

# **Tooley's Seven Virtues and the Profit Incentive in Higher Education**

**Tristan McCowan**

*University College Northampton, UK*

## **Abstract**

*There has been a dramatic increase in for-profit institutions (FPIs) of higher education in recent times, both in countries with developed university systems, such as the USA, and in middle-income countries like Brazil, the Philippines and South Africa. James Tooley and others argue that the profit incentive will ensure that these institutions are cost-effective, providing a high quality of education and enabling an equitable expansion of the system. He identifies seven 'virtues' of profit, which will bring positive change in higher education (HE) without the need for state intervention. However, an overview of recent developments in for-profit HE worldwide shows that, while the institutions in question are achieving impressive growth, they are neither contributing to equity, nor providing an education of widely-recognised quality. The need for profitability is seen to encourage FPIs to offer mainly low-cost courses taught by less-qualified, part-time staff. While little is invested in academic research, substantial resources are allocated to marketing so that demand can be maintained in the face of competition with other institutions. The growth of FPIs is also having an indirect influence on the activities of the public and non-profit private institutions, and is contributing to a shift in society's understanding of the role of higher education.*

## **Introduction**

Despite the reforms of the last twenty years, education systems worldwide are far from resembling the free markets in which many commodities are traded. Proponents of markets and privatization in education tend to advocate a system in which some state intervention is necessary, whether this be direct funding of schools (as in the UK

quasi-market), indirect funding through vouchers, or simply quality assurance and regulation. Markets are frequently justified on the basis of parents' or students' rights to choice, or by the greater efficiency and quality ensured through competition. Privatization is also at times promoted as a means of reducing the state monopoly and achieving greater academic freedom, as was alleged in the case of Buckingham University (Geiger, 1986).

Tooley's (1996; 1998; 1999; 2000) defence of markets in education, however, goes much further. Rather than balancing the business values necessary for efficiency with interventions to ensure quality and equity, he advocates an open market with very minimal state control, seeing the profit motive to be intrinsically beneficial for education. He summarizes his arguments as the 'seven virtues of the profit motive', based on his observations of education companies around the world. These are:

1. The desire for expansion
2. The necessity for quality control
3. brand names solve the information problem
4. The necessity of research and development
5. Proper rewards for, and utilization of, teachers
6. Attracting investment and cost-effectiveness
7. Concern for student destinations

(Tooley 2000: 197-200)

Tooley's ideas have achieved considerable diffusion and have been adopted by organizations such as the International Finance Corporation and the Institute of Economic Affairs. The importance of his work is that it provides an intellectual justification for the expansion of the private sector in education. Companies, and the organizations supporting their interests, are keen to have academic support in order to convince governments to reduce regulations and allow access to the lucrative education market. For this reason it is vital to assess the validity of Tooley's claims. If his argument – which is a *moral* and not simply a *pragmatic* one – were to gain widespread credibility, it would have serious consequences for the ability of states to defend their public education systems, and for the notions of equality of opportunity and democratic control on which the systems in principle rest.

This paper will examine Tooley's arguments in relation to higher education (HE). This is an area of great relevance, since the public and traditional private sectors in many countries have shown themselves ill-equipped to meet the fast-growing demand for university places, creating opportunities for new forms of provision. For-profit institutions (FPIs) in some middle-income countries have brought a rapid increase in tertiary enrolment, and in the USA have provided opportunities for those who would have difficulty attending a traditional campus-based institution. Studies such as those of Chipman (2002), Steier (2003) and Sinclair (2003) argue that high levels of access to HE will only be possible with profit-making institutions. However, it remains to be seen whether the recent increase in enrolment in FPIs has been matched by desirable levels of quality, and whether they can ensure an equitable expansion in the long term.

This paper proposes to show that Tooley's position is not supported by the current experiences of for-profit education around the world. Rather than focusing exclusively on the philosophical basis of his argument, which has had ample attention elsewhere (e.g. Ranson, 1993; Winch, 1996; Brighouse, 1998, 2000), it will provide some examples of the ways for-profit institutions function in practice in relation to the proposed seven virtues. The generation of profit through subsidiary activities or joint ventures has also become a common practice in public universities: this study, however, will focus on private for-profit institutions.

### **The growth of for-profit higher education**

While private sector involvement in education has traditionally been non-profit, and often dominated by religious groups, there has recently been an increase in for-profit activity. Some of the forms in which profit-making manifests itself, such as catering services, have a minimal influence on the nature of the institution; others, such as textbook publishing and on-site advertising, can have a strong effect on curriculum and student experiences. Recently, however, there has been an increase in profit-making activity at the level of the institution itself or its managing body. In some countries, this type of profit-making is still officially illegal – e.g. Russia, Turkey and Argentina (Maas, 2001; Tooley, 2000) – but many others have passed legislation allowing the entry of companies into the education market, and in some cases have actively promoted it. In the UK, there have been experiments with the contracting out of the management of state schools to companies, a process that is gaining momentum

in the USA. A number of these companies, such as Edison, have gained prominence on the stock market, and education is increasingly seen as an investment opportunity offering significant returns.

However, the areas which have been most conducive to the development of strictly private (i.e. private financing and private management) for-profit education have been the pre-school and post-secondary levels. This paper will address developments in the latter. While in Europe this is still in its early stages, the USA has a well established sector and the growth is even more dramatic in countries with less-developed HE systems. This process is likely to accelerate if the GATS is extended to cover public education systems (Kelk & Worth, 2002). Many public institutions – such as the London School of Economics – are also developing for-profit wings (Bok, 2003).

For-profit post-secondary education in the USA has its origins in the correspondence education boom at the start of the twentieth century (Noble, 2001). Then, as now, the new providers were met with a degree of suspicion by the general public – fuelled by a number of scandals concerning recruitment strategies – and with resistance (as well as a certain amount of imitation) by the traditional educational establishments. Their success, however, was guaranteed by the desire of working adults to better their career prospects without having to undertake a conventional degree.

The current growth of the FPIs in the USA is based on the same target population, but as well as distance education (now through the internet), there are physical institutions, albeit with organizational structures radically different from those of the traditional campus. They range from large, publicly traded companies to “single-campus mom-and-pop proprietary schools that serve an extremely narrow niche” (Borrego, 2002). The growth of the sector has been phenomenal: the number of degree-granting FPIs increased from 165 to 721 between 1981 and 1999, and enrolment rose almost 48% between 1996 and 2000, compared to 5.7% in the traditional sector. There has been a further 21% increase in enrolment between 2002 and 2003. 8% of those doing four-year and 28% of those doing two-year degrees are now in the for-profit sector, and FPIs control 41% of the online distance-learning market. It is also becoming an increasingly attractive area for investors: for-profit HE has given a 108% return since the end of 1999. Vulnerable non-profit institutions are

at increasing risk of being taken over by education businesses (Blumenstyk, 2003b; Borrego & Blumenstyk, 2001; Kelly, 2001; Morey, 2001; Phillips, 2003).

The largest of the new generation of FPIs is the University of Phoenix, whose enrolment has grown by 163% since 1998 and now has nearly 200,000 students. It is run by the Apollo Group, whose stock market valuation of £6.7 billion is equal to the endowment fortune of Yale, the second richest university in the country (Phillips, 2003).

Phoenix has a distinctive educational approach. Like the old correspondence courses, it targets working adults, providing courses that are closely linked to the workplace, with accelerated completion, campuses in convenient locations, and new approaches to teaching staff and curriculum. The *Phoenix model* is outlined in the 1997 publication, *For-Profit Higher Education: Developing a World-Class Workforce*, written by the university's founder, John Sperling, and its president, Robert Tucker. They lead the battle to pressure the US federal and state governments into relaxing regulations, allowing FPIs to compete for grants on equal footing with non-profit institutions and to operate freely throughout the country. In 1996, Apollo succeeded in pressuring Pennsylvania into revoking its ban on for-profit universities (Morey, 2001).

FPIs became eligible for federal and state student financial aid in the 1970s, but scandals in the 1990s concerning the aggressive recruitment of students eligible for aid had brought a certain amount of distrust from central government (Burd, 2003; Morey, 2001). Life has become considerably easier, however, under the present Bush administration, which has been "lavishing the institutions with praise" (Burd, 2003). Sally Stroup, chief Washington lobbyist for the Apollo group, was appointed in October 2001 as assistant secretary for post-secondary education at the Department for Education (Burd, 2001).

Europe's HE systems, with their stronger state control, have been more resistant to the entry of FPIs, but there are signs of change. While the Buckingham experiment in the UK has not led to a wave of privatization (the institution is, in any event, non-profit), Germany has opened the door to for-profit HE with the establishment of Hanseatic University, which is set to start running courses in autumn 2004, and is soon to be

floated on the stock market (Chapman, 2003). Portugal, already with a third of its students in private institutions, is a prime target for education companies, as is Central and Eastern Europe, as demand for business qualifications for the new capitalist economies increases.

The highest proportions of students enrolled in FPIs, however, can be found in the low and middle-income countries (LMICs), particularly in Asia, but also in parts of Latin America and Africa. Arguably the most successful education company outside the USA is India's National Institute for Information Technology (NIIT) which has a vast network of post-secondary IT training centres, as well as educational software production, giving it an annual turnover of US\$73 million with some 500,000 students. While it plays a complementary role to the main universities, and might not be said to mount a direct challenge, it is growing in power – both financial and in terms of the necessity of its qualifications on the job market. South Africa has the most established FPIs in the African continent, including the company Educor, which has an annual turnover of US\$26 million and some 300,000 students (Tooley, 2001).

While low-income countries do not as a general rule have sufficient numbers of affluent students to support many private universities, prospects in middle-income countries are very good. Due to the generally poor coverage of the existing HE systems and the lack of regulation, FPIs can enter the mainstream degree awarding market (as well as the mature student, vocational or distance markets) and have great potential for expansion. The Philippines has the most established for-profit sector in Asia, now accounting for over 47% of the total enrolment and 66% of institutions (Philippines Commission on Higher Education, 2003), but there are also growing sectors in Jordan, Malaysia, Vietnam, China, Thailand and Indonesia (Levy, 2002; Maas, 2001). 44% of all HE institutions in Brazil are now for-profit, and the sector is growing throughout Latin America, despite the traditionally strong state control: a new law in Peru, for example, allowed the Peruvian University of Applied Sciences (UPC) to become a for-profit corporation (INEP, 2003; Maas, 2001). This expansion has some financial backing from the International Finance Corporation, and the support of the World Bank as a whole.

However, while the traditional religious or philanthropic universities form a clearly distinct group, the difference between for-profit and non-profit status in the new

institutions is not always obvious. Australia's Bond University, established in 1989, is officially non-profit, but still speaks proudly of its annual 'profits', and is promoting a rapid overseas expansion, principally in South Africa (Bond University, 2004). This is particularly true in LMICs: many companies in Brazil, for example, are registered as non-profit for the purposes of securing grants and tax breaks, but effectively function as businesses, aiming for aggressive expansion, and siphoning off what are effectively profits to associated foundations (Davies, 2002). This is the case with UNIP and Estácio de Sá, now the two largest universities in the country (INEP, 2003): Tooley (2001) in fact mistakenly classifies the former as for-profit, thus showing the ambivalence of its status.

There is no doubting the growing presence of FPIs around the world, or their financial viability. Yet their justification from an educational perspective is far from clear. The seven arguments provided by Tooley will, therefore, be considered in order to assess the extent to which the dramatic growth of these institutions is a positive development in HE.

### **First Virtue: the Desire for Expansion**

One of the most depressing spectacles in the current educational set-up is of an excellent state school in a deprived area – and there are a few – with a long waiting list. The school has a successful formula, strong and dynamic leadership, but it doesn't occur to anyone to do other than turn poor parents away. (Tooley 2000: 197)

Tooley's first point is that we can only provide good schools for all if those that are successful are allowed to expand, and have an incentive to do so, as do businesses in other areas. (Tooley is here writing with reference to schools in the UK, but his arguments are intended to apply to all levels and locations). He argues furthermore that without the profit incentive, investors will be unlikely to risk taking over failing institutions or starting from scratch in disadvantaged areas.

An initial observation can be made at this point. Businesses in other areas do expand when they are successful, but this does not mean that they automatically make themselves available to all. Many people would like a Mercedes car, but the company does not expand so as to provide for everybody. In many cases not expanding may be an essential strategy for maintaining the exclusivity, and therefore the value, of one's

product. This is likely to occur in education, where goods are *positional*, in that one's qualifications are valued in relation to the qualifications held by others in society. Moreover, some institutions consider that their educational effectiveness can be guaranteed only by maintaining their small size.

Having said this, it is likely that some successful institutions and courses will indeed expand. In the case of the HE companies, this occurs both through establishing new institutions and through taking over existing ones. In 2001, there were a number of large-scale take-overs in the USA: Argosy Education Group was acquired by rival Education Management Corporation (EDMC), Career Education bought EduTrek International, and Sylvan Learning Systems acquired a 41-percent stake in Walden University (Borrego & Blumenstyk, 2001; Jacobson, 2001). In 2003, Career Choices was absorbed by Corinthian Colleges, as was the Canadian CDI Education Corporation, and EDMC bought up a further 18 smaller institutions (Blumenstyk & Farrell, 2003).

The concentration has been so intense that only eight companies now account for more than 62% of all the revenues generated by FPIs in the USA (Gallagher, McVety, Newman, & Trask, 2002) In addition, the University of Phoenix has sold its curricular and organizational model to 24 other universities in exchange for a percentage of their revenues (Sperling and Tucker 1997). Tooley may argue that this is evidence of the market's ability to promote the expansion of high quality institutions, but it does appear to work against the other great battle cries of the free-marketeers, namely, choice and diversity.

Expansion of enrolment is particularly important in countries with low coverage at the HE level, and is frequently used by governments and the World Bank as a justification for private sector growth. However, the expansion of FPIs has a number of consequences that may counteract the benefits of increased enrolment. Firstly, problems arise when the expansion in question occurs across national borders. When institutions from powerful countries enter the markets of LMICs there will inevitably be some threat to sovereignty and autonomy, and to the ability of the system to serve the needs of the wider society. Industrialized countries like the USA owe much of their power and prosperity to the use of universities to promote the interests of the state, particularly in terms of military and scientific research. There is evidence that



the expansion of education companies from OECD countries will be increasingly located in the developing world. Apollo has entered the Brazilian market through a partnership with the Pitágoras Group (McCowan, 2004). Sylvan Learning Systems now operates in nine countries, and ITT Educational Services and Apollo Group both entered the Chinese HE market in 2003 (Blumenstyk, 2003b). These universities are very popular with local students aiming to impress future employers with the prestige of a foreign-accredited degree. This phenomenon is not, however, confined to private FPIs: some public universities are also pursuing aggressive profit-making ventures around the world.

There are a few examples of companies from middle-income countries entering the markets of the wealthy countries: in addition to its prolific activities in Asia and Africa, NIIT has opened centres in the USA and UK, and Educor has bought a stake in Canada's International Business Schools (IFC, 1999; Tooley, 2000). However, these examples are rare, and the situation is unlikely to change given the conditions of global trade and the hierarchy of educational prestige. (What is the likelihood that North Americans or Europeans will enrol in an Eritrean or Azerbaijani university?)

South Africa has attempted to limit the number of degree courses being offered by overseas providers, arguing that they are making profits using public resources, through state-subsidised local staff and facilities (MacGregor, 2000). Most countries try to impose some restrictions, but the ability of governments to act in the interests of their own people, already weak in the face of powerful multi-nationals, may be weakened further by international trade agreements (Kelk & Worth, 2002).

### **Second Virtue: the Necessity for Quality Control**

Tooley's argument for the second virtue is the cornerstone of his argument for markets in general: The schools or colleges have as their *raison d'être* the provision of quality educational services. If they don't do this, they'll go out of business. (Tooley 2000: 198)

Quality control, therefore, is best ensured by market forces, as the education companies will only be profitable if the education provided is of high quality and therefore in high demand. Neither altruism, nor even an interest in education, is

necessary: survival in the marketplace depends on high standards. Not even the limited government regulation evident in areas such as food and transport is seen to be required. The quality control provided by government through its standardized tests is seen to reflect political rather than educational concerns, and to be “mired in subjectivity and waffle” (p.198).

It is beyond the scope of this paper to assess the fairness of Tooley’s criticisms of current government quality control in the UK. In any event, even if his view of the current practice of nationalized assessments and targets is justified, this is a specific case and cannot lead to a rejection of government intervention in principle. The question is whether the free market system can itself ensure high quality for all.

Following from the first virtue, expansion is only a good in itself if the institution in question is of a high quality. However, there are cases where demand is high even in the absence of educational quality, often due to skilful branding and advertising (discussed in the context of the third virtue) or to lack of choice. In Brazil, a number of institutions that are widely regarded to be of dubious quality, such as *Estácio de Sá* and *UniverCidade* (sic.), have achieved phenomenal growth simply because for many there is no alternative – whether geographical or financial (McCowan, 2004). The implication of Tooley’s thesis is that the high demand for McDonald’s and Burger King foods is proof of their quality. Yet demand is related not only to quality but also to price, therefore making high quality in many cases available only to the rich.

Many FPIs argue that they are pioneers of a new form of HE which is better suited to the contemporary world. However, their distinctive conception is largely determined by constraints of expenditure. Sperling and Tucker (1997) state:

Traditional institutions require a full-time faculty, usually tenured with PhDs, library buildings, labs, dorms, student unions and athletic facilities, none of which is required by working adults. (p.58)

It is true that working adults will probably not require dormitories, and may not require student unions and athletic facilities, yet it is less easy to see why they would not want libraries, laboratories or full-time lecturers with PhDs. The point is that it is impossible for Phoenix to pay for these things *and* be profitable. Just because fee-

paying students will choose to forfeit certain facilities (such as libraries and labs) in order to keep down the costs of their education, it does not follow that these are not important in education or indeed not desired by the students. Once again, demand does not guarantee quality.

NIIT's conception of quality is expressed by the president of the company's US wing:

First, the company views its training business as a manufacturing business. The student is the raw material, and the training process is well defined, certified under ISO9001. The instructors are like machinists. At the end of it there is the finished product, a certified student. (IFC 1999: 47)

It hardly needs stating that this model risks placing the needs of the institution before those of the students.

Tooley overlooks another important point regarding demand for education. For the individual, schooling is desirable both in terms of educational development and in terms of the final diploma, which is necessary for future employment and other opportunities. However, these two are not necessarily co-existent: it is possible to obtain a diploma that is accepted on the job market without having an education of high quality. This is particularly likely in LMICs if the diploma in question has the prestige of an overseas institution. It may be argued that an individual has the right to choose to obtain a diploma without high educational quality, but that ignores both the interests of other people in society (everyone has an interest that doctors, engineers, teachers, electricians and so forth have had a high quality of education) and the longer term interests of the individual.

Teacher education is a high growth area for FPIs, both at the undergraduate and graduate levels, and in the USA is largely dominated by Sylvan (Blumenstyk, 2003a). Prospective teachers are increasingly drawn to those courses "that are quick and easy", according to Beverly Young, director of teacher education programmes at California State University (quoted in Blumenstyk, 2003a). Autonomy from public control in this area has serious consequences, since the training received has an impact not only on the individual teachers but also on the thousands of children that they will teach.

Dr. Hans Karle, president of the World Federation for Medical Education, observing that the number of medical schools worldwide has grown from 1,300 to 2,000 in the last eight years, has expressed concern that the quality of medical education has suffered, stating that a growing number are “businesses to attract students who cannot get into medical schools in their own countries”, and that while “some of these schools are badly needed...others are simply moneymaking ventures”(Quoted in the Chronicle of Higher Education, September 26th, 2003).

Many FPIs, worried about litigation by students dissatisfied with the quality of the institutions or the value of their qualifications, have introduced arbitration clauses to protect themselves. The Chronicle of Higher Education (not in general a critic of FPIs) describes how these clauses in the USA “are being used by the institutions to take advantage of uninformed students and to avoid being held accountable for the quality of the product they provide” (Farrell, 2003c).

In the instance of bankruptcies and failures of FPIs there are serious implications for students engaged in degrees, and for past graduates whose qualifications are in danger of losing their value. These eventualities seem more than possible: there have been failures such as the online education initiatives Fathom and Pensare (Bok 2003), while the US company Career Education Corporation currently stands accused of deceiving investors about its financial performance and of forging student records so as to pass its audit (Blumenstyk & Farrell, 2004).

### **Third Virtue: brand names solve the information problem**

The third virtue is strongly linked to the second. Branding is seen by Tooley as a means by which the public can be sure it is choosing education of a high quality. An argument frequently given against markets in education is that ‘consumers’ will suffer from a lack of information about the institutions in question and their relative qualities. This, according to Tooley, can be solved by brands:

I know nothing about lap-top computers, for example, but I was able to buy one of the highest quality without anyone taking advantage of my ignorance. How? I bought into a *brand name*. We know that the company’s reputation is absolutely paramount and that the company knows that *some* of its customers are informed and can’t take the risks that I am not one of these. (Tooley 2000: 198. Original emphasis)

Reputation may indeed be an incentive for ensuring that quality is made *consistent* (although, as stated before, the *level* of quality will usually be linked to price). However, the success of a brand is not solely dependent on the quality of the product. Inherent in the very idea of brand promotion is that it is the brand itself (Nike, Starbucks), and the lifestyle images associated with it, that is desired by the consumer, rather than simply the product (a good running shoe, a cup of coffee). Resources are spent therefore on improving the quality of the brand, and not that of the product – Tooley (2001) recommends allocating 10% of the education company's total expenditure, but it could be more<sup>1</sup>. Private HE institutions in Southern Brazil spend an average of over US\$400 a year in advertising for every new student enrolled, equivalent to about three months fees (Braga, 2002). This is money that is being spent not on educational quality, but on convincing prospective students of the quality of the institution. As the incentive for FPIs is profit, and not education, aims are achieved when there is demand for the courses, whether that demand is based on a real or a perceived quality.

As well as by advertising in the media, successful branding is achieved by visibility of outlets: Klein (2000) shows that the branding benefits for Starbucks make it worthwhile to establish new high street stores even if they are individually loss-making. FPIs tend to have their campuses in locations that are both accessible to customers and visible for the general public. Phoenix, for example, has branches in shopping malls; Estácio de Sá has one in a theme park just outside Rio de Janeiro.

In addition to the tenuous link between branding and product quality, the expansion of a brand will inevitably result in homogenization and standardization. Tooley's argument here seems to rest on an identification of standardization and quality. True, a standardized product will not be subject to *varying* quality, but that does not mean it will have *high* quality.

#### **Fourth Virtue: the necessity of research and development**

The fourth virtue is bold in that it challenges the widespread assumption that FPIs conduct little research. Again Tooley argues that competition makes it essential for companies to carry out these activities effectively. However, he is referring not to the

publicly beneficial research traditionally engaged in by universities, but to that which contributes to the profitability of the individual institution or company.

Tooley makes a second point: “Another virtue of the profit motive is that the market will ensure that such research-based best practice gets copied by others, and hence disseminated to all.” (p199)

It is true that ‘effective’ methods will be adopted by other companies where possible, but Tooley surely overestimates the ease with which companies have access to each other’s research. The same competition that will give incentive to improvement will also encourage companies to prevent competitors having access to the secrets of their success.

The fact is that FPIs in the USA and elsewhere have been successful partly because they do *not* invest in research. Non-profit universities find it increasingly difficult “to compete with institutions like the University of Phoenix and Walden, which place less emphasis on costly endeavors like research” (Blumenstyk, 2003a). As well as limiting the ability of non-profit institutions to carry out research in the public interest, this could have a negative effect on the quality of the educational experience of students, who will no longer benefit from exposure to the environment of academic research.

Evidence from Brazil also challenges Tooley’s claims. FPIs here conduct little research, with the exception of the development of their own teaching materials, the rights to which are jealously guarded. The head of the Estácio de Sá chain has described academic research as “pompous uselessness” (Folha Dirigida, 2001). UNIP/Objetivo – frequently praised by Tooley – invests as much as 8% of its annual receipts on research into high-technology didactic materials, which, as well as establishing a successful and exclusive brand of educational resources, brings benefits to the owner João Carlos di Genio’s large media empire. The wider research carried out by the group is usually linked to di Genio’s many business interests, such as cattle breeding (he is said to own the most expensive cow in the world), and in establishing patents on Amazonian plants (Parajara, 2003).

NIIT is described by Tooley (2000) as being “the most notable example of R&D” (p.199). However, while 5% of its turnover is spent on developing commercial

educational applications, only 0.7% is spent on non-commercial research, and even this is in part “justified in terms of brand promotion” (p.199). Teixeira and Amaral (2001), in their overview of new private institutions, see moving away from research in all its forms as a worldwide trend.

### **Fifth Virtue: proper rewards for, and utilization of, teachers**

The fifth virtue extols the benefits of for-profit education in releasing teachers from fixed salaries and limited contact with students. Tooley exploits the ambiguities of the word ‘proper’ here: while at first glance it would seem to indicate that teachers would be paid more, in reality he means ‘proper’ as in ‘what they deserve’ – in other words that only ‘good’ teachers would be paid well.

Imagine if the same principle applied in other communication businesses – we would have the odd spectacle of a Jeremy Paxman limited to broadcasting to a tiny audience on a local hospital radio, say, or writing only for the *Malvern College Times*. (Tooley 2000: 199)

Tooley laments that gifted teachers can only benefit a few hundred people a week due to an “egalitarian straightjacket”, and that with profit incentives, their services would be made available to thousands. This view seems to confuse the concepts of *teaching* and *communication*. Of course, a gifted teacher or lecturer can *reach* thousands of people a day, as they currently do through books, articles and the internet. Yet, that does not mean they can *teach* thousands of people a day, unless that teaching is going to have no element of personal contact, no asking and answering of questions, feedback, assessment and so forth.

FPIs do reward ‘successful’ teachers, using performance-related pay, with some lecturers receiving higher salaries – or alternatively facing dismissal – on the basis of their students’ test scores and other output evaluations (Borrego, 2002). However, FPIs almost universally have highly centralized curricula with few possibilities for significant input from teachers. In addition, they make a separation between teaching and research, with lecturers not themselves required to undertake any significant research activities (Morey, 2001).

The following are instances of this ‘proper utilization’ of teachers. The curriculum development team of Phoenix University, for example:

guid[e] Phoenix's instructors in exactly what to teach and how to teach it... Some education experts say that approach values uniformity over creativity. But Phoenix officials defend their methods, arguing that the process ensures consistent quality across a broad spectrum of teaching skills... The review process is designed to operate "almost for the lowest common denominator" of instructional ability.... (Farrell, 2003b)

NIIT are also committed to 'supporting' their academic staff:

Each course tutor is given a batch file, which describes in meticulous detail all the courses to be taught, the sub-units, the material to be covered, and the time taken on each section – this even prescribes how long must be taken over each overhead transparency! (Tooley, 2000: 117)

Tooley's exclamation mark here is of admiration, not disbelief. C. N. Madhusudan of NIIT states:

[NIIT's] instructors are the production managers. Traditional universities are very person specific, person driven, where the instructor has a tremendous role to play in the outcome. NIIT has tried to reduce this role by restructuring the methodology of education, and by transforming the process of training into a product. (IFC, 1999: 47)

FPIs also have a greater proportion of part-time staff than do non-profit or public institutions, a feature that may make for financial efficiency but is unlikely to enhance academic quality. Phoenix has only 140 of its approximately 7,000 lecturers on a full-time contract (Morey, 2001). They also tend to have lower qualifications, and are not in general required to have a PhD. Similar trends are seen in Brazil and elsewhere (INEP, 2003). Gonzalez (1999) relates the high returns on for-profit HE in the Philippines to the very high work-load and low salaries of teaching staff.

### **Sixth virtue: attracting investment and cost-effectiveness**

Two points are made here: firstly that the profit incentive brings badly needed capital to education, and secondly that profitability requires institutions to run efficiently, while in the present system "there is little encouragement to deliver educational services more cheaply" (Tooley 2000: 199).

It is possible that FPIs are more efficient than traditional institutions, and that a desire to make profit may indeed encourage a less wasteful use of resources. However, most direct comparisons are misleading, since the lower costs of FPIs are typically the



result of lower expenditure on research, academic staff, libraries and other features widely believed to be of value in education. While a course at Phoenix and one at the University of California at Berkeley both lead to a 'degree', that does not make it possible to compare their expenditure per student on equal terms. Claims for the efficiency of private universities in Brazil, for example, do not take into account public institutions' expenditure on university hospitals, staff pensions and community services (Davies, 2002).

Another important factor is that large universities function on the basis of cross-subsidization, where expensive courses like engineering or medicine are run alongside cheaper ones like law or business studies. FPIs naturally choose to run only those courses which are most cost-effective, thereby poaching a disproportionate number of students from the cheaper courses (Phillips, 2003; Teixeira & Amaral, 2001). Other institutions thereby face increasing costs per student, meaning a loss of enrolment for the private non-profits, and for the public sector further accusations of inefficiency.

An example of the cost-saving activities of FPIs is given by NIIT:

*Carry-home-PC* is a solution to the question: how do you minimize student's [sic] presence inside your facility? .... Similarly, the company created the computer drome, like an aerodrome, where a huge number of computing facilities are crammed under one roof (IFC, 1999: 48).

There is unlikely to be consensus that dissuading students from frequenting the educational institution or cramming them together are cost-saving strategies which are justified from an educational perspective.

At the same time as struggling to keep expenditure on students as low as possible, FPIs find it necessary to provide their executives with handsome rewards. DeVry's top two executives earn \$1.1 million a year, with average pay for CEOs in for-profit HE companies at \$568,000, excluding major sources of income such as stock options. John Sperling of Apollo made about \$10.7 million with the sale of 250,000 shares in one week in July 2001. He owns a total number of over 18 million shares in the company (Borrego, 2001).

### **Seventh virtue: concern for student destinations**

Tooley's final argument for the profit incentive is that it will encourage institutions to equip students for subsequent employment, both through providing them with the necessary links with businesses and by running recruitment agencies. Tooley elsewhere in the book and in *The Global Education Industry* (2001) gives a number of examples of education companies which have bought agencies of this sort.

While these factors are certainly a bonus for the individuals involved, and will make the institutions desirable to prospective students, it does not seem a valid principle around which to organize an education system. After all, social networks function in the elite 'public' (private) schools of the UK which facilitate acquisition of high level jobs, but this can hardly be used as a justification for the private sector in education.

There might be worrying implications for equality of opportunity. With education companies controlling not only provision of qualifications but also job recruitment, their power would rise significantly, leaving young people increasingly dependent on a private education that only some will be able to afford.

As well as easing the passage between university and work, FPIs are concerned to provide students with the types of skills that will help them in the workplace. In fact this is the primary justification given by Tucker and Sperling (1997) and other defenders of for-profit education. Their criticisms of traditional universities have some justification no doubt, at least in terms of catering for the working adults around which Phoenix orients itself. Yet why should this make necessary a *for-profit* institution? The unusual logic of their argument can be summarized as follows:

1. Traditional universities are not good.
2. For-profit institutions are not traditional universities.
3. Therefore, for-profit institutions are good.

It is not clear why the solution is for-profit status, or why the flexible hours, easy access, accelerated and work-based study that are advocated could not just as easily be provided in a public institution (as can be seen to some extent in the case of

Birkbeck or the Open University in the UK). Markets in general, it is argued, being based around demand, are more responsive to individual's needs, but – as discussed in previous sections – this cannot be the only principle on which to organize an education system, since education has societal as well as individual consequences. The only other argument given for for-profit status in Tucker and Sperling (1997) is that it is less of a burden on the taxpayer: like many defences of for-profit HE it is an argument relating to the economic advantages of a free-market economy, and not to the educational advantages of a marketized education system.

Student destinations, after all, are not only those of employment. Research carried out by Persell and Wenglinsky (2004), using longitudinal data from the US National Center for Education Statistics, found that students of FPIs had lower levels of civic engagement than other students when controlling for differences not related to their attendance at the institution. Antonio Flores, President of the Hispanic Association of Colleges and Universities of the USA – which does not allow for-profit institutions to join – states:

These for-profits tend to zero in on skills and training necessary to get jobs, and not so much on developing their students as engaged citizens.... And we believe that institutions that are only concerned with the private benefit of education to the individual are really dismissing half the value of education, which is for the individual to add to society as an informed citizen. (Quoted in Farrell, 2003a)

## **Conclusion**

Representatives of FPIs worldwide often show a righteous indignation at opposition to their commercial activities. This is well expressed by the former president of the University of the East, in the Philippines:

We are sick and tired of being told that profits are evil, that we should not make a profit at all as if we could operate meaningfully at a loss, as if suffering a loss would make us better schools. (Quoted in Geiger 1986: 63)

Clearly it is not better that a for-profit educational institution runs at a loss. The question, however, is whether it should be for-profit in the first place, and the onus is on these institutions to show the benefits of the profit incentive, both in raising the quality of the education provided, and making that education available to all.

This paper is not intended as a defence of the traditional universities or of current government policy. Tooley's criticisms in this respect may be well justified, but that is not in itself a justification of for-profit or even private HE. Arguments in favour of for-profit education are based on the idea that while the 'bottom line' of an education company is profit, this is not harmful to the educational quality of the institutions, and indeed can be positively beneficial. Tooley calls this "the virtue of the seven virtues" (p.200). Nevertheless, the above examples show a number of ways in which the requirements of profitability are having a negative effect on the nature of the education provided. It is important to note that this is not so much a characteristic of the *private* sector as a whole, but specifically of the *for-profit* sub-sector based on the business model.

Newton (2002) argues that the FPIs pose little threat to the established HE system in the USA since they are limited to a particular segment of the market in which traditional universities do not operate. There is evidence, however, that this may be changing, as companies like Apollo start to move into the market for young undergraduate students (Blumenstyk, 2004). This view also underestimates the ability of the growing for-profit universities to influence society's beliefs about the nature and purpose of HE. As the for-profit sector expands and promotes its message, HE increasingly becomes valued only in so far as it brings some tangible material benefit to the individual. Education that provides more general benefits to the individual – in terms of critical, intellectual, aesthetic and emotional abilities that are hard to quantify – is being increasingly sidelined, as is education that brings benefits to society as a whole. This process will increase as the political and economic power of the for-profit sector grows, and the public and non-profit sectors, through ideological commitment or financial necessity, remodel themselves in the same image.

## Notes

1 According to Noble (2001), the for-profit correspondence courses in the first half of the 20<sup>th</sup> century spent 50-80% of revenues from tuition fees on advertising and recruitment.

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### **Author's Details**

Tristan McCowan is part-time lecturer at University College Northampton, and is currently undertaking a PhD at the Institute of Education, University of London. From 2002-2003 he was Co-ordinator of the Latin American Observatory of Education Policy (OLPED) in Rio de Janeiro at the UERJ, Universidade do Estado do Rio de Janeiro, Brazil.

### **Correspondence**

Tristan McCowan School of Educational Foundations and Policies Studies  
Institute of Education  
20 Bedford Way  
London WC1H 0AL  
UK  
tmccowan@ioe.ac.uk