

# Considering the Third Sector: The New Prominence of For-Profit Higher Education

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FOR NEARLY THE ENTIRE 350-YEAR HISTORY of higher education in the United States, nonprofit status has importantly defined colleges and universities. Rather than operating for private gain, higher education institutions were created to serve the public good. The two ways that institutions are funded in their service to society has been simply classified into either public or private higher education. Private sector institutions are primarily supported by nongovernmental dollars, including student tuition and fees, while public sector institutions are sponsored by the state through tax revenues. Adoption of this classification based on nonprofit status has proved useful for public policy analyses, historical treatises, and reform theses.

It unfortunately is incomplete. Whitehead (1973) has demonstrated how the early colonial colleges do not fit neatly into these categories: it was well into the nineteenth century before the modern definitions of public and private higher education took hold. More recent scholarship has shown how ostensibly nonprofit universities have entered the marketplace, for good or for ill, and now conduct a large portion of the academic enterprise with an eye toward the bottom line (Bok, 2003; Kirp, 2003; Newman, Couturier, and Scurry, 2004; Slaughter and Rhoades, 2004; Stein, 2004). Government support for public institutions is declining and their reliance on tuition and endowment increasing. The advent of six-figure tuition bills for a private college degree along with the decline of need-based student aid raise questions among critics as to whether higher education is operating for the public good or institutional aggrandizement.

Entering this blurred reality of nonprofit public and private higher education is a newly prominent third sector: for-profit higher education. These institutions

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are private, but they do not have the eleemosynary heritage of traditional non-profit higher education. They are not publicly supported through tax revenue, but the majority of their income comes from government subsidies of student tuition. They offer undergraduate and graduate degrees but only in a rather narrow range of fields. Many hold the same regional accreditation as their not-for-profit private and public sector cousins, though few offer a curriculum that has the depth and scope of a traditional college or university. Some are owned by individual proprietors, others by shareholders of multibillion dollar corporations, but all reject the claim that private gain trumps the broader service to students and society they provide. Unique and idiosyncratic as both a niche provider and alternative organizational form, these institutions exist well within the competitive framework that defines postsecondary education in the twenty-first century. The for-profit sector today exists in a higher education environment that has become increasingly complex, less sectorally distinct, and more diverse in terms of mission, function, and finance.

Much attention has been paid to the for-profit sector of late. Attention, however, has not translated into much understanding, nor even much of an effort to consolidate disparate strands of information about the sector—historical as well as contemporary—into a coherent picture of its scope and impact. Higher education mostly continues to be classified as public or private—even when acknowledging that dichotomy is insufficient—and the for-profit sector is only sporadically included in discussions of the postsecondary enterprise. What makes it all the more remarkable is the fact that for-profit higher education has existed along with public and private not-for-profit institutions since the eighteenth century. The sector has been eligible for public subsidies through tuition aid for nearly as long as traditional colleges and universities. And there exists an essentially unread literature on profit-making educational institutions that goes back a hundred years.

Each generation, it seems, discovers for-profit higher education anew and promptly complains about the lack of reliable information on the sector. Consider these statements:

*The lack of a national “audit” of all proprietary schools affords an incomplete picture of our total national educational resources.  
(Miller and Hamilton, 1964, p. 260)*

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*With debate about the purposes of higher education and the introduction of the phrase “postsecondary education,” the proprietary school is being studied with renewed interest. The schools have long existed but due to lack of information negative connotations persist, especially regarding their educational merit or value to society. (Trivett, 1974, p. i)*

*We remind our readers that national data on this sector of postsecondary education are not easy to come by. (Carnegie Foundation for the Advancement of Teaching, 1987, p. 21)*

*Proprietary schools or, as they are sometimes called, “private career schools,” are not well known or understood. . . . [A]cademic researchers in the education field have largely ignored the sector. (Lee and Merisotis, 1990, p. iii)*

*We cannot, however, present a complete picture of career colleges, because there has been limited scholarly interest in them and therefore limited data about them. (Clowes and Hawthorne, 1995, p. 2)*

*Despite widespread public attention and growing anxiety in some segments of the postsecondary enterprise, considerable confusion remains about the size and nature of the for-profit sector. (Bailey, Badway, and Gumport, 2003, p. 7)*

Researchers have been investigating the for-profit sector for decades. A great deal more information is available than is generally acknowledged. Enrollment estimates can be traced to the 1870s. Curricular data have been published for institutions throughout the twentieth century. Substantial regulatory information exists from the 1950s to the 1990s. Information on student outcomes, faculty activities, ownership patterns, and accreditation standards can all be found in the literature on the for-profit sector. Still it is easy to claim that little is known about these institutions,<sup>1</sup> particularly in comparison with the well-researched public and private not-for-profit higher colleges and universities.

There are several reasons for this seeming lack of information. Probably the most important is that for-profit higher education has existed on the fringes of

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the educational system, associated more with matchbook cover advertisements offering a speedy road to a career rather than the hallowed halls of alma mater. Profit-making schools do not seem to be cut from the same cloth and so are often considered as separate institutions—if indeed they are considered at all. Another explanation is likely a reflection of the relative youth of higher education as a field of study. The focus of the research has tended to emphasize “higher,” and nondegree institutions and other organizations outside the framework of degree-granting colleges and universities have received short shrift (see, for example, Adelman’s report [2000] on the “parallel universe” of certification training programs). A third reason for the lack of sustained research about the for-profit sector is that interest in these institutions has been episodic, typically tied to exposing some perceived disreputable behavior or refuting allegations of the same. The clearest example of this interest is the flurry of reports, books, and articles in the 1970s concerned with the ability of for-profit institutions to participate appropriately in federal student aid programs (see, for example, Erwin, 1975; Hyde, 1976; Jones, 1973; Jung, Campbell, and Wolman, 1976; Shoemaker, 1973; Trivett, 1974; Wilms, 1974). The research and commentary faded as for-profit participation became routine. The next burst of attention came in the late 1980s and early 1990s with a wave of scandals in the sector primarily involving high student loan default rates (for example, Apling, 1993; Davis, 1994; Dynarski, 1994; Fitzgerald and Harmon, 1988; Grubb, 1993; Lee and Merisotis, 1990; Wilms, 1987). Despite the clear connection in the research questions between the two eras, almost none of the authors from the 1970s participated in the new analyses of the 1980s and 1990s. And when scandals over default rates lost their luster as a research topic, the for-profit sector once again dropped below the scholarly radar.

## Why Now?

The for-profit sector is certainly on the radar screen today. Its new prominence has been triggered by a number of factors. Most significant, perhaps, is the 1990s expansion of for-profit institutions owned by publicly traded companies (Ruch, 2001). Even though, as discussed later in this volume, corporate owned for-profit institutions are nothing new in the United States and nationwide

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chains were well established as far back as the 1850s (Miller and Hamilton, 1964), the emergence of these new institutions seemed to catch the spirit of the times. As for-profit “universities” supported by the optimistic forecasts of stock market analysts opened across the country, *The Chronicle of Higher Education* began actively covering these institutions and their corporate owners (Strosnider, 1998), and commentators took note (Marchese, 1998; Winston, 1999). The corporate expansion became linked with two simultaneous occurrences: the rise of degree-granting for-profit higher education and the evolution of Internet-based distance education. The proportion of for-profit institutions offering degrees increased quickly after 1995, with major publicly owned institutions like DeVry, ITT Tech, and the University of Phoenix prominently represented in the expansion. Distance education, too, became important at the same time. With the establishment of a commercially oriented World Wide Web, technology became the “silver bullet” (Twigg, 1996) that would allow access to education to enormous numbers of new students at minimal cost. For-profit providers were seen as the natural exploiters of this new technology (Noble, 1997). Public corporate ownership of for-profit higher education became entwined with these developments. The old concept of a small proprietary school—owned by a local entrepreneur offering short-term career training in low-skill fields—gave way to a new understanding: a multi-state corporate-owned institution offering degrees through distance education. For-profit higher education moved from Main Street to Wall Street, and the transformation has led to new reflections on a suddenly significant sector.

A decade into this latest era of for-profit higher education, it has become clear that the three trends need to be separated. For-profit higher education may be increasingly owned by public corporations traded on Wall Street, but there are still plenty of mom-and-pop proprietors running schools from a storefront in middle America—not all that different from the *Classrooms on Main Street* that Clark and Sloan (1966) wrote about in the 1960s. Degree-granting institutions may be ascendant, but the majority of schools in the for-profit sector do not grant degrees, similar to Hyde’s *Metropolitan Vocational Proprietary Schools* (1976) of the 1970s. Distance education may be a growing phenomenon, but the for-profit sector is no more likely today to offer online opportunities than are public sector institutions (Allen and Seaman, 2004). The transformation of the sector is

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not universal; not every institution is the University of Phoenix. For-profit higher education is a diverse phenomenon in the twenty-first century.

In fact, the diversity and shifting nature of the for-profit sector make the current era so difficult to understand. The pace of change can be dizzying. In the first four months of 2005, two private, not-for-profit institutions were purchased by investors who in turn declared them to be for-profit enterprises. The reverse occurred at a for-profit college when the owner converted it to non-profit status. Career Education Corporation was the subject of a *60 Minutes* report that challenged the business practices of the publicly held company. Two privately held companies subsequently announced initial public offerings. Legislation was introduced in Congress that would eliminate distinctions between for-profit and not-for-profit schools in the Higher Education Act. The Federal Trade Commission began a consumer information campaign against diploma mills. And the University of Phoenix opened four new campuses. The for-profit sector does not sit still for analysis. Researchers today must take aim at a moving target.

## Taking Aim

This volume has four main goals. The first is to establish a historical perspective on the development of the for-profit sector in the United States. In most contemporary writing, the phenomenon is treated with only cursory attention to the antecedents of the institutions seen today. Although much is new about the current era, much is familiar, too. And, as noted earlier, the for-profit sector has been described and documented for more than one hundred years. It is time to revisit that literature and make it part of the current record. The second goal is to emphasize the diversity of the for-profit sector. Too often, discussions of for-profit higher education simply recount the operating procedures of the University of Phoenix and similar large corporate providers. They may be dominant institutions in today's environment, but they are certainly not representative of the sector as a whole. Third, this volume serves as a summary of existing research and information available on for-profit higher education. It is not, however, intended to be comprehensive. The focus is more on questions relating to the organization and educational mission of

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the for-profit sector than on its economics. Finally, the overall purpose of this effort is to focus on for-profit higher education as a “third sector” of the higher education enterprise,<sup>2</sup> part of the same universe of institutions as traditional not-for-profit private and public colleges and universities. Significant scholarship has been devoted to the public and nonprofit private sectors, drawing out their distinctiveness and organizational idiosyncrasies. Similar attention should be paid to this third sector, with close attention to the variety of practices that fall under the label of for-profit higher education.

## The Target

This volume is about for-profit higher education. Understanding the subject of interest, however, centers on what is meant by “for profit” and what sort of institutions count as “higher education.” Neither concept is particularly clear-cut. How is it that a wealthy institution like Columbia University—with its billions in endowment, revenue-generating patents, and cash cow continuing education programs—is not considered a for-profit enterprise? And why should the Lia Schorr Institute of Cosmetic Skincare Training, a for-profit school located just blocks away from Columbia in New York City, be counted as an institution of higher education? The questions may seem abstract, but they concern what precisely should be legitimately included in the postsecondary universe and, by extension, serve to justify the perspective taken toward the for-profit sector in this volume.

The tax code defines the profit status of any U.S. organization. Not-for-profit educational institutions are known as 501(c)(3) organizations, after the section of the tax code that describes them. These institutions cannot be organized to benefit private interests, their assets must be permanently dedicated to charitable purposes, and net earnings cannot be distributed to owners or shareholders (Internal Revenue Service, 2003). The activities of for-profit institutions are not similarly restricted. They can operate with the sole intent of diverting excess revenues to their owners or shareholders and can dedicate themselves to the most uncharitable purposes imaginable. Data on the for-profit sector in the United States are collected by the National Center for Education Statistics (NCES) under a definition that describes these schools as “private institution[s] in which the

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individual(s) or agency in control receives compensation other than wages, rent, or other expenses for the assumption of risk” (2003a).<sup>3</sup> For-profit institutions, then, are distinguished from their not-for-profit peers not by their ability to make money on organizational activities but by what they are able to do with that money. Not-for-profit institutions can make money too—many, in fact, make a lot of money—but they can use excess revenue only to develop the organization and continue its charitable or other nonprofit objectives. In contrast, for-profit institutions can essentially do whatever they want with their money, including offering additional reward to their owners, dividends to stockholders, and reinvestment in completely unrelated activities.

The term “higher education” resists easy definition, as its connotation is just as important as its denotation. From an institutional perspective, higher education simply refers to where students go after secondary school. In international contexts, for example, higher education institutions are often logically referred to as “tertiary education.” From a curricular perspective, however, higher education refers to collegiate-level instruction, thus excluding many noncollegiate institutions that nevertheless are legitimate destinations for high school graduates. The phrase “postsecondary education” emerged in the early 1970s as a way of including noncollegiate institutions in policymaking while preserving the emphasis on academic degrees and campus-based colleges and universities implied by the curricular perspective of higher education (Trivett, 1974). The distinction has not held up over time. The major federal legislation in the area, the Higher Education Act (HEA), includes as an institution of higher education nearly any accredited school that limits enrollment to students who have at least a high school education. NCES, on the other hand, identifies all of them as postsecondary institutions, regardless of whether they award one-year certificates or the Ph.D. degree. Moreover, states, accreditors, and the federal government delineate few restrictions on whether an institution can be called a college or a university as opposed to a school or an institute, meaning conventional nomenclature cannot be used to distinguish higher education from postsecondary education. One could attempt to enforce the collegiate-level emphasis on a definition of higher education, but the vagueness of that concept presents its own difficulties: How would one place the multiple

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missions of the community college, for example? Any decision on the matter is as likely to obscure as to clarify the issues involved.

Therefore, because of its widespread policy implications, a broadly inclusive concept of higher education as contained in the HEA is probably most appropriate when discussing the for-profit sector. As unsatisfactory to some as it may seem when talking about beauty schools and truck-driving institutes—and even many of the narrowly focused for-profit institutions that call themselves universities—higher education is the title of choice for this volume. The higher education institutions considered in this volume in turn follow the specific designation of for-profit status stipulated in the U.S. tax code. Even as some might argue that traditional nonprofit higher education has made its own Wall Street transformation over the years (Bok, 2003, for example), the profit-making activities of legally nonprofit institutions are not part of the analysis here.

The perspectives outlined above have a few qualifiers. In documentation of the for-profit sector before the 1970s, writers may have used definitions that were broader or more specific than the current practice. For example, private business schools of the nineteenth and early twentieth centuries were not all for-profit institutions, though the data suggest that the vast majority were (Miller and Hamilton, 1964). Nor do they represent all the for-profit institutions operating during the period (Bolino, 1973). Rather than attempting the impossible task of parsing historical data for information on profitability or alternative institutional type, statistics and other information from earlier eras are treated as representative of the sector even though they draw an incomplete picture. Second, in contemporary literature and discussions, the word “proprietary” is often used interchangeably with “for-profit,” even though not all schools run by proprietors are necessarily for-profit. On the other hand, institutions were rarely labeled as for-profit before the 1980s; proprietary was then the term of art. The convergence of these two terms seems appropriate, however, and not much will be made of the distinction in this volume. Third, accreditation of for-profit institutions was often not important—or, indeed, even available—to institutions before the 1970s. Some authors discuss the accreditation status of the institutions they describe (Belitsky, 1969), while others do not (Clark and Sloan, 1966). Much like the information on for-profit

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status, these data are considered representative of the sector even as they admit imprecise summaries of the institutional population of interest. Fourth, the for-profit sector is generally described in this volume based on data collected by NCES beginning in the 1970s. Because this data collection is designed to capture institutions participating in Title IV programs, for-profit institutions that do not participate in federal aid programs are neglected. Finally, many for-profit distance education institutions are not currently eligible for federal aid because of an exception to the general definition in the HEA that excludes them. Accredited for-profit distance education institutions are included in this discussion where possible, though as a result of the recent emergence and lack of data on these institutions, a full discussion of legitimate for-profit virtual universities is not attempted.

## Organization of the Volume

These four goals guide the thematic organization of this volume: a historical perspective is important, the sector is diverse, existing scholarship should be summarized, and the same basic questions should be asked of the for-profit sector as are asked of the traditional not-for-profit private and public institutions. To that end, the next chapter provides a general overview of the history of for-profit higher education, identifying the various stages of development of these institutions and establishing the markers of the current era. Following the historical perspective, the challenges of adequately describing the for-profit sector of today are discussed in terms of the variety of different institutions that fall under the for-profit label. A classification of the sector is proposed to highlight the dimensions of for-profit higher education that seem most relevant to the current era. The dominance of publicly traded corporations is the topic of the fourth chapter. Emblematic of for-profit higher education today, these Wall Street companies are in large measure responsible for the transformation of the sector and its new visibility.

The next two chapters address the teaching enterprise in the for-profit sector. First, the students who attend these institutions are discussed, and then the academic model and instructional practices are highlighted. They are basic elements of any educational institution, and the availability and quality of the

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information available on these topics is at the heart of the matter for the for-profit sector. Following this discussion are two chapters on the regulatory framework in which the for-profit sector operates. Accreditation agencies have become significant players in the for-profit world, and the impact of state and federal regulation in creating the environment where the sector now thrives is not often acknowledged. The final chapter emphasizes the current transformation of the for-profit sector and suggests a research agenda that will more fully incorporate an understanding of for-profit institutions as part and parcel of the larger higher education enterprise.

