it considers inappropriate, such as restrictions on academic freedom that could have an adverse effect on all types and sectors of HE.

The implications for QA are a need to progressively "strengthen QA and accreditation systems" so that they "specifically cover international operations" (Allport 2002). Australia paid attention to this through its Protocols and the AUQA charter. That attention is evident in the review and probable strengthening of the Protocols.

5. Summary

This topic covered the following main points:

- For-profit institutions are established by private, profit-seeking companies.
- According to Kelly (2001), four characteristics distinguish for-profits from the traditional non-profit institutions:
 - career orientation;
 - customer focus;
 - hands-on learning approaches; and
 - convenience.
- For-profit institutions may be more flexible regarding transfer policies and may have partnerships with other colleges to facilitate the transfer of credit.
- For-profit institutions can be accredited using the same standards as for not-for-profit ones. The criteria may need to be rephrased in accordance with the purposes of the program or institution.
- The success of for-profit institutions depends on general economic conditions and the identification of niche markets or modes of delivery favoured by students. For-profit institutions can achieve success by focusing on the following:
 - Lower cost of online operations
 - Orientation toward working adults or "non-traditional" students
 - Finding ways to outperform local and regional traditional competitors
 - Increases in student enrolment
- Higher education can be considered a commercial product to be traded like any other commodity.
- The impact of GATS in international education can be seen in the following areas:
 - Cross-border supply and demand
 - Commercial presence
 - Presence of natural persons (faculty members/academics)
- Export of education is portrayed as exploitation by the exporting countries. The critics of the export of education argue that the education provided in-country by foreign institutions is culturally and academically inappropriate.

References

The role of quality assurance agencies in higher education in the 21st Century Global Trends in Quality Assurance: Principles and Challenges Opening Conference Presentation