

FEBRUARY 25, 2011, 6:00 AM

## The Merits of For-Profit Colleges

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Are there any merits to for-profit colleges? Those following the news for the last several months could be forgiven for thinking the answer is “no.” The sustained flurry of bad press has included a [federal report](#) on deceptive recruitment practices at for-profit colleges, [Congressional investigations](#) juxtaposing the colleges’ rising profits against their low completion rates and new [federal student loan data](#) showing that students at these schools borrow more and default more frequently than those at public institutions.

These reports are rightfully alarming, to the point that reasonable people might wonder whether for-profit institutions have any legitimate place in our higher education landscape. To bring some balance to the conversation, however, I want to raise the possibility that at least some of these schools may be doing at least some things from which the traditional sector could learn.

For example, while for-profit schools have been criticized for their [high reliance on federal financial aid dollars](#), they also do a good job of ensuring that needy students receive the aid for which they are eligible. Many public institutions do not. [Data](#) from the Education Department show that nearly 88 percent of full-time low-income students at private for-profit colleges received a Pell Grant, compared with 61 percent of similar students at community colleges and 76 percent at public four-year colleges.

Students often have difficulty navigating the [complex federal financial aid process](#) on their own. For-profit institutions seem to devote more resources to student services, including financial aid application assistance, than do comparable public colleges. One [in-depth study](#), for example, found that students at well-established private occupational colleges (including four for-profits and three nonprofits) faced fewer bureaucratic hurdles in applying for aid than did students at comparable public community colleges.

At the extreme, financial aid assistance can morph into financial aid fraud. Yet there ought to be a happy medium somewhere between encouraging students to file fraudulent federal aid applications and leaving students to flounder through the process on their own.

Source: Author’s tabulations using NPSAS:2008 (NCES QuickStats), United States Department of Education, National Center for Education Statistics. Low-income students are defined as having a federally calculated expected family contribution of less than \$4,000.

Online education is another domain in which for-profit institutions have been ahead of the

curve. Some, like the University of Phoenix, have developed new learning tools that are cost-effective and appealing to students. A recent [report](#) whose authors included Clayton Christensen of Harvard Business School argues that online education, in combination with the for-profits' focused business model, represents a "disruptive innovation" that could transform the higher education sector.

I'm not convinced about the prospects for an imminent online education revolution, particularly because the available [evidence](#) regarding the effectiveness of such courses is not reassuring. But whether it's online education or something else, a key conclusion of Mr. Christensen's argument is that if we are going to see any disruptive innovation in the higher education sector, it's more likely to come from a for-profit market upstart than from an incumbent traditional institution.

Why? Because for-profit institutions, facing the pressures of a competitive market and unburdened by decades (or centuries) of accumulated bureaucracies and multiplying missions, have stronger incentives and greater flexibility to innovate than traditional universities. "Business models do not evolve easily," Mr. Christensen and his co-authors note. "In biological evolution, individual organisms do not evolve. They are born, and they die." Similarly, they add, "business units rarely evolve" — and corporations often evolve "by opening and closing business units" (p. 20).

If policy makers want public institutions to innovate, the Christensen model suggests that financial incentives (like linking state or federal subsidies to student outcomes) may be a necessary, but insufficient condition. Public systems may also want to encourage the development of entirely new units, as some are beginning to do. Indiana has partnered with a private online college, Western Governors University, to establish [WGU Indiana](#), a nonprofit online institution with a public mission. In 2012, the City University of New York is planning to open a [new community college](#), built from the ground up with a laser focus on student success.

Of all the potential merits of for-profit colleges, perhaps the most useful is simply the role they serve in upsetting the status quo. Critics have raised legitimate questions about these colleges' institutional practices, program quality and return-on-investment. We now ought to acknowledge that these questions should be answered for *all* college students, not just the small fraction at for-profit schools.