



## Sizing Up the Competition The Contours of For-Profit Higher Education

In an era of financial uncertainty and inconsistent public support for higher education, the potential competitive threat posed by for-profit colleges has generated growing anxiety among their public and private/nonprofit peers. The University of Phoenix, whose enrollment ballooned from 10,000 undergraduates to 45,000 in only a decade, is the most prominent example of a for-profit institution that has gained not only students but also notoriety, media attention, and, in widening circles, respectability.

What has caused concern is the legitimacy that for-profit institutions are earning as they increasingly obtain accreditation and therefore access to a greater share of government-funded student financial aid. Perceptions that two- and four-year for-profit institutions are delivering improved educational quality are evident in the evolution of their monikers, from “proprietary schools,” to “trade colleges,” to the more recent “accredited career colleges.” And while for-profits maintain an emphasis on applied education for career preparation, they also incorporate general education into their technical programs and offer extensive student support services. As these institutions have adopted more of the features of traditional postsecondary institutions, the financial and educational distinctions between the two sectors have also blurred.

Despite the growing prominence of for-profits in the educational arena, there is little systemic information available about this sector of the postsecondary enterprise. How many students do these institutions enroll? By how much has that number grown? Are their students similar to those at their nonprofit counterparts? Do they offer similar degrees? Charge the same price? This issue of *The Landscape* provides initial answers to these questions, featuring new exploratory research that examines the growth of the for-profit sector relative to more traditional colleges and universities and addresses specific concerns about their potential challenge to community colleges.

### Market Research

To help provide an empirical foundation for discussing the growth of for-profit institutions in higher education, NCPI Executive Director Patricia Gumport of Stanford University



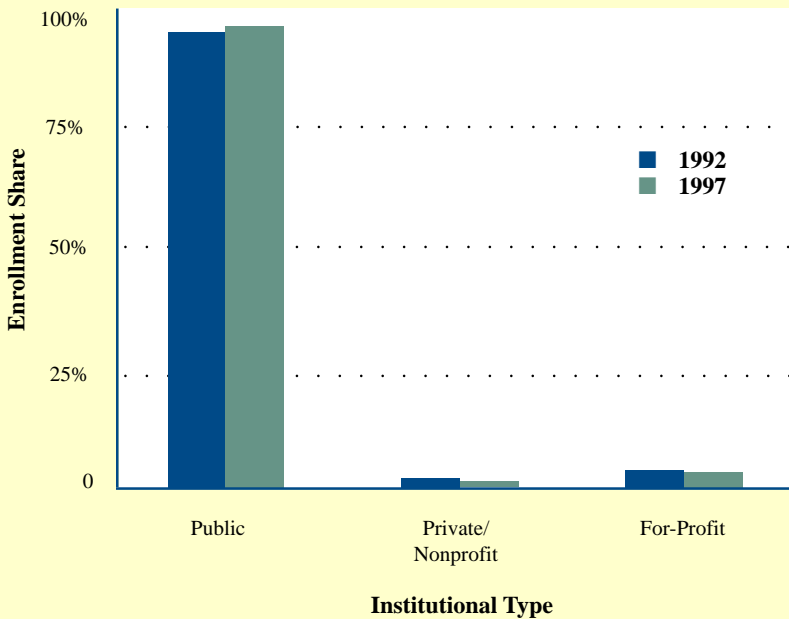
and NCPI researchers Thomas Bailey and Norena Badway of the Community College Research Center at Columbia University’s Teachers College compared students and programs in the for-profit and nonprofit sectors of higher education. The project’s objective was to determine whether and how these two types of institutions are competitive or complementary—and, if they are competitive, how community colleges in particular have responded.

The researchers used an exploratory design that examined available national data to provide an overview of for-profit education and then conducted qualitative case studies comparing branches of a for-profit college chain to three nearby public community colleges. The information provided here draws on the project’s analysis from the Integrated Postsecondary Educational Data System (IPEDS), which collects annual, self-reported data on the scope and scale of higher education institutions.

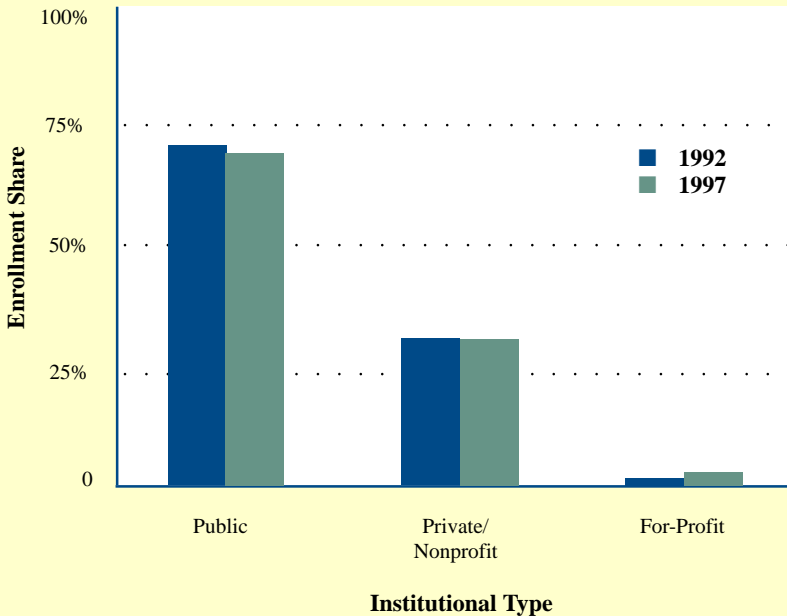
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**Chart 1.**  
**Enrollment Share at Two-Year Institutions in 1992 and 1997, by Sector.**



**Chart 2.**  
**Enrollment Share at Four-Year Institutions in 1992 and 1997, by Sector.**



Does the market share of for-profit institutions indicate that they threaten to draw students away from private/nonprofit and public colleges and universities? Chart 1 compares enrollment at two-year institutions in 1992 with their enrollment in 1997. The clear signal is that public community colleges continue to dominate overwhelmingly the two-year market, suggesting that the for-profit sector remains only a minor player among these institutions. While total enrollment among all two-year institutions fell, for-profits actually accounted for a smaller share of enrollments in 1997 than in 1992. Weakening their market position may be the fact that a large majority of for-profits are not regionally accredited: in 1997-98, only 14 percent of all two-year for-profit institutions were accredited, while 69 percent of private/nonprofit and 99 percent of public two-year institutions were accredited.

Chart 2 displays similar data on four-year institutions, but reveals a different picture in the baccalaureate segment of the market. Although for-profits accounted for less than 2 percent of student enrollment in four-year institutions in 1997, their total enrollment share increased by almost one percentage point in only five years. At the same time, enrollment share dropped at public four-year institutions and remained relatively stable at private/nonprofit four-year institutions. In sharp contrast to their two-year counterparts, approximately 60 percent of four-year for-profit institutions are regionally accredited. The potential to penetrate the market for student enrollments may be much stronger—though not yet demonstrated—among four-year than among two-year for-profit institutions.

Does the mix of students—primarily, the enrollment of minority students—and attendance patterns differ across institutional type and sector? Chart 3 answers this question by reporting the percentage of African

**Threat Assessment**

The test of any enterprise’s competitive strength can be measured by comparing its market share, pricing, and product attributes with those of its com-

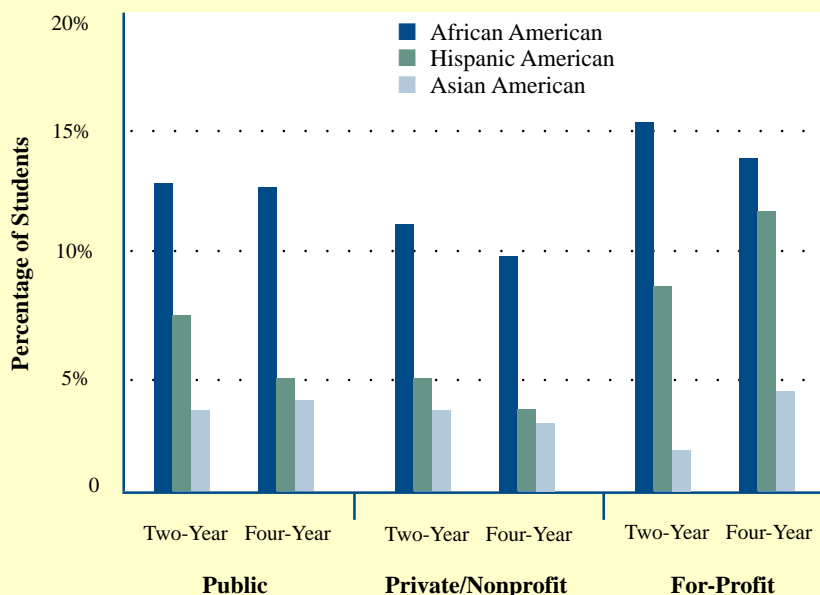
petitors. When contrasting for-profit and nonprofit higher education, those measures are best represented by enrollment figures, student demographics, tuition and financial aid, and degree production.

American, Hispanic American, and Asian American students attending two- and four-year institutions by sector. Minority students, particularly those who are African American and Hispanic American, account for a larger share of enrollment in for-profit colleges than in the two remaining sectors. In addition, other IPEDS data suggest that most students at for-profit colleges attend school full-time: 87 percent at two-year for-profit institutions, and 81 percent at four-year institutions (Chart 4). It is the public two-year college, by far, that is the most important provider of education for part-time students, enrolling 55 percent of its students part-time.

Price is always a factor in market competition. Do for-profit and traditional postsecondary institutions charge similar prices for similar degrees? For this measure, it is helpful to compare both an institution's *sticker price* (the tuition it advertises to students) and its *discounted price* (the net tuition it charges students after factoring in government-funded and institutional financial aid). Not surprisingly, average sticker price at two-year for-profit colleges is substantially higher than at public community colleges (Chart 5). A larger amount of tuition is covered by financial aid for students enrolled at for-profit institutions than for those attending public colleges. Yet the net tuition remains approximately \$4,000 higher for the two-year for-profits and over \$5,000 higher for the four-year for-profits. Some students at for-profit colleges may receive tuition reimbursement from their employers, offsetting the higher price; however, national data do not track this trend. In all, public and private/nonprofit institutions may still prove to be a considerably less expensive alternative for many postsecondary students.

Finally, do the educational products each institution yields—the degrees or certificates it awards—help to differentiate its sector's role in the postsecondary market? Among the credentials conferred at two-year institutions, the

**Chart 3.**  
**Percentage of Minority Students Enrolled, by Institutional Type and Sector.**



public sector accounted for 87 percent of all associate's degrees and 84 percent of all associate's degrees and certificates combined. On the other hand, certificates account for only 35 percent of the credentials awarded by public two-year colleges, while they comprise 57 percent of those awarded by two-year for-profits. More than two-year public or private/nonprofit colleges and universities, for-profit institutions tend to focus on granting certificates rather than awarding degrees.

Similarly, for-profits account for a very small share of the degrees and certificates awarded by four-year institutions. In 1997, they produced only 2 percent of all credentials awarded by four-year institutions, and less than one percent of all bachelor's degrees. The most interesting finding: while approximately 12,000 students received baccalaureate degrees from four-year for-profit institutions, over 13,000 were awarded associate's degrees. Unlike either its public or private/nonprofit counterparts, the

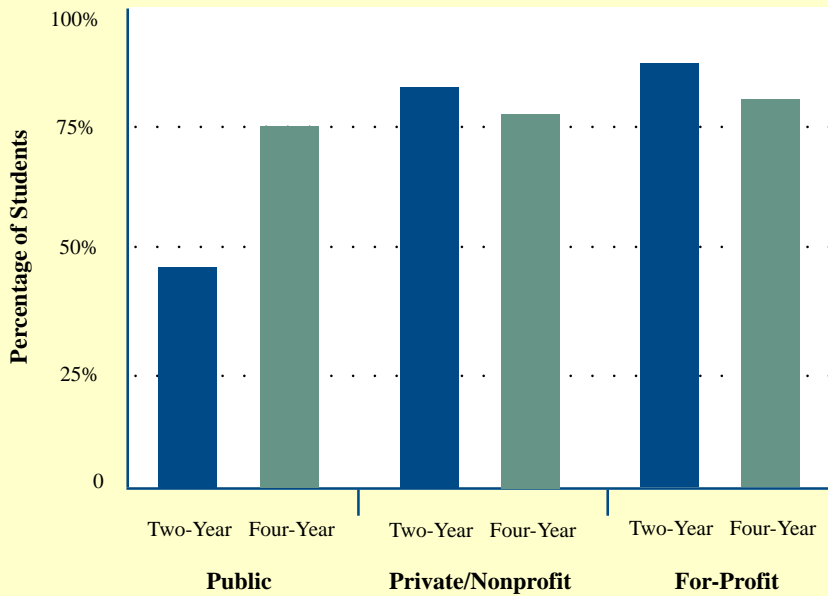
typical four-year for-profit college is much more likely to confer associate's and bachelor's degrees in equal measure.

### Perspective

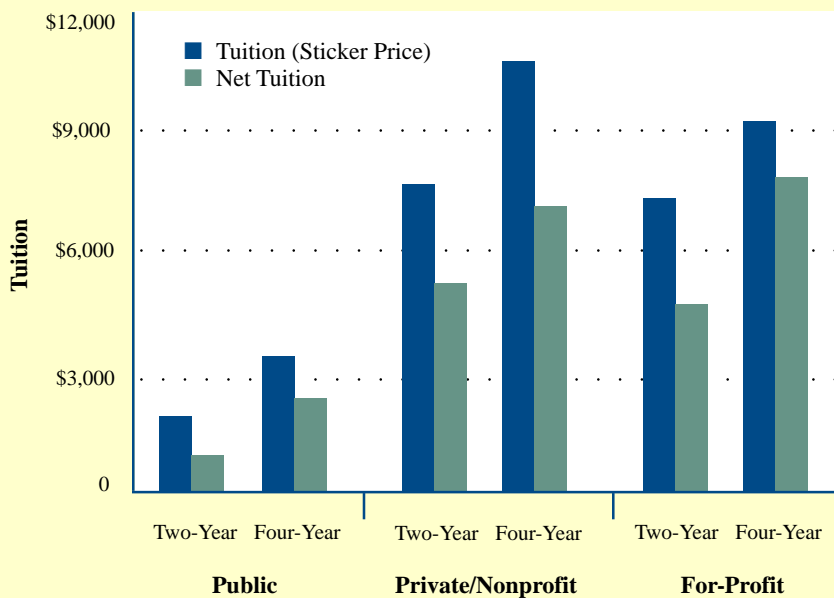
Overall, these data hardly reflect a strong competitive threat emerging from the for-profit sector, even after five years of rising prominence. Despite the growing acceptance of many for-profits as regionally accredited institutions, their share of enrollment remains small among both two- and four-year institutions, although four-year enrollments are growing slowly. Degree production—even among four-year institutions—tends to be certificate-focused, providing a limited range of obvious links to students' immediate skill and career objectives.

However, while hand-wringing may be an extreme response, neither is complacency in order. It is highly likely that enrollment numbers in the for-profit sector have grown since 1997, and it is equally possible that the enrollments have been under-

**Chart 4.**  
**Percentage of Undergraduates Enrolled Full-Time, by Institutional Type and Sector.**



**Chart 5.**  
**Sticker Price and Net Tuition, by Institutional Type and Sector.**



reported—particularly since so many for-profit institutions are not regionally accredited and are thus ineligible for government-funded student financial assistance.

In addition, for-profits account for a disproportionately larger share of completed certificates and associate’s degrees than their share of enrollments would warrant, suggesting that their students are more likely than those at community colleges to complete their programs. It is not clear whether this higher completion rate results from lower standards, greater initial selectivity, or better student support services. The case studies conducted in conjunction with the data analysis reported here do suggest that some for-profits have more focused and coordinated student services and have highly effective job placement systems based on extensive relationships with local businesses. Unless traditional institutions can improve these types of services, the for-profits may well gain ground over community colleges, especially among students with clear occupational goals.

Finally, four-year for-profit institutions confer roughly as many associate’s degrees as they do bachelor’s degrees, indicating that community colleges must consider four-year for-profit schools as in their league when evaluating the competition. This point may be relevant to ongoing discussions within public postsecondary systems about whether their community colleges should begin to offer applied bachelor’s degrees and whether their four-year colleges should confer associate’s degrees. Advocates argue that there is a market for the applied BA, especially among students who begin their postsecondary education at community colleges. Critics worry, however, that if community colleges emphasize bachelor’s degrees, they will lose sight of their institutional mission to provide broad access to postsecondary education. Regardless, for-profits are not tied to such societal mandates and thus are better able to provide programs that combine two- and four-year degrees—programs that may become attractive to some, although certainly not all, community college students. □