For-Profit Postsecondary Institutions

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U.S. For-Profit Postsecondary Institutions--Departure or Extension?

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The growth of for-profit colleges and universities in the United States is viewed within the U.S. as a significant departure from the norm and from outside the United States more as an extension of the norm. On the one hand, the vast majority (about 95 percent) of the students in the United States currently attend public or private nonprofit ("charitable") institutions, but the rapid double-digit growth in enrollments is taking place in private for-profit institutions. Of the 9,485 postsecondary institutions in the United States today, about 47 percent are now organized as for-profit institutions. Shares of these organizations can be bought and sold, and earnings are subject to taxation. Individual campuses tend to be small in size, as compared to traditional colleges and universities, and are often embedded within shopping malls and office parks. Most are relatively new despite their long history as a type. Their growth in the United States has even been viewed by some authorities as "shocking." On the other hand, when viewed from the perspective of many other countries, profit-making educational institutions are less novel. Indeed, U.S. for-profits share many features that are characteristic of the whole U.S. higher education system, including federalism, extensive private provision and financing, lay (nongovernmental) control, responsiveness, modularization, and accessibility.

Types of For-Profit Institutions
In the United States, for-profits fall into three broad categories: (1) less than a dozen large, publicly traded institutions with top-line operating revenues in excess of $100 million (e.g., Apollo Group, Career Education Corporation, Education Management Corporation, Corinthian Colleges, Inc., and Kaplan Colleges, Inc.); (2) approximately 20 privately held institutions with revenues between $50 million and $100 million large enough to entertain the possibility of going public at some time; and (3) firms operating at less than $50 million a year. The vast majority of the approximately 4,000 for-profits fall into this category.

Students
For-profit students are disproportionately lower income and minority, compared to other college-going students. Forty-eight percent of students enrolled in for-profits are minority, compared to 33 percent at public and nonprofit U.S. institutions. For-profits enroll a larger proportion of students with family incomes below $20,000 than do public and nonprofits (27 percent vs. 11 percent). In general for-profits serve the "other three-quarters" of adults who have not earned bachelor's degrees.

For-Profit Growth

During the decade 1990–2000, the number of for-profit campuses increased 112 percent to about 750, and at least 200 private nonprofit colleges went out of business. Enrollments in for-profit degree-granting institutions increased 52 percent between 1995 and 2000, a vastly higher rate than at public and private nonprofits. Much of the growth in for-profit enrollments has been driven by the largest organizations. Year after year enrollment increases--including "same store" growth, acquisitions, and startups--have been substantial. Over the last several years, for example, enrollment at the University of Phoenix has increased by 70 percent. Smaller institutions have seen less--but still substantial--enrollment growth. The enrollment at Corinthian College has gone up by 30 percent and at Education Management Corporation by 20 percent. For-profit growth can also be attributed to the ways these schools focus on vocational programs leading directly to the job market. These schools offer "short-cycle" (less than two years) educational programs leading to specific certificates, credentials, and degrees. Such programs tend to serve the needs of the adult population that never started or completed a bachelor's degree. The institutions also place a high premium on student job placement following graduation.

For-Profit Programs and Curriculum

Because they are motivated more by the market than by academics, for-profits are likely to focus on programs for employment sectors with high demand. For-profit institutions collectively offer dozens of programs, ranging from accounting, acupuncture, air traffic control, and automotive mechanics to web master, welding technology, word processing, and woodworking. (See, for example, http://www.petersons.com/cca/search.asp) Yet, each for-profit tends to specialize in only a small number of complementary programs. Indeed, the intense focus on job-specific curricula characterizes both an individual student's program of studies and the institutional mission of the for-profits. The traditional liberal arts education is not on the menu. The for-profit's focus on job specific programs is perhaps their most distinctive and nontraditional characteristic: students are prepared with a set of marketable skills for employers seeking students with those skills. The employer is the "client" and the student is the "product." Students enroll in for-profits to gain specific skills and to then be hired for specific jobs. And for-profits take pride in offering job placement after successful program completion. Even when factoring in the tuition costs, which tend to be above the tuition prices of comparable public institutions, the jobs students find after graduation tend to pay reasonably well. Thus the return on investment for the average student in a for-profit program in higher education is greater than a similar return for the average bachelor's degree graduate from a traditional institution (about 28 percent vs. 18.6 percent).

The Current Growth in For-Profits

The visibility, growth, scale, and performance of for-profits are renewing perennial policy questions in the United States, directed partly at for-profits and partly at all postsecondary education, including the questions: who should pay for it, who should provide it, and who should benefit from it? These questions will be raised afresh with regard to for-profits, especially as federal legislation for student financial aid is reconsidered. (For-profits depend heavily on federal financial aid to students.) Embedded in that policy debate are several "drivers" that are fostering the growth of for-profit provision, including: their access to investment capital, enviable job placement records, freedom from "shared governance" coupled with flexibility to enter (and exit) geographic and program markets, productivity efficiencies, economies of scale, and ability to capitalize on instructional technology. Added to these drivers are several that are fueling demand for all of postsecondary education (e.g., increasing returns to education) and that are mitigating the growth of public and private nonprofit institutions (e.g., shifts in governmental subsidies from institutions to individuals).

In combination, these factors drive up aggregate demand and push the price of postsecondary education closer to the institutional cost. In the United States for-profits compare favorably in terms of average institutional cost (e.g., $6,940 for two undergraduate semesters vs. $17,026 for publics and $23,063 for private nonprofits). As individuals shoulder more of the costs of postsecondary schooling, price sensitivity will likely increase.

For-profits in the United States, viewed both as a significant departure from and as a natural extension of the U.S. system in higher education, appear to reflect the larger social and economic forces shaping the country.