The Rising of Phoenix, and What It Means for Higher Education

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Academic leaders are not sure how to deal with for-profit universities, especially those that offer degrees online. One perspective is that they may disappear, victims of criticism, fraud, and abuse. However, thoughtful analysts believe that an Internet revolution is transforming higher education worldwide. If that is true, educators had better understand the larger forces reshaping higher education.

Some people in America today still light candles at evening meals and ride on horseback. But illumination and transportation technologies have changed how most people read after sundown and get around the community. Higher education has resisted many changes, except at the edges, until now.

Higher education enjoys preserving the old ways: the academic robes, the tutorials, and the hardbound books in the library. Change is painful and sometimes scorned. When Harvard in the 1700s grew tolerant of Congregational dissent, a group broke away and formed Yale. President James Buchanan listened to critics of the controversial notion of agricultural and mechanics education in the Land Grant Act, which he vetoed in 1858. Ivy League presidents in 1944 worried aloud that the Servicemen’s Readjustment education benefits (G.I. Bill) might erode university quality and selectivity.

Former Harvard President Derek Bok in 2003 warned academic decision-makers about “the commercialization of higher education” through corporate research contracts, aggressive athletic bowl and tournament hype, and expanded continuing education via distance or electronic learning. One concern was that electronic instruction might persuade universities to emphasize quick profits at the expense
of quality face-to-face instruction. Yet, the twenty-first century shows no sign of waiting for higher education to respond to new markets.

The most dominant force in this new arena is the University of Phoenix, a for-profit college. For the first twenty years of its existence, Phoenix offered degree programs mostly in conventional classroom spaces. However, half of the 280,000 Phoenix students now pursue their studies online, with the rest at 239 campus centers in 36 states. The University of Phoenix, which charges $12,000 a year in tuition, reported net income (profits) of $271 million in 2004, more money than many nonprofit colleges generate for annual operations. Its parent, the Apollo Group, has announced plans to expand to China, India, and Mexico.

Phoenix is not yet the world’s largest university (the World Bank recognizes Turkey’s Anadolu, formerly Anatolia, University at 530,000 and the National University of Mexico may have 400,000 students) but it has moved into the ranks of the ten largest.

How did Phoenix rise so fast and so high? An Economist analysis of “The Brains Business” (September 8, 2005) identifies the four mega-trends that fuel the success of Phoenix and other entrepreneurial colleges:

1) the “massification” of higher education, the explosion of collegiate access in the Organisation for Economic Cooperation and Development (OECD) countries where the percentages of adults with degrees almost doubled between 1975 and 2005 and will increase again by 2020, along with dramatic growth in China and India;

2) the demands of the “knowledge economy” for computer-literate problem solvers and information workers in every sphere of life, banking, government, health care, and other nonprofit sectors;

3) globalization, the “death of distance,” and willingness of two million students already to study abroad, with many millions more poised to study via the Internet; and

4) competition, the magnetic lure of billions (the World Bank estimates $300 billion) spent on higher education each year for 80 million students worldwide.
Among these trends, a major transformational force is the Internet, which has already reduced citizen reliance on telephones, newspapers, and the postal service, and which is redefining higher education by making instruction available anytime and anywhere. In the United States alone, as many as three million students take one or more courses online. Already undergraduates at traditional (“on ground”) campuses are taking some courses online, especially when a key professor is on leave and the student needs a required course to graduate.

What are the secrets behind the remarkable growth of Phoenix? First of all, much of its early success took place in the Southwest, where states could not meet the immense surge in demand for higher education. In California, governors from Ronald Reagan to Arnold Schwarzenegger declined to finance dormitories for the dozen or more new state universities, which would have housed approximately 20,000 students. In the area around Phoenix, the Maricopa Community Colleges enroll 400,000 students in two-year programs, far too many for the Arizona public university system to absorb.

Second, Phoenix initially decided to focus on employed students over 22 years of age. Phoenix founder John Sperling had discovered that adult students were given short shrift at many public universities. He provided accessible formats beginning in the 1970s that allowed students to study part-time, completing five or ten courses a year through intensive eight-week sessions. Younger students are now admitted.

Third, Phoenix does not offer sports, fitness centers, student unions, fraternities, museums, research laboratories, or alumni events. There are no drives to increase the endowment. The capital needed for expansion comes from investors. Founder John Sperling said, “We consider Wall Street to be our endowment.” University facilities are lean, often rented, and provide parking but few other amenities. Phoenix buys the rights to textbooks and makes most of them available online. As Arthur Levine, president of Teachers College, Columbia University, has said about older students:
For many, college is not even the most important activity. Work and family often overshadow it. They want their college nearby and open the hours most useful to them, preferably around the clock. They want easy, accessible parking, no lines, and a polite, helpful and efficient staff. For the most part, they are willing to comparison shop, placing a premium on time and money. They do not want to pay for activities they do not use or can get elsewhere.

Fourth, Phoenix cares about students, especially student retention and persistence, ensuring that students who start a degree ordinarily complete a program. They tell online students they are expected to log on four times a week. If they don’t, someone from Phoenix phones them to see what’s wrong and what help they need. Most colleges do not check in with students until mid-semester warning time.

Phoenix, of course, has moved well beyond the initial Western strategy. The university has successfully applied for higher education degree licenses in three dozen states, even the presumably oversupplied Eastern states. The number of Phoenix centers has risen by 50 percent from 150 in the year 2000. The goal is to be both national and international. Phoenix has been accredited since the 1970s.

Why aren’t traditional higher education institutions rising along with Phoenix? Actually, hundreds of public and independent universities have begun to offer distance learning programs. The University of Maryland has converted overseas programs including Department of Defense course offerings to electronic formats. The University of Massachusetts serves more than 15,000 students with online courses, and the Southern New Hampshire University, an independent school, serves a comparable number.

A few universities shot too high, aiming for the most able and affluent two percent, and found insufficient demand and revenues to offset startup expenses. Cornell and New York University (NYU) launched ambitious online initiatives, but shifted them to extension departments after a few years. However, Duke University launched a very popular blended online MBA, with some campus time required. Another sixty universities offer online MBAs, including Syracuse,
Indiana, Drexel, and Michigan. A Sloan Foundation report (2004) found more than a thousand universities offer online courses and degrees, although typically in just a few academic specialties and rarely across the full spectrum.

Eduventures, a Boston research firm specializing in education entrepreneurship, estimates that for-profit enterprises now provide 8 percent of higher education courses. This percentage has doubled in just a few years and may double again. No field of study is exempt. The Art Institutes offer art courses online. Kaplan, owned by the Washington Post and with investments by Warren Buffet, offers a law school education online at Concord Law School.

Despite this growth, most universities will remain loyal to conventional instruction and decline to grow aggressively online. Here are five reasons why:

1) Better not bigger. The oldest and most respected colleges and universities, East Coast and West, want to grow stronger, but not necessarily any larger. Harvard, Stanford, Yale, Princeton, Georgetown, Amherst, Williams, Whitman, and Wellesley are happy with the selectivity and size of their freshman classes. They usually seek more gifts and growth of their endowments, not more students. One exception was Middlebury College, which decided optimum size was 2,400 students, up 400 students from a decade ago, and that was newsworthy. Northeastern University, once a YMCA college open to urban workers, has reduced in size by 10,000 (to 15,000) students, and aims for top-100 research university status.

2) Individuals and foundations still support traditional colleges. Once only private colleges sought donations. But since states decreased the percentage of state financial support for public universities, land grants and regional universities have successfully pursued alumni gifts and research contracts.

3) Expectations of the upper-middle class. Students, backed by their parents, refuse to live in austere dormitories and have pushed universities to build apartments and suites. Universities are expected to provide a “port for every pillow” and enough electrical outlets for microwave ovens, TV, radios, DVD players, refrigerators, and other
appliances, just like home. Students expect exercise bikes, Stairmasters, free weights for all (not just varsity athletes), pools, climbing walls, and more. MIT and Harvard set a high standard, offering forty varsity sports.

4) A steady supply of young students is enough for most residential colleges. The recent dramatic growth has been of older students, three million of them, 24 to 50 years of age and older, and mostly at public community colleges. This is the group Arthur Levine says wants easy access and affordable costs, not the extras demanded by suburban families.

5) Change is not easy. Faculties are traditionally cautious about new educational delivery systems, including technology. Incentives to change are few. The for-profit sector is agile and unfettered by faculty assemblies willing to debate an issue for a year or two. Argosy, Capella, Walden, and the Educational Management Development Corporation move swiftly when owners and managers perceive a market opportunity. Those firms will pursue growth while older nonprofits fine-tune existing programs.

Is there anything constraining the growth of for-profit educational enterprises? What are the drawbacks and challenges posed by the rapid expansion of for-profit and online instruction?

1) Higher- or lower-order thinking. One concern is that the focus of higher education might shift from inquiry and intellectual exploration to the mere transmission of information. However, the better online programs do emphasize problem solving, higher-order cognition, and provide for group problem solving and much more feedback on papers and projects than from instructors in some conventional college courses.

2) Penalties for aggressive profit seeking. Investor desires to expand enrollments and build profits may unduly pressure admissions (and financial aid) officers to emphasize quantity, not quality. If they cut corners and award illegal bonuses as volume incentives, for-profit universities will be caught and fined, as Phoenix was. The U.S. Department of Education alleged that Phoenix improperly raised compensation and provided trips to the most successful recruiters.
Although Phoenix objected to the allegations, the company agreed to pay a $9 million penalty and abandon any questionable employee incentive practices.

3) *A less comprehensive curriculum.* The least profitable fields of study—divinity, obscure languages, philosophy, may be the last to go online or never be offered at all by the for-profits. So far, health, business, education, psychology, and information technology are the most popular offerings. However, for-profit companies a generation ago taught almost every technical specialty through correspondence courses by conventional mail. The Internet will become so fast and economical that few fields of study will escape the net. The global reach of online learning may allow recruitment of enough students to make most subjects available.

4) *Neglect of research.* The university functions of research and public service will be influenced by technology (medical diagnostics, for example) but for-profit universities may elect not to offer these important university services at all. Research is intended to create new knowledge and replenish instruction. Of course, academic experts point out that of 3,500 American colleges and universities, only 100 are well respected research universities (with another 100 contenders). Even so, the great universities will continue to carry valuable and expensive responsibilities shrugged off by the for-profits.

Can society benefit from the new technologies and new providers? What are the possible societal gains from online education provided by for-profit higher education groups?

For-profit providers will very likely meet much of the new demand for higher education required over the next ten years, allowing many adults the access to education that they missed for various reasons earlier in their lives. For-profits will readily invest in technology and in computer facilities, and may help to meet the heightened American demand for engineers, business technologists, and teachers.

Distance learning will allow millions of foreign nationals access to higher education without traveling to the United States. Soldiers and sailors, home workers, travelers, and others will have access to courses and degrees.
The new providers will show the rest of academe that teams of individuals are needed to build excellent courses—subject matter experts, course designers, animators, evaluation experts, systems integrators—breaking the medieval mold in which one scholar tries to do it all, and potentially adding quality to the learning process. The online courses will be updated every 18 to 36 months, reducing the stale syllabi that too often tranquilize young students at certain colleges.

There will always be issues of quality in higher education. To the credit of the six regional accreditation agencies, their staffs and board members have been studying distance education and for-profit providers, and have shared with each other the new standards needed to assess online libraries and electronic learning.

In truth, traditional higher education is already grappling with some of the same issues addressed by for-profit providers. The methods and dilemmas of responding to cost and competitive pressures are found in both sectors.

More and more instructors, especially in introductory courses, will be part-time adjuncts, paid poorly for their efforts, creating an academic proletariat. More than a few adjuncts will eke out a living teaching at two, three, or more online universities, usually without insurance or health benefits and with limited institutional loyalty. This is happening at traditional universities as well.

Administrators will be more concerned about retention and re-enrollment as legislators, trustees, and accreditors focus on this measure. At the same time, the profusion of websites and blogs already multiplies the amount of public commentary about colleges and word-of-mouth feedback online. Traditional institutions have been paying for “branding” strategies for advertising and aggressive marketing (much of it online). This offends those who believe that education is a good unto itself, not a commodity.

What, then, of the future? What other online challenges confront the world of universities?

Perhaps fewer buildings. The late Peter Drucker, the nonagenarian guru and management prophet, once a faculty member at NYU
and Claremont College, expressed the darkest view. He felt so confident that the Internet would provide most of higher education in the future that he proposed a moratorium on building any new conventional campus facilities. His view was that the higher education consumer demand for new bricks and mortar facilities would evaporate over the coming decades.

The cost of technology will continue to decline and the potential modes of access will increase, with Palm Pilots and BlackBerries simply an omen of future learning accessories. The world is still enjoying the early stages of information retrieval, which librarians often understand better than higher educators. The widespread use of simulations, animations, and experiments online is still in the early stages.

The typical 30-year-old student will very often prefer the convenience of Internet learning. The traditional 20-year-old student will continue to take most courses on campus, but fill in requirements or take hard-to-find elective courses online. This new practice will challenge deans and registrars at colleges that traditionally restrict the rights of students to transfer more than a few outside courses for degree credit.

The world of education will be transformed by the emergence of 15 to 20 “superuniversities,” each serving from 150,000 to 500,000 students. Economists of higher education discussed this probability at a 1999 Princeton, New Jersey, conference on the costs and benefits of technology (see Finkelstein et al., 2000). They concluded that only the large-scale providers, many of them privately owned, would be able to achieve the economies made possible by technology.

The chances are good that these larger providers can help demonstrate that higher education can be offered for $12,000 a year rather than between $20,000 and $40,000 a year, which is the range at elite private universities as of 2006. The U.S. Congress keeps trying to contain the rising costs of higher education but the more expensive selective residential colleges keep adding the amenities sought by students and parents. Online providers will do for colleges what Hyundai did for automobiles.
The concepts of online education and for-profit providers will be accepted by the masses well before the academy concedes any merit. Online programs and degrees will continue to grow, and get better, because consumers and accreditors will force out the pretenders. Again, accrediting association staffs have “gone to school” to learn about hedging the risks of for-profits and safeguarding online academic opportunities and student services. Wealthy parents will for the foreseeable future dismiss the online options for their children. But their employees will meanwhile request tuition reimbursement for degrees from the University of Phoenix and other providers.

The debate over electronic education and for-profit providers will continue for many years. In higher education, asking tough questions is always appropriate. What is crucial for the credibility of higher education is that it these phenomena be researched, evaluated, and discussed in a highly professional fashion. Horse and buggy owners scoffed at the motorcar. The academy must review, criticize, adapt, and adjust to the new technologies along with alternative sources of financial support for higher education in our time.

**Bibliography**


