

# Higher Expectations

*Second in a Series of Essays  
on the Future of Higher Education*

*These essays are part of the Postsecondary Education Initiative of the National Governors Association*

## **Influencing the Future of Higher Education**



Copyright 2002 by the National Governors Association, 444 North Capitol Street, Suite 267, Washington, D.C. All rights reserved.

The responsibility for the accuracy of the analysis and for the judgments expressed lies with the authors; this document does not constitute policy positions of the National Governors Association or individual governors.

For more information, visit the NGA Web site at [www.nga.org](http://www.nga.org)

# Table of Contents

---

---

Foreword	5
Acknowledgement	6
Statewide Higher Education Accountability: Issues and Strategies for Success <i>Jane V. Wellman</i>	7
Containing College Costs: The Case for Reallocation <i>Robert C. Dickeson</i>	17
Quality Assurance for Whom? Providers and Consumers in Today's Learning Environment <i>Carol A. Twigg</i>	25
Lessons from the Innovators: The For-Profit Sector <i>Richard S. Ruch</i>	37



# Foreword

---

In 2001, the National Governors Association Center for Best Practices (NGA) began *Influencing the Future of Higher Education*, a multi-year effort to promote state economic competitiveness through stronger postsecondary education systems. The initiative explores critical higher education policy issues and best practices from other states, nations, and the private sector. The *Higher Expectations* essay series is one way NGA explores policies and programs that: 1) increase access, learning, and degree attainment; 2) build and sustain seamless learning pathways; and 3) foster economic development.

In the first edition of *Higher Expectations*, released March 2001, NGA identified several 21st-century challenges for postsecondary education. Among the challenges identified was the need for postsecondary education to improve its productivity and its accountability. Both challenges are driven by the economy's demands: the workforce will need an additional 12 million people with some postsecondary education over the next 20 years.

Current state fiscal conditions magnify the need to increase productivity. Over 40 states closed a combined budget shortfall of \$40 billion to \$50 billion at the end of fiscal 2002. Today's limited state resources for postsecondary education motivate governors, legislators and education leaders to create higher performing postsecondary systems.

This second group of essays in NGA's *Higher Expectations* series identifies ways Governors can improve state postsecondary education systems through policies that:

- 1. Hold institutions accountable.** Jane Wellman, a former state higher education executive and senior legislative staffer, encourages governors to define a few discrete performance measures for the entire state postsecondary education system. Wellman also encourages governors to examine all public support for colleges and universities when measuring and rewarding outcomes.
- 2. Contain costs.** Robert Dickson, a former chief of staff to two governors and a college president, encourages colleges and universities to recognize that the only source of new money for quality improvements and enrollment growth is through reallocation of existing resources. In his essay, Dickson describes the steps governors, governing boards, and campus leaders can take to identify programmatic strengths and eliminate duplicative and lower-performing programs.
- 3. Identify new methods of assuring quality.** A leader in distance learning, Carol Twigg argues that distance learning requires course-level quality measures that include the student's perspective. Her suggestion for combining multiple measures of quality in a navigable, on-line, student-driven database presents one way to help expand e-learning.
- 4. Utilize the capacity of for-profit postsecondary providers more efficiently.** Richard Ruch, author of the award-winning book *Higher Ed, Inc*, identifies barriers to broader utilization of this growing segment of the higher education market. Ruch identifies characteristics of the sector that could be adapted by public colleges and universities, including a tightly focused institutional mission and streamlined management.

Collectively, this latest edition of essays highlights how governors can help improve the quality and efficiency of colleges and universities. State economic competitiveness depends on the ability of postsecondary education to meet the growing demands for skilled workers.

# Acknowledgement

---

The National Governors Association Center for Best Practices is grateful to USA Funds for its generous support of efforts to promote best practices in postsecondary education.

# Statewide Higher Education Accountability: Issues, Options and Strategies for Success

*By*  
**Jane V. Wellman**  
**Institute for Higher Education Policy**

## Summary

*Higher education accountability is a hot topic at state-level discussions. Governors want to make campus-level comparisons about results and campus productivity. The public—families, employers and communities—wants to know that students have the competencies to succeed and contribute in a democratic society and global economy. Changes in the workforce and in the postsecondary education market, increased competition for limited resources, and the momentum from the K–12 standards movement will likely keep this topic on the front burner for years to come. This essay describes the accountability systems of five states—**California, Colorado, Florida, South Carolina, and Virginia**. It identifies the components that show the most promise of meeting state goals and suggests recommendations for governors to guide the development of systems in the future.*

Almost every state claims to have some kind of accountability system for higher education.<sup>1</sup> Institutions of higher education assess and account for their performance through different kinds of program reviews, accreditation reviews, data submission, financial audits, and regular trustee or governing board oversight. Such reports are not lacking in volume or detail. The technical capacity for Web-based reporting has meant these reviews are very accessible to consumers and policymakers. Most institutions also work hard to improve their assessment capacity, particularly to develop better ways of measuring effectiveness in teaching and learning. However, these institution-based efforts have proven inadequate in addressing the public's needs. The public wants to know how institutions perform relative to one another and how they collectively contribute to meeting statewide needs. Because of this, states are investing in the development of new types of statewide accountability systems.

## Pressures for Accountability

Several forces combine to require statewide accountability systems for higher education:

- Economic and demographic changes shape broad demand for postsecondary education.
- The impact of competition for public resources and competition from new providers of postsecondary education.
- The momentum of higher expectations and data-based decisionmaking from the K–12 standards and accountability movement.

The specifics of how these pressures relate to one another differ from state to state, but the basic themes are remarkably stable in all of them.

## *Economics and Demographics: The Increased Importance of Postsecondary Education*

Governors recognize that investments in postsecondary education and training are their states' most important economic investments. College-level talent is a basic resource in a growing information economy. Areas of highest future job growth jobs will demand highly skilled workers. By 2020, the economy is expected to need an additional 12 million people with some postsecondary education or advanced training.<sup>2</sup> Consequently, states increasingly are linking higher education policies to economic development strategies.

Over the next decade, demand for postsecondary education will continue to rise in almost every state. In some states, rapid demographic changes will drive enrollment growth. By 2015 the college-age population will have grown by 4.3 million to about 31 million young adults. About two-thirds of this growth among college-age young people will be concentrated in **California, Florida, Georgia, New York, and Texas**. These five states could experience an increase of 2.9 million youth by 2015. Except for Georgia, these also are the states with the highest proportion of immigrants and the greatest burgeoning of Hispanic population.<sup>3</sup>

Even in the minority of states with stable or declining enrollments, some increase in demand for postsecondary education will occur because of the need for advanced education and job retraining. The wage premium from postsecondary education has never been greater. Between 1979 and 1997, the number of college-educated males at work jumped in payscale from 36 percent more than high school graduates to 67 percent more. Stronger gains were made by female college-educated workers relative to high school graduates.<sup>4</sup>

Together, these economic and demographic changes bring new pressures for increased productivity and higher re-

sults from higher education—the overarching goals for statewide accountability systems.

## *Resource and Market Competition Increase the Need for Accountability*

All institutions, particularly public ones, will compete in the future for limited public resources.<sup>5</sup> The reason for such a budget squeeze is primarily structural. State revenues are not growing evenly with increases in personal income or economic activity. Reliance on sales taxes causes state revenues to lag behind changes in personal income by approximately 0.5 percent.<sup>6</sup> Furthermore, corporate taxes fail to fully capture the economic growth that has been occurring among information-oriented businesses.

Another structural problem in state budgets relates to Medicaid expenditures. Medicaid is the most rapidly growing part of state budgets, now comprising 20 percent of total expenditures. The growth in Medicaid can be attributed in large part to a structural problem with the federal Medicare program. Medicare does not cover the two most needed and expanding services for elderly and the disabled: pharmaceuticals and long-term care. When these individuals exhaust their personal resources, they become impoverished and thus eligible for Medicaid.

State support for higher education has been shrinking as a share of total state appropriations. While tuition increases historically have cushioned against some of the losses in state revenues, public resistance to the high price of college is rising, and consumers—as well as state decision-makers—want to know what they are getting for their money. Market pressure for enhanced consumer information has grown as a result.

There also is a large and growing private sector in higher education.<sup>7</sup> Private institutions typically operate in a fiercely competitive environment for students and dollars. These for-profit institutions maintain a different level of accountability to shareholders and to the consumer marketplace than traditional not-for-profit institutions. Further, private

institutions are learning how to market themselves as providing less expensive and often more effective alternatives to state funding of public institutions.

Competition for public resources and competition from new providers are helping to fuel public demand for performance-based information. This information allows private consumers as well as state decisionmakers to decide where to make investment decisions based on information about cost effectiveness and added value.

### ***Governors Raise Similar K–12 Issues for Higher Education***

The last and probably most powerful cause of momentum toward new forms of accountability has come from the success of the standards movement as a fulcrum for change in elementary and secondary education. This movement has been gaining momentum for nearly two decades since the publication of *Nation at Risk*, propelled in part through the work of the National Governors Association in collaboration with the business community and other state-based organizations.

In the K–12 context, accountability is based on outcomes—student achievement—and not measures of inputs or good process. There are four primary features of the K–12 accountability model:

- The same learning standards for all children
- Assessments of student learning
- Public accountability for student learning results
- Sanctions and rewards for results<sup>8</sup>

The momentum from the K–12 accountability movement has led governors to ask for information on postsecondary outcomes, including competencies, workplace success, and civic contributions. As they do with K–12 schools, they want to make campus-level comparisons to judge and reward high performance.

## **Examples of State Accountability Models**

States are experimenting with several different approaches to statewide accountability systems. They range from expansions of existing institutional information systems in public “report cards” to statewide performance standards and performance-based budgeting. Brief descriptions of these states follow.

### ***Report Cards***

**California.** California’s higher education report card law was enacted in 1991 as a result of a bill sponsored by then-state legislator Tom Hayden. The law required an annual reporting of data in five areas: population, finances, student preparation, student access, and student outcomes. The report contains over 75 separate indicators and exceeds 100 pages. It includes data on institutional, federal and state student aid along with information on institutional finance, in contrast to the reports from many other states where the student aid reports are confined only to statewide grant programs. By integrating the information from all sources, California does a good job of showing the role of state student aid in ensuring access.

The population and financial information is presented at the state level. Information on student preparation, access and outcomes are presented by sector for public colleges only (the community colleges, the regional universities, or the University of California). Data about student preparation, access and outcomes are not comparable across these sectors. Information about campus-specific performance also is not available from this source.

Because California does not have a student-based information system that would allow students to be tracked across institutions, the information on student outcomes is confined to retention and graduation data within the individual sectors.

The reporting formats are not tied to budget decisions or performance-based funding and are not tied to measures

of progress on specific state goals.<sup>9</sup> As a result, there is growing frustration in California with the accountability system. The need for a new approach to accountability is one of the most important issues in the review of the state's master plan for higher education that is now underway.<sup>10</sup>

**Virginia.** Virginia published its first Report of Institutional Effectiveness (ROIE) system in 2001, based on recommendations of the State Council of Higher Education for Virginia (SCHEV) and former Governor Jim Gilmore's Blue Ribbon Commission on Higher Education. SCHEV updates these reports annually.

Virginia's report cards are designed to provide consumer information as well as being used as a state policy decision tool. They require each public campus—four-year and two-year—to provide numerous descriptive statistics about the institution using common definitions that allow comparisons of Virginia's public institutions (in categories such as graduation rates, tuition and fees, and expenditures of revenue by function).

Institutions also are required to report their performance on 14 systemwide measures of efficiency and academic quality.<sup>11</sup> For example, each institution reports the freshmen to sophomore retention rates, average time to degree, percentage of lower division courses taught by full-time faculty, and transfer students from public two-year colleges. In addition to the 14 systemwide performance measures, ROIE also include each institution's mission statement and data selected by each college and university as being important to assess the institution.

Several of these measures are benchmarked based on state standards (management standards and space standards) so the data are presented both in raw terms and as a percentage of standards being met. When state standards do not exist, as is the case for many of the measures, institutions are asked to benchmark their performance against peer institutions appropriate to that particular in-

stitution, which can include out-of-state as well as in-state institutions.

While discussions call for making funding decisions on the basis of performance, this has not yet occurred. The council currently is evaluating the effectiveness of the ROIE with focus-group reviews. It also is working to add new measures of student learning and educational-added value.

### *Performance-Based Budgeting*

**Colorado.** Colorado is one of the approximately 10 states that link standards-based accountability systems with incentive-funding programs.

The Colorado system requires all institutions of higher education to report on 10 base performance indicators, which are used for performance funding, and an additional 11 indicators that are not tied to performance funding. Colorado uses a unique productivity measure, which is defined as weekly direct teaching contact hours for full-time faculty, benchmarked against national averages.

Public four-year and two-year institutions are included in the system, with slightly different reporting standards. Performance goals for each institution are established relative to benchmarks that are specific to each institution.

The performance funding is an incentive and reward program only, tied to supplemental resources beyond those required to fund enrollment increases. Up to 5 percent of the annual budget increase is set aside for incentive funding, and the specific amount allocated to each institution is based on performance relative to expected performance. Current budget shortfalls have prevented the full implementation of this relatively new program.

**Florida.** Florida has long been a leader in student-centered, state-level accounting for higher education. The state also has led in standards-based accountability systems for all of state government. For instance, reports on higher

education are clustered together with reports on K–12 education, economic development, and workforce preparation.

Florida had one of the earliest state information systems, incorporating student-based records and tracking information with required academic assessments (e.g., entrance examinations for entering freshmen and the “rising junior” examination for third-year students). Although the public four-year and two-year systems remain separate from one another, they are nonetheless framed in a larger context of state investment in broad public activities. For example, Florida shows the percentage of instructional effort generated by regular faculty, by level of instruction. Another indicator reports on the amount of faculty public service activities that are devoted to Florida’s public schools.

Florida also uses a performance-based budgeting approach for state government, including higher education, which awards roughly 2 percent of annual funding based on progress toward state performance standards.

Florida recently reorganized its state governance structure for all of education. The Florida Board of Regents, which formerly was the governing board for the four-year institutions, has been eliminated, and each public institution now has its own local board of governors. At the same time, a new state-level board of education has been created, with responsibility for policy and oversight for K–12 education through graduate school. One of the first agenda items for the new board is a review of accountability structures, with particular attention to creating a seamless accountability system that helps to integrate K–12 with higher education.<sup>12</sup>

**South Carolina.** South Carolina attracted national attention when it passed Act 359, based on the recommendations of a special study commission. The legislation mandated that future funding of public higher education should be based on 37 performance indicators, not on

the enrollment-driven formula of the past. While the legislation called for 100 percent of funds to be allocated on the basis of these indicators, this has never occurred.

Institutions within each of the public sectors (research universities, regional universities, teaching campuses and technical colleges) are required to report on common indicators for that sector. Each institution also is allowed to report on campus-specific measures in addition to its sector and statewide measures.

Now in its seventh year, South Carolina’s system has been evaluated to suggest that it generally has been helpful, despite some initial resistance and confusion. To clarify and simplify the process, the state increasingly is focusing on 14 rather than all 37 indicators (the original 37 measures are now embedded in regular institutional reporting). A number of these performance indicators are designed to show the “user-friendliness” of the system, such as enrollments; retention and degree production for minority students; transfer activity for first-time, full-time students; and the number of minority faculty.

The connection between the performance indicators and performance funding also has been smoothed out. All of the funding remains tied to performance indicators, but there is much less formulaic complexity associated with this approach than previously.<sup>13</sup> Today a greater distinction exists between the data needed to justify the base budget (known as the Mission Resource Requirement or MRR) and the data needed to receive incentive funds based on performance. These incentive funds account for between 3 percent to 5 percent of total support for the state’s public colleges and universities.

### ***Building More Responsive Higher Education Accountability Systems***

The second generation of statewide higher education accountability systems is in various stages of evaluation, reconfiguration, and implementation. The systems will undoubtedly continue to evolve and change, as state

policymakers and institutional leaders learn more about what they want to accomplish with accountability systems. At this point, no state would claim it has the right model. There are a few recurring themes, however, of what works and what doesn't. The following recommendations are offered for governors interested in developing more responsive higher education accountability systems.

**1. Establish goals in relation to statewide plans.** Accountability reports should be built around a few strategic statewide goals for higher education that can be measured quantitatively and replicated from year to year.

These goals need to emanate from a statewide planning process that has established the groundwork for a reasonable level of consensus about priorities. If accountability systems are put in place before the planning has occurred, or if there is a lack of consensus about the priorities or goals from state plans, then the accountability systems are likely to lead to volumes of data that policymakers can't use. Progress has been slow, in large part, because of a lack of clarity in many states about performance goals.<sup>14</sup>

The following are statewide goals being used successfully in accountability systems.

- Increase the number of high school graduates that go on to college.
- Reduce the number of students requiring remediation.
- Increase retention and five-year graduation.
- Increase the number of community college transfer students.
- Increase the percentage of resources spent on instruction.

*Provide consumer information.* State accountability systems that help consumers make comparative judgments across institutions, or compared to national peer institu-

tions, are the strongest tools for leveraging increased higher education performance and productivity.

Higher education accountability structures need to inform consumer choice as well as governmental decisionmaking. **Virginia**, for instance, allows institutions to provide information about their mission and programs in a way that is similar to reports from the national rankings of college-information services, such as the *U.S. News* rankings, or the Peterson's or College-finder services.

The consumer role probably is more important in higher education than in K-12 because higher education operates in a stronger market than public education. Government can't impose sanctions for low-performing colleges as it does in K-12, since the majority of postsecondary institutions are either private or have some independence from state control. It is therefore important for state decisionmakers to think about how to leverage market strategies—including consumer information—as an element of their accountability structures.

**2. Focus on total state support for higher education.** States need simpler measures of per-student subsidies to assess how effectively and efficiently the total state investment is being used. These measures allow policymakers to determine the best place to invest new dollars or reallocate existing dollars. For example, a state wanting to increase access should be able to decide whether to put marginal resources into support for student aid, community colleges, or new university campuses.

Subsidy measurement doesn't need to be difficult, and it's important enough to be worth the investment in time to get clear measures. Looking at total public subsidies helps compensate for a weakness of current accountability systems. These systems award small dollars on the margin for performance while continuing to provide more than 90 percent of total state support on the basis of inputs, such as enrollment. This "base-plus" means of rewarding performance is ineffective, particularly in times of bud-

get cutbacks, because the incentive funds are cut first. If past is prologue, institutions (in particular the research universities) resist the development of these measures precisely because they do not like the “apples-and-oranges” comparisons of different types of investments.<sup>15</sup> Their resistance takes the form of support for impossibly complicated formulas that try to segregate the costs of instruction from other costs.

**3. Ensure comparability, simplicity, and visibility.** Effective statewide accountability systems are based on relatively few measures that are comparable across different institutions. These measures are widely disseminated for maximum public visibility.

**4. Include institution-specific information.** It is important to give institutions the opportunity to supplement their statewide measures with information about performance on measures specific to that institution. Not all functions in higher education are shared by all institutions.

Building institution or campus-level detail into the reports also can allow institutional leaders to better connect their internal assessment and planning processes with statewide accountability systems. These linkages offer the highest probability for payoff in both public accountability and institutional improvement.

**5. Track students.** One reason current statewide accountability systems fall short of public expectations is that the majority of students transfer across two or more institutions before completing their education. A student-unit record system makes it possible to track students across sectors. Without these data management systems, the most critical performance data—such as student access, transfer, retention and graduation—cannot be measured.

In addition, higher education accountability structures need to be able to connect students and institutions with the

K–12 system. A connected system enables policymakers and the public to assess how middle and high school course-taking prepares students for college or how well colleges and universities prepare teachers to teach math standards or disadvantaged youth. Thirty-seven states now have student record systems at the K–12 level.

**6. Cultivate broad support for a statewide system.** Governors can cultivate broad support for a statewide accountability system by including multiple stakeholders in the process and requiring that all institutions receiving public support participate.

The processes for building accountability systems are critical to their ongoing viability. A consensus-oriented process that balances various external stakeholders with higher education insiders works best. It is important to identify leadership that can manage the length of the process and keep participants focused on the statewide priorities for higher education. Governors are best positioned to establish the dynamic for a good accountability process because they can pull together people from the institutional governing boards, the legislature, the business community, and state government.

The structure of the process is particularly important to getting the political support for accountability from all of the sectors, including those politically positioned to opt out of the system. Any accountability system that applies to only a few of the sectors, or that uses different “rules” for different sectors, is ultimately weakened.

**7. Recognize the differences between K–12 and higher education.** While the momentum from states’ K–12 accountability efforts is an important catalyst for more responsive statewide higher education accountability systems, important distinctions need to be made.

K–12 accountability systems are based on a common set of learning standards and a statewide assessment administered to all students. In higher education, there is a diver-

sity of learning goals, institutional functions (including research and service) and no single curriculum.

Governors are discouraged from adopting the primary characteristics of K–12 accountability systems for higher education: common standards, a single assessment of student learning administered to all students, and a rewards and sanctions system based on the outcomes for a single indicator. Higher education accountability systems need to rely on a broader set of measures that promote mar-

ket competition by focusing on comparative productivity.

Calls for increased higher education accountability reflect Governors' higher expectations. Responsive higher education accountability systems will help the public understand the value-added of a particular college, the productivity of a state's public investment, and how institutions collectively contribute to increased state prosperity and improved lives for all citizens.

---

---

## About the Author

Jane Wellman is a senior associate with The Institute for Higher Education Policy in Washington, D.C., where she conducts research and policy analysis on finance, accountability and accreditation, and governance of higher education. She is a director of several of the Institute's research and policy efforts, including The New Millennium Project, a national study of higher education renewal strategies; the *Seat-Time* study of uses and alternatives to the student credit hour unit of measurement; and a national study of trends in costs and prices. She also is leading an effort for the Association of Governing Boards on the issues facing governing boards seeking to maintain citizen self-governance while responding to demands for greater public accountability. She is the author or co-author of several recent publications by the Institute, including *Higher Education Cost Measurement: Public Policy Issues, Options and Strategies*, *The Tuition Puzzle*, *Looking Back, Going Forward: The Carnegie Commission Tuition Policy*; and *Contributing to the Civic Good*. In addition to research and writing, Wellman consults with state systems and national associations on major projects, such as The Council for Higher Education Accreditation, the University of North Carolina Office of the President, the National Center for Public Policy and Higher Education, the National Advisory Committee on Student Financial Assistance, and the California State University. She is a consulting editor to the Association of Governing Boards' publication *Trusteeship*, a member of the editorial advisory committee to the American Council on Education's *The Presidency*, and a Campus Compact Engaged Scholar. Wellman has worked for more than 20 years in higher education and government relations at the federal and state levels and with public and private institutions. Prior to joining the Institute in 1994, she was vice president for government relations with the National Association of Independent Colleges and Universities, deputy director of the California Postsecondary Education Commission, and staff director of the Ways and Means Committee in the California State Legislature. She began her career in higher education finance and planning at the University of California, where she worked in the statewide budget office and on the Berkeley campus in the Center for Research in Management Sciences. She received bachelor's and master's degrees from UC Berkeley.

## Endnotes

---

<sup>1</sup>Melodie Christal, “State Survey on Performance Measures: 1996-1997” (Denver, Colo.: State Higher Education Executive Officers, April 1998). See also the Web site for the State Higher Education Executive Officers, which provides links to all of the state accountability reports: <http://www.sheeo.org/account/acct-reports.htm>.

<sup>2</sup>Paul Barton, “What Jobs Require: Literacy, Education and Training, 1940–2006” (Princeton, N.J.: Educational Testing Service Policy Information Center, Research Division, January 2000); and Anthony P. Carnevale, “The Economic and Demographic Roots of Education Reform,” *National School Board Journal* (Alexandria, Va: National School Boards Association, 2002).

<sup>3</sup>Paul R. Campbell, *Population Projections for States—by Age, Sex, Race, and Hispanic Origin: 1995 to 2025*, PPL-047 (Washington, D.C.: U.S. Government Printing Office, 1995).

<sup>4</sup>Anthony P. Carnevale and Donna M. Desrochers, “Help Wanted ... Credentials Required” (Washington, D.C.: Educational Testing Service Leadership Office, 2001).

<sup>5</sup>Despite funding changes in the last two decades, state general funds remain the single largest revenue source to public colleges and universities, which enroll close to 80 percent of all students in higher education. Information on funding trends by sector and revenue source can be found in Alisa F. Cunningham, Jane V. Wellman, Melissa E. Clinedinst, and Jamie P. Merisotis, “Study of College Costs and Prices, 1988–89 to 1997–98, Volume 1” (Washington, D.C.: U.S. Department of Education, National Center for Education).

<sup>6</sup>See Harold A. Hovey, “State Spending for Higher Education in the Next Decade: The Battle to Sustain Current Support” (San Jose, Calif.: National Center for Public Policy and Higher Education, in conjunction with State Policy Research, Inc., July 1999).

<sup>7</sup>See NGA essay by Richard Ruch in this publication. Also see the NGA essay by Art Levine, published in the 2000 edition of “Higher Expectations.”

<sup>8</sup>See the National Governors Association Center for Best Practices, “Standards, Assessment and Accountability,” available on their Web site: <http://www.nga.org/center>.

<sup>9</sup>For more information, see “Performance Indicators for Higher Education,” available from the Web site of the California Postsecondary Education Commission, at: <http://www.cpec.ca.gov/Publications/ReportSummary>.

<sup>10</sup>For information about California’s current Master Plan Review, see the Web page for the Senate Committee on the Master Plan, available at: <http://www.sen.ca.gov/masterplan/>.

<sup>11</sup>See Overview of SCHEV’s 2001 Reports of Institutional Effectiveness, from the SCHEV Web site: <http://research.schev.edu/roie/summary.asp>.

<sup>12</sup>The performance indicators being used in the current fiscal year are provided on the Florida’s “Sunshine Web site”: <http://www.leg.state.fl.us/data/session/2001/senate/appbills>.

<sup>13</sup>See the South Carolina Commission on Higher Education Web site: [http://www.che400.state.sc.us/web/Perform/ReportCards/Report\\_Frames.htm](http://www.che400.state.sc.us/web/Perform/ReportCards/Report_Frames.htm).

<sup>14</sup>See Paul Linganfelter, *Educational Accountability*, for a more complete discussion of the different purposes for accountability structures.

<sup>15</sup>Readers interested in traditional academic arguments against change should consult the 1923 treatise by F.M. Cornford, *Microcosmographica Academica* (Cambridge: Dunster House), which includes basic principles for scholarly life, including the often quoted: “Every public action which is not customary, either is wrong, or, if it is right, is a dangerous precedent. It follows that nothing should ever be done for the first time.”



# Containing College Costs: The Case for Reallocation

By

**Robert C. Dickeson**

**Lumina Foundation for Education**

## Summary

*As states face budget shortfalls and fiscal uncertainty, the role of the governor in looking to long-term solutions while considering short-term fixes has never been more essential. Linking higher education programs to achieving the governor's priorities may be the soundest strategy for long-term economic stability. In a time of scarce resources, all state and higher education officials must understand one truism to accomplish essential goals: reallocating existing resources from weakest to strongest programs is the most likely source of funds. However, effective reallocation requires prioritizing programs responsibly.*

## The Governor and the Balancing Act

A governor's current balancing act involves reconciling several demands for support for higher education and analyzing where the best payoffs will occur to buttress the governor's priorities for improving economic development and quality of life.

Governors are in a key position to call for and oversee the prioritization/reallocation process. In many cases, they have to ask the tough questions and encourage governing boards and higher education leaders to provide meaningful answers.

Prioritizing programs is necessary because not all programs are equal. Some are more efficient, more effective, or more central to the mission of the institution or to achieving the state's priorities. Most college campuses are overprogrammed for their resources and can no longer afford to be what they have become. The solution is an institution-by-institution reallocation, initiated only after

rigorous, effective, academically responsible priorities are set.

The governor's leadership may very well be the catalyst to ensuring the most effective use of precious resources at the state's colleges and universities.

## The Case for Reallocation

Reallocation in state government is difficult and controversial. State programs are often entrenched and the forces that created them are unlikely to go away. It is more politically safe to order across-the-board cuts, where all parties suffer equally. However, such cuts are irresponsible; used as a solution over time, they foster mediocrity. The truth is that some programs are more important than others, some are more central to the state's future vitality, and some are more effective.

The same is true at higher education institutions. Whether public or private, colleges and universities often look to easy solutions to meet budget shortfalls, solutions that are

episodic, fortuitous, politically safe on campus—and wrong.

Additionally, some states are “solving” their current fiscal crisis by cutting back on or deferring much-needed capital expenditures. This risky approach assumes the problem is short-lived and the crisis is fleeting. It may not be, and such stopgap measures denote a lack of realistic planning.

## Focus on Academic Program Offerings

There are several realities about higher education budgets. First, all programs offered by an institution are not equal. Second, there simply isn't enough money to go around. Each budget office has millions of dollars on the cutting-room floor that represent legitimate, bona fide needs of academic programs. No academic program has enough resources to accomplish its potential. The price for academic program bloat for all is impoverishment of each.

As governors evaluate academic programs and where funds can be reallocated, they should consider the following:

- Academic programs are the heart of the institution and constitute the real cost drivers for the entire enterprise.
- Academic programs have been permitted to grow—and sometimes to calcify—without careful analysis of their relative worth.
- In their quest for students, reputation, and support, most institutions unrealistically strive to be all things to all people. They do not focus resources on their mission and on programs they can sustain with distinction.
- Substantial funds are needed to ensure quality in many academic programs. Thus, most institutions are overprogrammed for their available resources.
- Traditional resource-management approaches, such as across-the-board cuts, cause mediocrity for all programs.

- Resources reallocated from weakest to strongest programs are the most likely source of funds.
- Reallocation should not be accomplished without setting rigorous, effective, and academically responsible priorities.

By adding more and more courses, institutions commit *curriculum creep*. This phenomenon is, unfortunately, only incremental, not decremental. There are precious few internal processes to handle the elimination of courses that no longer make sense or meet student needs. Thus, *curriculum creep* leads to *program creep* and *program creep* is akin to *mission creep*. As institutions take on more and more programs, attempting to meet more and more demands, aspirations sometimes overtake reality. With just a few more programs, two-year institutions could become four-year colleges. With just a few more graduate programs, teaching institutions could become research universities.

If reallocation is the answer to these problems, by what criteria should priorities be set?

## How to Prioritize?

There are 10 criteria to measure both academic and non-academic programs. Governors should know these criteria, request data to buttress collegiate programs in light of these criteria, and then ask the penetrating questions to secure responsible answers. There also are key questions governors can ask.

### *Criterion 1 History, Development, and Expectations of the Program*

Have the expectations for this program changed since it was established? How has the program adapted to changing demographics of the institution's students (e.g., more part-timers, more nontraditional, less academically prepared, less likely to be motivated to succeed)?

**Governor's Key Question:** *Does this program meet today's changed expectations?*

### **Criterion 2**

#### ***External Demand for the Program***

Is there evidence that students are attracted to the campus because of the program? Has this demand changed over time? Is the institution required to offer this program?

**Governor's Key Question:** *Who wants this program?*

### **Criterion 3**

#### ***Internal Demand for the Program***

What other programs in the institution rely on this program? What services does the program offer that are expected in other programs at the institution? Is there potential for internal demand because this program has pioneered new approaches (e.g., collaborative learning, uses of technology) other institutional programs may emulate?

**Governor's Key Question:** *Is this program required for the success of another program?*

### **Criterion 4**

#### ***Quality of Program Inputs and Processes***

How current is the program's staff? Would they stack up well against similar staff in comparable or competing institutions? Does the program operate with a quality design? When last was it overhauled? How does the program take advantage of changes in technology? What is the quality of equipment, facilities, and other resources?

**Governor's Key Question:** *How good are the resources invested in this program?*

### **Criterion 5**

#### ***Quality of Program Outcomes***

How do students benefit from this program? What measurable objectives were achieved or competencies attained, including employer satisfaction and job placement? Did the program succeed in multiple measures of student development? Do the outcomes mirror the best practices of similar institutions?

**Governor's Key Question:** *What are the quality results of this program?*

### **Criterion 6**

#### ***Size, Scope, and Productivity of the Program***

How many students—or clients, customers, patrons—are being served? How many staff are committed to this program? What's the resulting productivity? Is the program of sufficient size and scope to meet critical mass and is it conducted effectively?

**Governor's Key Question:** *How many people truly benefit from this program?*

### **Criterion 7**

#### ***Revenue and Other Resources Generated by the Program***

What internal subsidy is appropriate to account for the enrollment the program attracts? Are there fees, grants, fundraising, or other sources of revenue attributable to this program? Does the program enjoy relationships—external, community, economic—that are valuable to the institution?

**Governor's Key Question:** *What does this program bring in financially?*

### **Criterion 8**

#### ***Costs and Other Expenses***

What are the total costs—direct and indirect—associated with delivering the program? Are there demonstrable efficiencies in delivering the program that benefit the institution? What additional investment is needed to bring the program up to a high level of quality?

**Governor's Key Question:** *What's the real outlay for this program?*

### Criterion 9

#### ***Impact, Justification, and Overall Essentiality of the Program***

How essential is this program to the institution's mission? Does this program serve people in ways no other program does? Does it respond to a unique societal need the institution values?

**Governor's Key Question:** *How is this program linked with the institution's—or the state's—overall strategy?*

### Criterion 10

#### ***Opportunity Analysis of the Program***

How might the program capture opportunities not heretofore considered by the institution? What external factors can this program seize? Are there opportunities for productivity gains that might save the program? Where is duplication avoidable? What is the relationship between this program and emerging trends in student development?

**Governor's Key Question:** *If resources are reinvested in this program, what would be the benefits?*

Once these criteria have been used to fairly measure a program, prioritization and reallocation can occur.

## **Making Reallocation Decisions**

It is one thing to initiate change; it is quite another to complete it. Before an institution (or a governor) seriously considers undergoing a comprehensive prioritization and reallocation, an old-fashioned “gut check” is necessary: Is there the leadership, courage, and political will to see this important task through to completion? Governors will want to assure themselves that the governing boards of the institutions, which alone have the authority to act with finality on program decisions, are capable and willing to superintend this process from start to finish.

## **Strategies for Governing Boards and Higher Education Leaders**

Academic reform often brings with it controversy, and controversy tests integrity. Among the stakeholders in the prioritization process—students, faculty members, presidents, vice presidents, board members, alumni—are people who care deeply about the institution and believe, to varying degrees, that its future has been entrusted to their care.

The unifying force for all stakeholders is the mission of the institution. The mission of the institution is the unique academic grid against which all evaluation of programs must be measured. It is therefore vital that the mission be reexamined in some cases, revised in other cases, and reaffirmed in *all* cases.

An effective institutional reallocation process incorporates:

- an analysis focused on preselected criteria and the specific elements that address mission efficiency, effectiveness, and centrality;
- concentration on resource development and resource utilization; and
- a systematic basis to identify opportunities to increase revenue, reduce costs, improve quality, and strengthen reputation.

Given the large number of programs typically found on a campus (more than a thousand at the larger institutions) and the difficulty in making precise ranking decisions, categories of rankings

are useful. One successful approach is to rank programs by quintiles as follows:

- Upper 20 percent: Candidates for enrichment
- Next 20 percent: Retained at higher level of support
- Next 20 percent: Retained at neutral level of support
- Next 20 percent: Retained at lower level of support
- Lowest 20 percent: Candidates for reduction, phase out, consolidation

To be effective—and to yield resources for important reallocation purposes—*each category must house an equal number of programs.*

Once the analysis has been completed and the programs of the campus have been prioritized, important judgments must be made that recommit the institution's resources to seize opportunities and sustain institutional integrity. Resources typically are recommitted to enable five kinds of decisions: enriching or expanding existing programs; adding new programs; reducing programs; consolidating or restructuring programs; and eliminating programs.

The process of prioritization and reallocation strengthens institutional vitality. The process also requires maintenance of a significant database. As colleges and universities recognize that they have to effectively communicate their needs to obtain necessary support, the database can be helpful. Criteria about the programs essential to the institution—captured, formatted, retained, and updated—can provide valuable, useful information that both internal and external audiences can understand.

## What Can Governors Do?

As the key statewide leader championing quality higher education, the governor is in an ideal position to undertake several reallocation initiatives.

- **Articulate statewide priorities** that create expectations for state institutions. These priorities should include the state's economic development goals.
- **Call attention to overprogramming** in higher education. This call should include private as well as public colleges and universities. Although most effort will already be attuned to the state's public institutions, private colleges in many states could benefit from reallocating internal resources.
- **Urge that a meaningful program prioritization process occur** at each institution in the state (private colleges suffer program bloat, too) focusing on each institution's specific, unique mission. This process should not be a statewide comparison of institutions, but rather a statewide expectation, comparing the relative worth of programs at each institution.
- **Insist that each campus identify centers of excellence and unproductive programs.** As a part of the next budget cycle, governors, legislators, and governing boards should request solid information about the state's academic programs. While duplication of programs at the undergraduate level is necessary across the state, at the graduate and professional levels, it can be unduly expensive.

First, campuses need to identify centers of excellence, the peaks of quality that emerge at each institution to attract and retain top students and scholars. An analysis of these programs' resource needs should accompany this, with identification of how reallocation can help colleges build on their strengths.

It is equally important to identify excess programs at the state's institutions. In analyzing how many programs are not productive, campuses need to do a similar analysis of the costs associated with continuing these poorer performing programs.

- **Enable colleges to retain the dollars saved from eliminating weaker programs.** Governors can recommend that savings be reinvested in achieving statewide priorities.
- **Set expectations for governing board appointees** to prioritize and reallocate in an academically responsible way; support the campus leadership with the courage this task demands; and not permit “campus politics as usual” to govern these important decisions.
- **Identify additional strategies for cost containment.** Strategies such as interstate compacts and privatization of certain services and programs can improve productivity.

To help deliver high-cost graduate and professional programs, states should consider the successful model established by the Western Interstate Commission for Higher Education (WICHE). Another successful strategy to consider is an interstate virtual learning consortium, such as the Southern Regional Education Board's Electronic Campus, which helps undergraduates persist more efficiently toward their degree, particularly when some programs are eliminated.

Governors and legislators can eliminate the barriers to institutions' contracting out or privatizing certain programs and services. Modified fiscal rules can permit institutions to outsource some nonmission-critical functions to the private sector that can prove to be more efficient and effective.

## Conclusion

Higher education institutions are necessary to the future success of any state. Yet colleges and universities need help. The support they require will come not only from tuition and fees, state appropriations, and grants and gifts, but also from reallocation of existing resources. Reallocating responsibly requires setting academic priorities; establishing, in a data-driven way, that some programs are more important than others; and concluding that higher-ranked programs are more deserving of institutional and state support.

The process for reforming institutional offerings through prioritization and reallocation is rife with controversy. It is likely to create upheaval among entrenched interests that want business as usual. The task will require leadership, courage, and will. Governors can help set the stage for reallocation, encourage and reinforce its accomplishment, and support the tough but necessary decisions that will result.

Colleges and universities and the states that shelter them will be the stronger for it.

---

## Resource

Robert C. Dickeson, *Prioritizing Academic Programs and Services: Reallocating Resources to Achieve Strategic Balance* (San Francisco, Calif.: Jossey-Bass Publishers, 1999).

## About the Author

Robert C. Dickeson comes to the issue of cost containment from multiple leadership perspectives: chair of the governor's cabinets in two states; university president; business CEO; and foundation executive. He received his Ph.D. in political science from the University of Missouri, and he has served on the graduate faculties of four universities. Dickeson served as the director of the department of administration and chair of the cabinet of Arizona Governor Bruce Babbitt; and chief of staff, executive director of the office of state planning and budget, and chair of the cabinet of Colorado Governor Roy Romer. He served in administrative posts at three universities and was president of the University of Northern Colorado from 1981–1991. He served as president and CEO of Noel-Levitz Centers, Inc., division president of USA Enterprises, Inc., and senior vice president of the USA Group Foundation. Dickeson has received national awards from the American Association of State Colleges and Universities, the American Association of Colleges for Teacher Education, and the American Council on Education. He has authored more than 100 publications and he is currently senior vice president for higher education policy, research, and evaluation at the Lumina Foundation for Education in Indianapolis, Indiana.

*The views expressed are those of the author and do not necessarily constitute those of Lumina Foundation for Education, Inc.*



# Quality Assurance for Whom?

## Providers and Consumers

### in Today's Distributed Learning Environment

By

Carol A. Twigg

Center for Academic Transformation at Rensselaer Polytechnic Institute

## Summary

*The growth of distance learning is raising questions about existing quality assurance processes because it challenges the wisdom of basing judgments on quality solely on input measures. Increasing demand for online education also is increasing calls for outcomes-based quality assurance. Governors appreciate that a good way to demonstrate capacity is to measure results. Consumer input can produce valuable information that augments existing quality assurance efforts and helps students and employers navigate the increasingly distributed world of postsecondary learning. Governors are encouraged to support a consumer-oriented system for evaluating online courses.*

## The Context for Quality Assurance Concerns

The extraordinary growth in distance and distributed learning presents new challenges to the existing quality assurance capacities of state agencies, accrediting associations, and similar groups. According to Carole Cotton of CCA Consulting, a market research firm, 94 percent of all colleges and universities are engaged in (63 percent), or are planning to be engaged in (31 percent), distance and distributed learning.\* The recently drafted "Guidelines for the Evaluation of Electronically Offered Certificate and Degree Programs," a joint product of the Council of Regional Accrediting Commissions and the Western Cooperative for Educational Telecommunications, introduced the issue this way:

*New delivery systems test conventional assumptions, raising fresh questions as to the essential nature and content of an educational experience and the resources required to support it. As such, they present extraordinary and distinct challenges to the eight regional accrediting commissions which assure the quality of the great majority of degree-granting institutions of higher learning in the United States.*

Many in higher education approach the issue of quality assurance in distance learning not as a desired end but as a problem that needs resolution. Numerous educators remain skeptical of distance learning, believing that same-time, same-place interaction is central to a successful educational experience. Those who lack first-hand knowledge of distance learning are suspicious of it and think distance

---

<sup>1</sup> Throughout this paper, the terms *distance learning*, *distance education*, *distributed learning*, and *online learning* are used interchangeably. Sometimes the term *distance learning* seems appropriate because the issues under discussion most frequently concern off-campus (distance) versus on-campus learning. Particularly when describing the new higher education environment, the term *distributed learning* more clearly expresses the changing nature (and the blending) of all forms of higher education. *The term distributed learning* has evolved specifically to encompass *both* on- and off-campus online teaching and learning and to move people away from seeing a split between on- and off-campus use of technology in academic programs.

education programs have low standards or no standards. Some people are more than uncomfortable. Those concerned with consumer protection sometimes presume that distance learning is more susceptible to fraud and abuse than is traditional education.

### *Inputs versus Outputs*

Current quality reviews are based primarily on examining institutional “inputs”—the capacity and resources of programs and institutions. The higher education community has developed several quality indicators that are so well understood and accepted that many institutional quality assurance programs simply embed them.

- Quality equals a tenured full-time faculty member with a Ph.D. teaching the course.
- Quality equals courses and degree programs offered by and on a residential campus.
- Quality equals students learning by sitting in the same room with a professor.

Licensing authorities and accrediting agencies have long assumed that institutions with certain attributes (e.g., a president, a board, and full-time faculty) have the capacity to carry out degree-granting educational missions. Historically in many ways, accreditation has been based on an act of faith: if certain capacity and resource conditions are present, student learning takes place. Yet distance learning programs eliminate many of the capacity and resource conditions of higher education (e.g., full-time faculty and physical campuses). This makes those attached to input-based quality measures nervous.

### *Increasing Demands for Greater Accountability*

The discussion of quality assurance in distance learning is occurring within a context of dissatisfaction with current higher education quality assurance processes in general. Trends toward greater external certification and other forms of accountability manifest a lack of confidence in how well higher education is doing, especially in workplace preparation. Grades, graduation, and degree acqui-

sition are no longer viewed as adequate or sufficient indicators of competency. In addition, the pressure for external exams often reflects the frustration that many outside the education community feel about the enormous sums being spent for U.S. higher education by state governments, students, parents, and employers.

Also being felt are even greater demands for external certification as a way to ensure quality. New requirements for state rather than institutional testing of prospective teachers are an extension of current practice in other professional fields, such as law, nursing, accounting, and engineering that already have some form of external validation. External competency certifications in the information technology field are growing rapidly. Many states, including **Colorado**, **Illinois**, and **Washington**, are talking about exit exams at every level of higher education. Even though some educators question whether these common exams are a good way to assess learning, most agree the testing will continue and probably increase.

### *A De Facto Consensus for Quality Assurance*

Every new act of evaluation highlights insufficiencies in old ways of operating. Consequently, several national higher education associations have developed statements on what constitutes good practice in distance education (see Appendix A). Clearly, countless individuals contributed much work and thought to craft these standards and, as a result, a de facto framework for ensuring quality in distributed learning environments has emerged.

A recent study commissioned by the National Education Association and Blackboard Inc., and conducted by the Institute for Higher Education Policy (IHEP), confirms that the statements share many like ideas. Titled *Quality on the Line: Benchmarks for Success in Internet-Based Distance Education*, the study reviewed all existing principles, guidelines, and benchmarks that address best practices in distributed learning and combined them into a single list of 45 “benchmarks.”

The researchers then tested the efficacy of the list by interviewing leading practitioners in the field. Dropping 13 benchmarks, adding three, and combining redundant ones gave the researchers a list of 24 benchmarks that are “essential to ensure quality in Internet-based distance education.” This new list constitutes consensus among providers on what constitutes good practice. Included among IHEP’s 24 benchmarks are the following (see Appendix B for a complete list):

- Courses are designed to require students to engage themselves in analysis, synthesis, and evaluation as part of their course and program requirements.
- Student interaction with faculty and other students is an essential characteristic and is facilitated through a variety of ways, including voice-mail and/or e-mail.
- Students have access to sufficient library resources that may include a “virtual library” accessible through the World Wide Web.

Some in the education community have asked whether there should be different standards for distance learning. The IHEP list of principles of good practice for distance education does not look much different from a list of principles of good practice for on-campus learning. The characteristics of a good face-to-face course, for example, are the same as those of a high-quality distance learning course. Student support, faculty support, reliable infrastructures, effective evaluation—all are required to ensure a high-quality learning environment be it on or off campus.

## Quality Assurance from the Perspective of Higher Education Consumers

Any discussion about quality in a distributed learning environment must first explore from whose perspective quality is being considered. Providers—traditional higher education institutions—are likely to view quality very differently than consumers—students studying via technology, especially at a distance.

Professionals created today’s quality assurance processes for professionals. This is understandable, especially when many believe that students cannot make judgments about what constitutes high-quality education because they have not been trained to develop appropriate criteria. Because students lack a firm basis to make judgments, so the reasoning flows, expert educators have to make the judgments for them. Yet when experts make those judgments, they do it according to their rules, not according to what students need or want.

What do consumers—students, parents, employers, and others—want to know about quality?

- **Consumers want to know that the course, program, or institution is “as good as” others.** They want to know that the course, program, or institution conforms to “generally accepted practice” in the profession and that each meets minimal or threshold levels of quality. For this level of quality assurance, current practices seem adequate.
- **Consumers want to know that the principles of good practice are being practiced.** Are these principles that all salute but carry out unevenly, or are these principles embodied in the day-to-day life of the institution?
- **Consumers want comparative information.** They want to know how to differentiate among the thousands of possibilities available to them. Specifically, they want to know that if they successfully complete the course, they will have the skills they seek. This is the commonsense definition of quality assurance.

So long as higher education has been placebound, students have had limited choices. The virtual world, however, opens up unlimited possibilities for collegiate study. Increasingly, students are “going to college” in many different ways, accumulating courses from multiple provid-

ers. So long as most students take most of their courses at one institution, existing institutional quality assurance processes seem sufficient. Yet in a distributed learning environment, where students face many choices, still greater differentiation is required. Knowing that hundreds of institutions follow general principles of good practice, such as those on the IHEP list, will not help students make a wise choice.

It is clear that consumers want rankings to differentiate online course offerings. Many higher education providers also support that idea, but some raise two primary objections with regard to rankings arise. First, limited consensus exists about the factors that should be used to create those rankings. Second, many believe that because students lack a firm basis to make judgments, experts should make the judgments for them. Educators also object to third-party rankings, such as those of *U.S. News & World Report*, because they believe that the wrong factors are used to generate these rankings.

Regional and specialized accreditors are generally hesitant to look at course quality, a main point of interest for consumers. Practical problems in implementing these finer levels of quality assurance abound, primarily insufficient resources. If one agrees that the course needs to be added as a unit of analysis, how can a feasible quality assurance process be constructed? How can a process that can augment and complement traditional quality assurance processes be created, one that focuses on quality assurance from the student's perspective?

### ***The Nature of the Problem***

To understand whether consumers and providers approach the issue of quality assurance in the same way, consider the following example:

*Assume that you are a student looking for the "best" marketing course that is available online—a course that you can afford and can transfer to your home institution. What would you want to know?*

A search for accredited marketing courses using the online DistanceLearn database—the largest of its kind, with more than 20,000 courses listed—yields the proverbial “firehose of information.” Approximately 240 undergraduate courses are listed, a deluge of data that most consumers would find daunting to navigate. This strongly suggests that regional accreditation may be a necessary but not a sufficient condition to determine quality from the student's point of view.

In addition to the quantity problem, the available consumer-oriented databases have other deficiencies, including:

- courses are listed by institution and by course number rather than by topic;
- enrollment requirements—prerequisites, face-to-face meetings, and matriculation—are unclear;
- the contact information provided does not list someone who can answer students' questions directly;
- course requirements regarding what kind and how much work is involved are not explicit;
- no information is provided about student outcomes, such as employment placement rates;
- no information is provided about the quality of the courses (e.g., whether the institutions use the IHEP principles of good practice); and
- no comparative information is provided (e.g., so students could determine which is the best marketing course to meet their needs).

The impact of this lack of qualitative information is not limited to students; other stakeholders would also like to be able to make judgments about the choices. Employers, for example, want to be able to sort through various offerings to make recommendations to their employees.

### ***Consumer-Oriented Decisionmaking Tools***

What information do consumers need to make intelligent choices among the myriad new and unfamiliar options available in the distributed learning environment? In the context of the related shifts toward privatization and the

entry of new, for-profit providers into the education and training arena, the issues of consumer information and consumer protection take on even greater importance.

When approaching the issue of quality assurance from a consumer decisionmaking point of view, one is struck by the relative nature of the words *good* and *quality*. As people begin to make choices about their own resource allocations (e.g., time, money, and energy), they gather information to help them make a more “informed” decision. Because it is not realistically possible to gather “all” information, consumers engage in a process of what consumer economists call “satisficing”—finding a satisfactory solution while recognizing there may be more than one solution. This differs from finding *the* optimum solution.

Consequently, notions of “quality” reflect preferences that may be ordered or hierarchical; the ordering or hierarchy will vary depending on the resources and situation of the individual making the choice. Applying this concept to the search for courses suggests that finding the *best* marketing course is not the goal. Finding a satisfactory course that meets one’s preferences is a more realistic outcome.

### ***Expert Products versus Polling Products***

Distributed learning courses can be evaluated for quality as “expert products” and as “polling products.” If one wants a recommendation about which product to buy, one might consult an expert in the field. That is a function that magazines such as *Car and Driver* and *Sound & Vision* perform. How can certain cars, boats, appliances, and electronics be characterized as “expert products”? First, experts can evaluate these items because there are relatively few of them. Second, price is a factor in the buying decision, reducing the “universe” of items even further. Publications such as *Consumer Reports* or *Good Housekeeping* test every product before giving it their seal of approval.

Clearly, no group of experts can evaluate the thousands of available courses, despite higher education’s preference for peer (expert) evaluation. Furthermore, experts cannot conduct comparative evaluations because they have not

taken the courses. The most that experts can do is to evaluate the course “content” as reflected in the syllabus and learning activities.

Another approach is to poll users or consumers of a particular product or service and tabulate their opinions. Consumer input, especially when tabulated according to specific factors, can produce valuable information. That is what the Zagat guides and consumer-rating services such as J.D. Powers and Associates do; they rate “polling products,” such as hotels, airlines, and restaurants.

## **Technology: The Cause *and* the Solution**

If technology is the “cause” of the problem—creating a bewildering array of online course choices—perhaps technology can contribute to the solution. The approaches of three popular commercial Web sites suggest ways to solve the problem of undifferentiated information overload. Each of these sites includes sophisticated software that enables multiple parties, including consumers, providers, and experts, to submit and review data about products, services, and transactions.

- Amazon.com (<<http://www.amazon.com>>) enables consumers to gain qualitative information about the books it sells. The online bookstore offers narrative reviews plus a five-star rating system. Two types of reviews are presented: editorial (expert) reviews (e.g., published book reviews) and customer (consumer) reviews. Any visitor can rate the book on the five-star system. He or she can read the full text of each review or can view the star system to obtain a quick summary of customer responses. Customer reviews also are ranked.
- eBay (<http://www.ebay.com>>) offers qualitative information about the trading process through its Feedback Forum. This forum enables customers to rate both the buyer and the seller, a process that produces a “Feedback Profile” consisting of comments from

other traders—an official “reputation.” Members of the online trading community receive +1 point for each positive comment, 0 points for each neutral comment, and -1 point for each negative comment. Stars are awarded for achieving a particular Feedback Profile. Narrative comments comprise about one line. Sellers can also respond to negative comments.

- Zagat.com (<<http://www.zagat.com>>) rates more than 20,000 restaurants in 44 cities worldwide. It offers succinct and accurate feedback on the entire dining experience, including surveyors’ comments and a 30-point food, decor, and service rating, plus cost estimates compiled from millions of annual surveyor reviews. Anyone can rate a restaurant on the quality of its food, decor, and service. A reviewer can also add descriptive comments of no more than 65 words. Visitors to the site can select a particular city and then search for restaurants by entering specific criteria.

What are some of the characteristics of these systems?

- **Preferences**—a way to sort through all of the listings and display the output according to one’s preferences. For example, “I am looking for a Miami restaurant that is open on Sunday and whose maximum meal price is \$40.”
- **Consumer input**—a way for the consumer to express his or her views, as a free-form narrative, as a one-line narrative, or through a ranking system.
- **Ranking**—a simple way for the user to see a summary of consumer reviews, as an aggregate number of positives, a five-point ranking system average, or a ranking system that combines multiple factors.
- **Expert input**—a way for the expert to express his or her views.

In all cases, the software enables easy data input and tabulation. No research studies or surveys need to be conducted.

## How to Build a Consumer-Oriented System

The ideas offered by these three dot-coms can be used to build a system that enables higher education consumers to evaluate and compare multiple online offerings. This system should include preferences, consumer input, ranking, and expert input.

- **Preferences.** Technology can help determine what is important to consumers (their preferences) and then to customize the output displayed as a result. Students only need to see all marketing courses that meet their preferences, not all marketing courses that are available online. All online course databases should enable users to display the output according to subject matter, level, delivery method, cost, required prerequisites, required campus visits, and matriculation requirements.
- **Consumer input.** Rather than asking students whether they “liked” the course, they should be asked specific, structured questions. These questions should be designed to consider the professionals’ perspective—elements that experts believe are necessary to ensure high quality. The high degree of consensus in higher education regarding principles of good practice in distance learning as exemplified by the IHEP benchmarks suggest that these principles can form the basis of the course quality questions. (See Appendix C for an example of how this would work.) Students should also have the option to add a narrative comment.
- **Ranking.** Consumers need a simple way to see a summary of student reviews expressed as a ranking based on a combination of factors. Like visitors to the dot-com sites, students would respond to each

question derived from the IHEP benchmarks using a scale of one to five. Responses to the questions would generate a “satisfaction index” similar to the star rating systems used on the dot-com sites.

- **Expert input.** Relying on experts to assess capacity would be unnecessary in this system, because students would be testifying to actual results. Expert input should focus on providing evidence of effectiveness, especially evidence of learning outcomes.

Input from two kinds of experts is desirable: those who are external to the institution offering the course and those internal to the organization. Internal data include measures such as completion rates, grade distributions, class size, pass rates on standardized examinations, and findings from longitudinal studies. The data would be augmented by online peer review and external input from such experts as consumer protection organizations, formal quality assurance organizations, employers (e.g., data on students’ job success), and graduate and professional schools (e.g., data on students’ future academic success).

Data provided from inside the institution could include information on, for example, completion rates, grade distributions, class size, success rates in subsequent related courses, and pass rates on standardized examinations. It could also include studies by external teams of course quality, support ratios, delivery times, longitudinal studies, and explanations for poor performance (e.g., our old server has been replaced with a new one that works).

## Conclusion

A high degree of consensus exists in higher education on principles of good practice in distance learning. How does one know that institutions and organizations apply these principles? How can these principles be “operationalized”?

Because expert evaluation of every course is a logistical

challenge, quality assurance practice falls back on assessing the capacity of the institution—the “institutional surround”—to deliver the course. Does the institution have demonstrated ability to offer an online or distance learning course? Can the institution provide evidence that it can provide the services needed? Evidence of quality is typically demonstrated by reports on resources and process (how the institution conducts its business—e.g., the teams of people involved in course development).

A better way to demonstrate capacity is to measure results. Rather than assessing the capacity of the campus bookstore to deliver materials to distance students, for example, why not ask the students if they received their materials in a timely fashion? Rather than assessing an institution’s technological capacity, why not ask students how reliable was the technology used in the course? Including students’ responses to structured questions based on the IHEP benchmarks as part of each course produces information about what is actually happening in the course rather than assumptions about what may be happening. This approach would “operationalize” agreed-upon principles of good practice.

What is the relationship between student-informed systems and traditional quality assurance processes? Most experts agree that the characteristics of a good distance learning course are the same as those of a high-quality, face-to-face course, so the same consumer tools could be used for online and on-campus courses. The student-informed course evaluation will eventually reflect on programs and institutions—the domain of accreditation.

The just-in-time, embedded evaluation methodology used by the dot-com sites is a potentially powerful device for higher education because the primary reviewers are consumers. The biggest hurdle to achieving a system that distinguishes legitimately among gradations of quality—rather than creating yet another pass/fail scheme—is gaining acceptance from a higher education system that uniformly detests official qualitative comparisons. For many in higher

education, this idea may be too threatening. Higher education needs to be open to different levels of judgment. These bottom-up models can yield new perspectives that augment existing quality assurance processes.

### *Recommendations for Governors*

- **Promote a customer orientation.** Competitive states in the 21st century will focus on postsecondary customers—learners, employers, and members of the public who support educational opportunities. Educational programs need to be responsive to customer requirements within a strong quality assurance framework. Twenty-first-century learners need more robust, more qualitative, and more differentiated information on educational opportunities.
- **Require consumer (learner) surveys that provide opportunities for student input at all postsecondary institutions and public disclosure of the results.** To make well-informed educational choices in a distributed learning environment, the public needs access to qualitative information about courses and programs in a more systematic and timely way.
- **Take advantage of information technology and the Internet.** These tools should be used to capture and report consumer-oriented information about educational opportunities. Other forms of data collection are outmoded and costly.
- **Support the adoption of a single set of accreditation and licensing standards for all degree-granting institutions.** These standards would apply to on-campus (face-to-face) and off-campus (distance) programs and courses. By holding high expectations for all forms of postsecondary education and by comparing data on outcomes (including student learning) to inputs, states will learn which activities and providers yield the greatest public return on investment.
- **Support the creation of an independent entity to organize a consumer-oriented system for evaluating online courses.** The new entity should neither be institution-based nor government-based. Students and employers access distributed learning courses and programs without regard to geographic boundaries, so states should partner to create this evaluation resource. Strong input from the higher education community is critical to the success of the new entity.

*Note: The National Governors Association Center for Best Practices has a grant from the National Science Foundation to help state policymakers implement consumer-based, course-level quality assurance tools.*



## Appendix A:

# Efforts of Higher Education Associations to Develop Common Standards for Distance Learning Programs

- In the early 1990s, the Western Cooperative for Educational Telecommunications (WCET), a part of the Western Interstate Commission on Higher Education (WICHE), developed “Principles of Good Practice for Electronically Offered Academic Degree and Certificate Programs.” Available at <http://www.wiche.edu/telecom/projects/balancing/principles.htm>, the principles have been widely circulated and adopted by states, regional accrediting associations, and others.
- The American Distance Education Consortium (ADEC), an international consortium of state universities and land-grant institutions, provides high-quality, economic distance education programs and services via the latest and most appropriate information technologies. ADEC has developed the “ADEC Guiding Principles for Distance Learning,” available at [http://www.adec.edu/admin/papers/distance-learning\\_principles.html](http://www.adec.edu/admin/papers/distance-learning_principles.html); and the “ADEC Guiding Principles for Distance Teaching and Learning,” available at [http://www.adec.edu/admin/papers/distance-teaching\\_principles.html](http://www.adec.edu/admin/papers/distance-teaching_principles.html).
- A joint task force of the American Council on Education and The Alliance: An Association for Alternative Programs for Adults produced “Guiding Principles for Distance Learning in a Learning Society,” available at [http://www.acenet.edu/calec/dist\\_learning/dl\\_principlesIntro.cfm](http://www.acenet.edu/calec/dist_learning/dl_principlesIntro.cfm).
- The Instructional Telecommunications Council (ITC), an affiliated council of the American Association of Community Colleges, established in 1977, provides leadership, information, and resources to expand and enhance distance learning through effective technology use. ITC’s new monograph series *Quality Enhancing Practices in Distance Education*, available at <http://www.itcnetwork.org/quality.html>, provides case studies containing best practices in community college distance education including, for example, teaching, assessment, accreditation, and student services.
- The American Federation of Teachers (AFT) recently published “Distance Education: Guidelines for Good Practice,” available at [http://www.aft.org/higher\\_ed/downloadable/distance.pdf](http://www.aft.org/higher_ed/downloadable/distance.pdf). Based on a 1999 survey of 200 AFT members who are distance education practitioners, these guidelines attempt to go deeper than previous guidelines AFT has reviewed.
- In cooperation with WCET, the Council of Regional Accrediting Commissions (C-RAC) recently published the draft document “Guidelines for the Evaluation of Electronically Offered Degree and Certificate Programs.” Available at <http://www.wiche.edu/telecom/Guidelines.htm>, the document updates and elaborates on WCET’s earlier statement.

# Appendix B:

## Institute for Higher Education Policy Benchmarks

### Institutional Support Benchmarks

- A documented technology plan that includes electronic security measures (i.e., password protection, encryption, back-up systems) is in place and operational to ensure both quality standards and the integrity and validity of information.
- The reliability of the technology delivery system is as failsafe as possible.
- A centralized system provides support for building and maintaining the distance education infrastructure.

### Course Development Benchmarks

- Guidelines regarding minimum standards are used for course development, design, and delivery, while learning outcomes—not the availability of existing technology—determine the technology being used to deliver course content.
- Instructional materials are reviewed periodically to ensure they meet program standards.
- Courses are designed to require students to engage themselves in analysis, synthesis, and evaluation as part of their course and program requirements.

### Teaching/Learning Benchmarks

- Student interaction with faculty and other students is an essential characteristic and is facilitated through a variety of ways, including voice-mail and/or e-mail.
- Feedback to student assignments and questions is constructive and provided in a timely manner.
- Students are instructed in the proper methods of effective research, including assessment of the validity of resources.

### Course Structure Benchmarks

- Before starting an online program, students are advised about the program to determine (1) if they possess the self-motivation and commitment to learn at a distance; and (2) if they have access to the minimal technology required by the course design.
- Students are provided with supplemental course information that outlines course objectives, concepts, and ideas, and learning outcomes for each course are summarized in a clearly written, straightforward statement.
- Students have access to sufficient library resources that may include a “virtual library” accessible through the World Wide Web.
- Faculty and students agree upon expectations regarding times for student assignment completion and faculty response.

### **Student Support Benchmarks**

- Students receive information about programs, including admission requirements, tuition and fees, books and supplies, technical and proctoring requirements, and student support services.
- Students are provided with hands-on training and information to aid them in securing material through electronic databases, interlibrary loans, government archives, news services, and other sources.
- Throughout the duration of the course/program, students have access to technical assistance, including detailed instructions regarding the electronic media used, practice sessions prior to the beginning of the course, and convenient access to technical support staff.
- Questions directed to student service personnel are answered accurately and quickly, with a structured system in place to address student complaints.

### **Faculty Support Benchmarks**

- Technical assistance in course development is available to faculty, who are encouraged to use it.
- Faculty members are assisted in the transition from classroom teaching to online instruction and are assessed during the process.
- Instructor training and assistance, including peer mentoring, continues through the progression of the online course.
- Faculty members are provided with written resources to deal with issues arising from student use of electronically-accessed data.

### **Evaluation and Assessment Benchmarks**

- The program's educational effectiveness and teaching/learning process is assessed through an evaluation process that uses several methods and applies specific standards.
- Data on enrollment, costs, and successful/innovative uses of technology are used to evaluate program effectiveness.
- Intended learning outcomes are reviewed regularly to ensure clarity, utility, and appropriateness.

Source: Institute for Higher Education Policy, *Quality on the Line: Benchmarks for Success in Internet-Based Distance Education* (Washington, D.C.: Institute for Higher Education Policy, March 2000). Available at <http://www.ihep.com/quality.pdf>.

## Appendix C:

### Student Questions about Course Quality

#### Based on Institute for Higher Education Policy Benchmarks

- How reliable was the technology used in the course?
- Was the technology—e.g., Web sites, course management software—easy to use?
- Was the course content relevant to your educational and professional goals?
- Was the course up to date?
- How challenging was the course? Were expectations for performance set high and within reason?
- Did you receive sufficient help when you needed it?
- Was there sufficient feedback to help you achieve your learning goals?
- Was there sufficient interaction with other students to meet your needs?
- Was there sufficient interaction with the instructor to meet your needs?
- Did course activities contribute to your learning goals as opposed to being a “waste of time”?
- Was the information you received before enrolling in the course accurate and adequate?
- Did you have sufficient access to learning resources (e.g., libraries and databases)?
- Were course expectations clear?
- Did the course experience match the expectations?
- Were assignments and learning activities clear?
- Were evaluations (interim and final) fair?
- Did you receive information about policies, procedures, and support services (registration, payment procedures, financial aid, etc.) that you needed?
- Were your questions answered accurately and in a timely fashion?
- Were complaints addressed adequately?
- Did you receive course materials in a timely fashion?
- Did you receive adequate technical assistance?
- Did you know how to access online resources?
- Was the course worth its cost?
- Was the course flexible enough to meet your needs?

Source: The Pew Learning and Technology Program, *Quality for Whom? Providers and Consumers in Today's Distributed Learning Environment* (Troy, N.Y.: The Pew Learning and Technology Program, 2001).

# Lessons from the Innovators: The For-Profit Sector

*By*  
**Richard S. Ruch**

## Summary

*One of the most significant changes in the U.S. higher education industry in the past decade has been the creation of publicly held corporations that own and operate college and university campuses. For-profit postsecondary education providers have taken their cues from traditional institutions, for they have essentially taken the traditional model of higher education (students seated in the classroom and a professor teaching up front) and subjected it to modern principles of operations management, cost accounting, financial management, and marketing. The result has been an efficient, cost-effective, alternative route to a college degree, albeit with a more limited focus on pragmatic, applications-oriented instruction. Governors are advised to support the expansion of this sector, as well as encourage other institutions to adopt some of its cost-containment strategies.*

## Growth of For-Profit Higher Education Institutions

For the past 10 years, for-profit higher education has been the only segment of the higher education industry to demonstrate growth. During the 1990s, about 220 traditional nonprofit colleges and universities closed their doors, while about 400 new for-profit campuses opened.<sup>1</sup> In 1991 only one accredited, degree-granting for-profit educational provider (DeVry, Inc.) was listed on the stock exchanges; today the NASDAQ and the New York Stock Exchange list about 40 such companies. Between 1994 and 1999, more than \$4.8 billion in private investment capital was raised by these companies, through 30 initial public offerings and 30 follow-on offerings, to support new entries into the for-profit higher education market.<sup>2</sup> These companies alone represent about 350 individual campuses serving about 500,000 students. The total number of for-

profit degree-granting institutions in the U.S. is approximately 750, with a combined total enrollment of about 750,000 students.<sup>3</sup>

At the same time, several major nonprofit universities, such as Columbia, Cornell, New York University, Stanford, and the University of Maryland, have created for-profit divisions within their organizational structures. The for-profit segment will continue to grow over the next decade, perhaps reaching 25 percent of the higher education industry, in terms of total dollars spent annually (\$350 billion in 2000).<sup>4</sup>

These are not “proprietary” schools in the traditional sense of the word—they are not among the thousands of schools owned by one or more proprietors that offer training and certification in such trades as tourism, auto-

otive mechanics, and cosmetology. Instead, these new for-profit providers are large university systems owned and run by publicly held corporations, offering accredited degree programs at the associate's, bachelor's, master's, and doctoral levels. It is noteworthy that students attending these institutions are being educated at no expense to taxpayers.

## Students Served

The students who attend for-profit universities are as diverse as those attending most institutions, ranging from 18-year-olds just out of high school to middle-age professionals looking for career advancement. A third of the 50,000 undergraduate students enrolled at the DeVry Institutes, for example, are recent high school graduates and fit the demographic profile of typical college freshmen.<sup>5</sup> Most of the 20,000 students attending Education Management Corporation's art institutes are in their early 20s and are unemployed or employed part-time in jobs they want to leave.<sup>6</sup> The typical student enrolled at the University of Phoenix, with an enrollment of 100,000, is 35 years old, employed full-time at a professional level, and earns an annual income of \$56,000. At the University of Sarasota, an Argosy Education Group campus specializing in doctoral programs in business and education, the average age of students is 41.<sup>7</sup>

As indicated by these data and confirmed by the statistics maintained by the National Center for Education Statistics (NCES), older adults represent a higher proportion of students attending for-profit institutions than they do at nonprofit institutions. More than 50 percent of the students attending for-profit institutions are age 30 or older, with another 30 percent between ages 18 and 23, and the remaining 20 percent between 24 years and 29 years old.<sup>8</sup> A higher proportion of students attending for-profit schools are financially independent, have dependents other than a spouse, and are single parents, compared with students attending traditional public and private institutions.<sup>9</sup> The majority of students attending for-profit universities are employed 35 or more hours per week. An NCES

report released in March 2000 indicates that nearly half the undergraduates attending for-profit institutions in 1995–1996 were classified as low-income students, compared with 21 percent to 26 percent attending nonprofit institutions.<sup>10</sup>

Women and minorities represent a high percentage of the students attending for-profit institutions. Of the top 100 institutions conferring degrees on people of color in 1998, proprietary colleges were major players.<sup>11</sup> *Black Issues in Higher Education* reported in 1998 that the top producers of minority baccalaureates in engineering-related technologies and in computer and information sciences were for-profit institutions.<sup>12</sup> At the DeVry Institutes nationwide, approximately 40 percent of the students are African American; about 41 percent of the students enrolled at Strayer University campuses are African American.<sup>13</sup> Hispanics constituted 8 percent of students attending four-year for-profit colleges in the 1991–1992 academic year, and this proportion grew to 18 percent by 1995–1996.<sup>14</sup> Women accounted for 53 percent of the for-profit enrollment in 1991–1992 (67 percent in less-than-four-year for-profit institutions); the author estimates that women represented at least 50 percent by 1999–2000.<sup>15</sup>

In summary, a typical student pursuing a degree at a for-profit university generally fits the following demographic profile: 27 year-old female, ethnic minority (African American, Hispanic, or Asian), U.S. citizen, married, one or two dependents, holding a full-time or part-time job while attending school full-time, and having some prior college experience. This student probably had mixed success in prior college work, but has come to the realization that a college degree is the most sensible and effective route to a better job, a higher standard of living, and opportunities for career advancement. She is motivated and serious about education for perhaps the first time in her life. She sees higher education as a means to an end—a practical step toward a better future, greater economic security, and more options in life. In pursuing her degree, she is struggling to juggle the responsibilities of school, work, and family.

How long this will take, how much she will have to sacrifice to achieve this goal, and how much it will cost are all vital questions for her. She is financing her education the same way most students do: through a combination of financial aid grants and loans and her personal savings.

## **What Students Look for from the For-Profit Providers**

The students served by for-profit colleges and universities tend to seek four kinds of benefits.

### ***Businesslike Relationship***

Students who attend for-profit colleges and universities place a high value on having a businesslike relationship with their educational provider. They tend to be highly motivated students with a clear sense of their educational goals. In the economic exchange of their tuition and fees for an educational program, they expect to receive an appropriate and relevant education and to be treated as valued customers. They expect efficiency in processes, such as registration for classes, convenience in terms of class scheduling, and timely responsiveness to questions and problems. They have little tolerance for poor teaching, extraneous material, or disruption in the classroom. If they are not satisfied with the education they are receiving, they will exercise their rights to complain, take legal action, or go elsewhere.

### ***Expediency***

Because they are mostly older, working adults with families and are juggling many responsibilities in addition to their continuing education, students who attend for-profit institutions look for expediency in educational delivery. They expect to be able to attend year-round; to take classes during the daytime, evenings, and weekends; and to develop class schedules that fit into their existing lifestyles. They expect a high level of technological sophistication in both instructional technology and in their dealings as customers with the institution. They want almost everything to be available through the Internet: all class materials, library holdings, and all forms they may need to fill out. In

general, they look for an up-to-the-minute education that doesn't cost an arm and a leg and won't take forever to complete.

### ***Engagement and Rigor***

These students expect that the education they receive from a for-profit provider will actively engage them in a rigorous learning process. They are not looking for an easy way out or to “buy” their degree. Many are experienced and savvy educational consumers who expect high-quality teaching and meaningful interaction with faculty and other students. They expect to be challenged by a rigorous educational experience that requires them to work hard and that will result in real learning they can apply to their careers.

### ***Career-Launching***

Finally, these students expect that successful completion of their educational program will provide them with the knowledge base, skills, and credentials needed to launch or advance a career in a field directly related to their education. This is the essential educational outcome these students seek. While they may not expect their educational provider to get them a job, they do expect their education to provide the tools and support needed to make it happen.

## **The Question of Educational Quality in the For-Profit Sector**

Many traditional educators have assumed that an institution with an educational mission cannot or should not be run on a for-profit basis—that the profit motive has a corrupting influence on the values of an educational institution. Further, it has sometimes been assumed that a strong customer orientation may lead the faculty to give away good grades for the sake of happy customers. The new for-profit providers are demonstrating that the profit motive can indeed coexist with an educational mission and that greater financial accountability and a sharper focus on educational outcomes can result when a publicly

held company manages a college or university campus. There has been no evidence that a strong customer orientation leads to higher levels of grade inflation.

In fact, it is not unreasonable to assert that the profit motive is alive and well in nonprofit colleges and universities; they need to generate revenue in excess of expenditures to realize the capital needed to reinvest in the institution. Most nonprofit institutions are also striving to develop a stronger customer orientation. Indeed, the real distinction between for-profit and nonprofit universities is probably not a matter of profitability, but of taxation and accountability. The for-profit institutions pay taxes; the nonprofits are tax exempt and do not distribute profits to their owners. Like the nonprofits, the for-profits are accountable to state licensing regulators and regional and professional accrediting bodies, but they also have additional accountabilities to stockholders and to the Securities and Exchange Commission. As for-profit businesses, they also tend to have a more stringent performance review process and hold their managers and faculty members more accountable for results.

## **Two Guardians of Quality: Accreditation and the Consumer Marketplace**

Two distinct guardians of quality are at work in the higher education industry. One is the accreditation process. In simple terms, accreditation verifies that a “proper college education,” consistent with the institution’s mission and meeting or exceeding thresholds of approved standards of education quality, is attainable at an institution. The accreditation process is not perfect, but the vast majority of institutions appear to find it helpful in addressing problems and improving overall quality.

For-profit education providers treat accreditation as a business objective. They have demonstrated that meeting accreditation standards is essentially the direct result of properly allocating resources. The standards themselves, whether pertaining to faculty credentials or the adequacy

of the library, are surrogate measures of a quality education, but they do not guarantee quality. Within the universe of accredited colleges and universities, there is obviously wide variability of institutional quality in both the non-profit and for-profit sectors.

The regional accreditation associations are currently in the process of reexamining both the standards for accreditation and the processes used to assess institutional compliance with them. It is fair to say that these standards are both descriptive and prescriptive. To some extent, the standards are derived from descriptions of “good” institutions and are then used as a prescriptive base for all institutions. The process of making the standards prescriptive inevitably encounters different descriptive possibilities. The for-profits posit that “good” institutions should be responsible stewards of financial, human, and physical resources, held accountable for their efficient and effective use. Questions of institutional quality are thereby modified to encompass a different set of values. The art and science of accreditation depends on achieving a balance between descriptive and prescriptive realities. At its best, the process remains open in both the application of existing standards and in their modification in response to other demonstrations of institutional quality.

The other guardian of institutional quality is the free market economy itself. At its best, the marketplace functions as a system of checks and balances in which good products and services are sustained by the buying public, while poor products and services eventually lose their markets to better competitors.

In the simplest of terms, marketplace in this context refers to the relationship between the demand for certain kinds of higher education and the response by institutions in addressing these demands, as measured by enrollments. In other words, the marketplace is a point of exchange between providers and consumers of higher education. As a guardian of institutional quality, the marketplace is quite limited by what it reveals about an institution and how it functions to improve quality. Educational quality

cannot be determined by the market alone, for the marketplace is attuned solely to current demands and does not necessarily account for the larger needs of society. Perhaps there are inevitable tensions between individual perceptions of need, such as one's economic earning power, and the needs of human community and society. It may be reasonable to assume that some institutions must swim against the current tide of the marketplace to preserve values that extend beyond such goals as improving individual economic earning power.

What the marketplace does reveal, however, is useful in assessing how well an institution is attuned to current market demands and how effectively it is meeting the expectations of educational consumers. Consumer market responsiveness has become an increasingly important aspect in measuring institutional quality in higher education, just as it has in other service industries, such as health care and financial services. The rise of for-profit providers has ushered in a new level of marketplace accountability in higher education, and such accountability is likely to be increasingly demanded of the majority of nonprofit colleges and universities.

## **What the Nonprofits Can Learn from the For-Profits**

Access to higher education by students of all backgrounds and ability levels is one of the strengths of the American system. Another strength is the diversity of colleges and universities within the system itself, providing students with choices and options for pursuing their education. The diversity of institutional missions allows many institutions to excel in particular areas, whether providing basic scholarship in certain fields or serving the local community with associate-degree programs. The for-profit providers represent another form of institutional and mission diversity, one that serves a useful purpose and contributes to the overall vitality and breadth of the higher education industry.

The for-profits have taken their cues from traditional institutions, for they have essentially taken the traditional model of higher education—students seated in the classroom and a professor teaching up front—and subjected it to modern principles of operations management, cost accounting, financial management, and marketing. The result has been an efficient, cost-effective, alternative route to a college degree, albeit with a more limited focus on pragmatic, applications-oriented instruction. In considering what traditional nonprofit colleges and universities may learn from these successful for-profit institutions, three broad areas for change suggest themselves: responding to market forces, redefining shared governance, and developing a strong customer orientation.

### ***Responding to Market Forces***

Aside from the 110 to 120 major research universities and an equal number of premier liberal arts colleges, by far the majority of American colleges and universities today are in the business of educating the workforce.<sup>16</sup> To educate the workforce, institutions must be in touch with the needs of the workplace, and the workplace is undergoing a profound transformation. One way to document this transformation is to consider how long it now takes new products and services to reach a 25-percent market share. For example, it took an estimated 46 years for household electricity to achieve a 25-percent market-share penetration. The telephone took 35 years to penetrate 25 percent of its potential market, and the VCR took 34 years. The personal computer, however, took only 15 years, the cellular telephone 13 years, and the Internet 7 years.<sup>17</sup> These increasingly rapid rates of market penetration have not occurred in isolation, but have been accompanied by changes in the educational and training needs of many large industries and the workforce in general.

For these reasons, the majority of higher education institutions must become more responsive to the market forces that affect the education and training needs of the students they serve. Responsiveness to the market will lead to the changes governors seek from public institutions.

These changes include more tightly focused institutional missions, outcomes-based quality assurance processes, and resource reallocation from weak to strong academic programs.<sup>18</sup> The question and the challenge is not whether to become more responsive, but how to do so with a system of decisionmaking that inhibits quick decisions and rapid response to change.

### ***Redefining Shared Governance***

The term “shared governance” describes a system of inclusiveness and participation in decisionmaking used by most nonprofit colleges and universities. Shared governance gives faculty and staff input before major decisions are made. However, the concept of shared governance has evolved on many campuses into a system of decisionmaking that is unworkable. For many presidents, provosts, and deans, shared governance reduces leadership to the process of making compromises and finding the “middle ground,” rather than choosing the optimal solution.

A new model is needed. The lesson of the for-profits is that a reasonable level of participation and inclusiveness can coexist within a more traditional academic management structure in which authority for making decisions is granted to those in leadership positions. Less reliance on shared governance does not necessarily result in harm to the academic culture, and a number of faculty on the for-profit side actually report feeling relieved to be freed from excessive participation in governance so they can focus on their work as professors.<sup>19</sup> While the for-profit providers may not have found the perfect solution to the problem of shared governance, they have demonstrated that a more traditional management culture can work in an academic institution.

Perhaps every institution needs to find its own center of gravity in these matters. Many policymakers advocate redefining shared governance to allow those in positions of authority to make timely and responsive decisions, and to

break free from what one observer describes as the political power struggle in which “decisions go round and round in circles, and the best one can hope for in the political battle is a temporary win.”<sup>20</sup>

### ***Developing a Strong Customer Orientation***

The strong customer-service orientation of the for-profit colleges and universities is one of the reasons that a growing population of students is choosing to attend those institutions.<sup>21</sup> Treating students like customers does not mean they cease being students as well, but it does mean the institution becomes more responsive to students and makes effectively serving those students the highest priority. Many students today respond well to a more professional, businesslike relationship with their educational provider.

### **Recommendations for Governors**

The growth of for-profit colleges and universities is contributing to the overall improvement of the higher education industry in the United States, particularly in the areas of greater market responsiveness, higher levels of customer service to students, greater levels of accountability for financial resources, and a more effective focus on performance-based outcome measures. To continue these kinds of positive trends, governors are urged to do three things.

**1. Encourage the expansion of institutional diversity within the higher education community.** Include for-profit providers that meet licensing and accreditation standards in the state’s postsecondary community. Doing so provides greater consumer choice and encourages healthy competition—among all educational institutions—to improve quality, customer service, and market responsiveness.

## **2. Advocate for a single set of performance-based accreditation and licensing standards for all degree-granting educational institutions.**

States should require all institutions of higher education to meet the same standards, regardless of whether the schools are organized on a nonprofit or for-profit basis. Several states and regions have on their books a different, often more stringent and limiting set of standards for the for-profit schools. A single set of standards helps ensure a level playing field and clarifies expectations for consumers and for all higher education institutions. The standards themselves should reflect the importance of outcome measures (e.g., graduation rates, career placement rates for graduates) as well as the more traditional input measures (e.g., admissions standards, faculty credentials).

## **3. Insist on demonstrated improvements in educational cost containment and efficient management of educational resources.**

To begin, governors can sponsor a statewide conference. The meeting should focus on how nonprofit college and university administrators can modify and adopt the academic governance and, where feasible, the business practices of the accredited, for-profit universities. The future of higher education will be well served by bringing the nonprofit and for-profit sectors into closer relationship and even partnership.

Powerful next steps governors can take require changing the financial incentives for public institutions. For example, these incentives may include larger, more flexible student financial aid awards, performance-based appropriations for public institutions, or public seed dollars to partner with other institutions and private industry on the development of new, competency-based certifications and degrees.

---

---

## **About the Author**

From 1996 until September 2000, Richard S. Ruch served as Dean of Academic Affairs at DeVry College of Technology in North Brunswick, New Jersey. Prior to that, he was the Dean of the College of Business Administration at Rider University in Lawrenceville, New Jersey, for 13 years. He has also held faculty and administrative positions at Kansas State University and the University of Miami, and has worked as a management consultant for several universities and a number of Fortune 500 companies. He is currently a full-time graduate student at Princeton Theological Seminary. He holds a Ph.D. in communications from Rensselaer Polytechnic Institute and did postdoctoral study in higher education at Harvard University, through Harvard's Institute for Education Management. He is the author of *Higher Ed, Inc.: The Rise of the For-Profit University* (Baltimore, Md.: Johns Hopkins University Press, 2001), and co-author of *Image at the Top: Crisis and Renaissance on Corporate Leadership* (Baltimore, Md.: The Free Press, 1983). For *Higher Ed, Inc.*, Ruch was awarded the 2002 Beeman Award for Outstanding Published Scholarship in Communications, Council for Advancement and Support of Education (CASE).



## Endnotes

---

<sup>1</sup> Richard S. Ruch, *Higher Ed, Inc. The Rise of the For-Profit University*. (Baltimore, Md.: Johns Hopkins University Press, 2001), p. 4.

<sup>2</sup> Ibid., p. 63

<sup>3</sup> Ibid., p. 4.

<sup>4</sup> Ibid., p. 9.

<sup>5</sup> Ibid., p. 29.

<sup>6</sup> Ibid., pp. 33-34

<sup>7</sup> Ibid., p. 29.

<sup>8</sup> Ibid., p. 31.

<sup>9</sup> Ibid.

<sup>10</sup> Ronald A. Phipps, Katheryn V. Harrison and Jamie P. Merisotis, *Students at Private, For-Profit Institutions* (Washington, D.C.: National Center for Education Statistics, U.S. Department of Education, November 1999).

<sup>11</sup> “Proprietary Preference: For-Profit Colleges Gain Momentum in Producing Graduates of Color,” *Black Issues in Higher Education* (July 9, 1998), p. 30.

<sup>12</sup> Ibid.

<sup>13</sup> Richard S. Ruch, *Higher Ed, Inc. The Rise of the For-Profit University* (Baltimore, Md.: Johns Hopkins University Press, 2001).

<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Ibid, p. 150.

<sup>17</sup> Ibid.

<sup>18</sup> These changes are ones sought by governors responding to increased demands for postsecondary education across the population. A resource-limited environment contributes to governors sense of urgency that postsecondary institutions respond.

<sup>19</sup> Richard S. Ruch, *Higher Ed, Inc. The Rise of the For-Profit University* (Baltimore, Md.: Johns Hopkins University Press, 2001), p. 153.

<sup>20</sup> Daniel Julius, “Case Studies from the Floor: Getting Down to Brass Tacks” (presentation at the “Market-Driven Higher Education” conference, hosted by *University Business* magazine, New York City, October 7, 1999).

<sup>21</sup> Richard S. Ruch, *Higher Ed, Inc. The Rise of the For-Profit University*. (Baltimore, Md.: Johns Hopkins University Press, 2001), p. 153.

