

## Proprietary Education: Threat, or Not?

### Defining the Issue

As an industry, proprietary education is evolving from mostly small local schools that deliver short, vocationally-oriented programs into much larger corporate institutions that provide 2-year and longer programs. The era of the neighborhood welding school run by its owner is ending. These corporate institutions have regional accreditation, which defines them as a "college." They con-

stitute a relatively small but growing sector of the American higher education system. The University of Phoenix is perhaps the best known, but dozens more have similar missions and profit incentives. Some offer Ph.D. and professional degrees, but most provide associate degree programs. Many of these are terminal, not counting toward a baccalaureate degree. What does this newly emerging sector mean to American higher

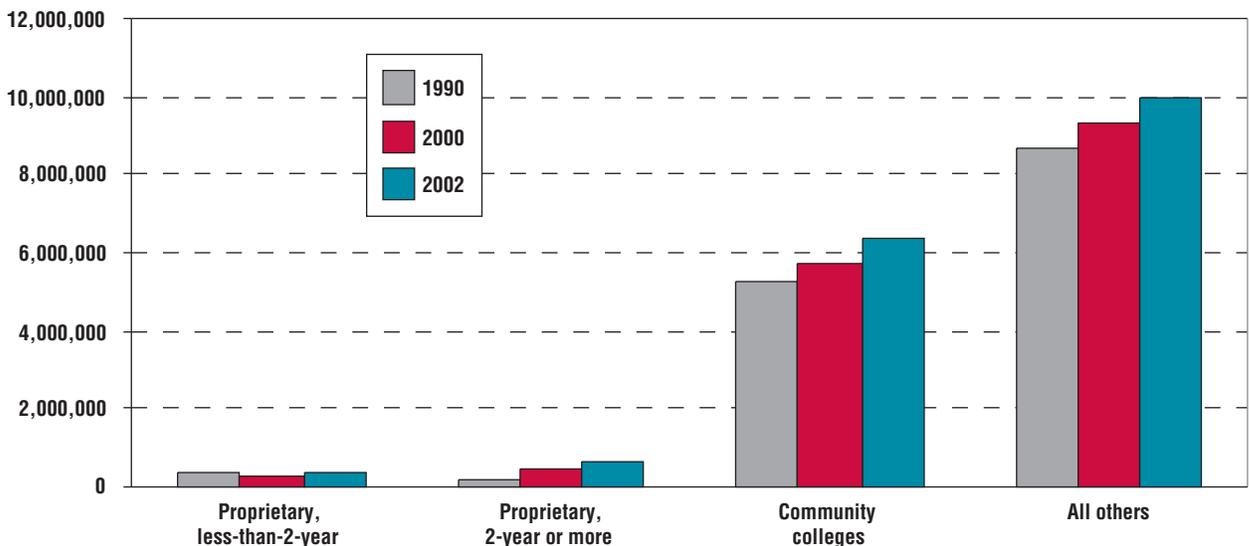
education? Does its rapid growth pose a threat to existing public and non-profit colleges? Or are they simply a new educational option for students who might not otherwise attend college?

### What We Know

An increasing number of proprietary schools provide college-level programs, but they still represent only a small share of national overall postsecondary enrollment. Figure 1 shows

Figure 1

Trend in national proprietary school enrollment, 1990–2002



SOURCE: U.S. Department of Education, Integrated Postsecondary Education Data System, various years.

national growth in proprietary school enrollment since 1990. Proprietary schools with shorter programs lost enrollment during this same time period, but enrollment among schools with 2-year or longer programs grew. Even with such sharp growth over the last decade, proprietary college enrollment represents only a small part of America's postsecondary education picture.

Figure 2 shows the decline in the number of proprietary schools from 1989–2002. The decline in the *overall* number of propriety schools is primarily accounted for by the decline in the number of schools with shorter programs. While there

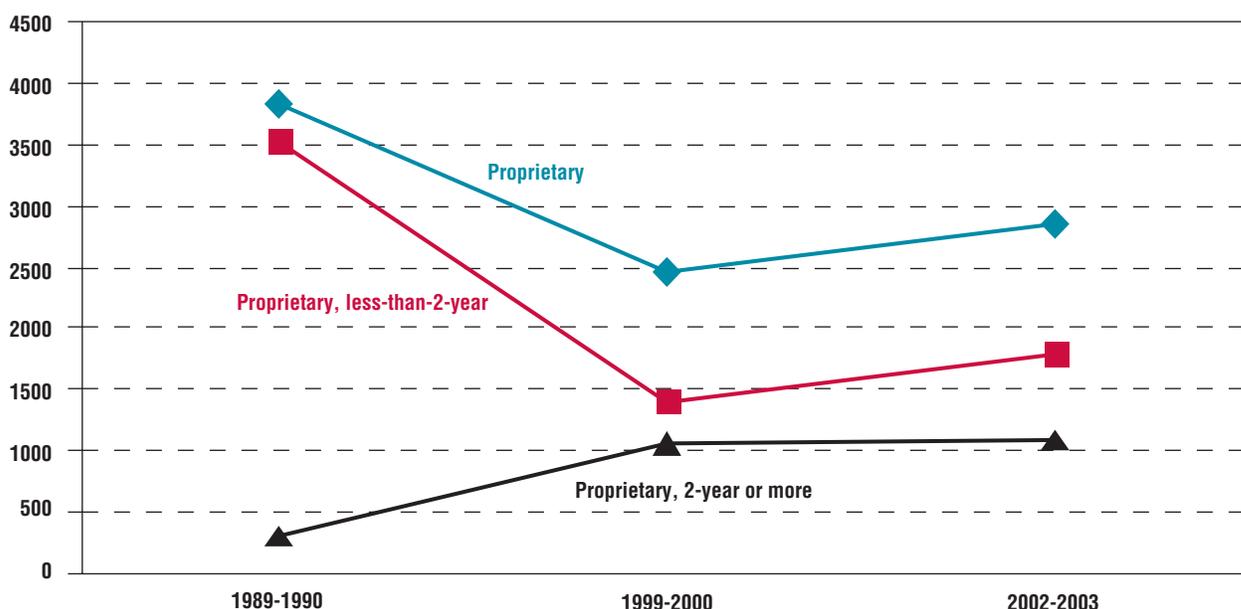
has been a small upward bounce since the beginning of the current decade, the overall decline is probably the result of tougher federal regulations implemented in the early 1990s.<sup>1</sup> These had the strongest effect on schools with shorter programs. Short proprietary programs tend to enroll students with more economic and academic risk characteristics than are typical of students in traditional colleges.<sup>2</sup>

A number of proprietary schools closed or were forced out of business when more rigorous government rules were imposed in the early 1990s. But many perceived this to be inequitable, and regulatory

efforts have relaxed in recent years.<sup>3</sup> A recent Committee on Education and the Workforce press release, for example, quotes Chairman John Boehner as saying, "There is a problem when schools serving some of the neediest students are treated like a second class."<sup>4</sup> This softening of restrictions may account for the last few years' increase in the number of proprietary schools.

According to U.S. Department of Education statistics, the number of proprietary schools with longer programs has increased significantly, from 318 in 1989 to 1,074 in 1999. This represents nearly all the enrollment growth in the proprietary education

**Figure 2**  
**Trend in the number of proprietary schools, 1989–2003**



SOURCE: U.S. Department of Education, Integrated Postsecondary Education Data System, 2002; analysis by JBL Associates.

sector since 1989, and is probably due to the fact that longer programs are not as vulnerable to regulatory penalty. Also, student demand for longer programs may be increasing, making longer programs more profitable for owners. Some of the longer proprietary school programs compete for the same types of students that enroll in community and public 4-year colleges.

### Proprietary Colleges Are Different

Proprietary colleges differ from most public and non-profit colleges. The new type of proprietary college emphasizes applied education while minimizing traditional liberal arts education. The most frequently awarded degrees are in business and management, computer/information sciences, and visual/performing arts (including applied fields such as graphic design, interior design, and fashion design). Table 1 lists the degrees and certificates awarded by proprietary schools offering at least 2-year programs.

Proprietary schools operate as businesses, which has both pluses and minuses. Because their goal is to realize a profit, they must charge tuitions that, in combination with government grants and loans to individual students, cover their costs. They are able to do this because they are exclusively teaching institutions and provide no extras. Proprietary schools generally

**Table 1**

#### Degrees awarded by proprietary schools offering at least 2-year programs, 2002

Program	Number	Percent
1 Business, Management, Marketing and Related Support Services	39,527	26.7%
2 Computer & Information Sciences	29,638	20.0%
3 Visual & Performing Arts	17,135	11.6%
4 Engineering Related Technologies	16,007	10.8%
5 Health Professions and Related Sciences	15,063	10.2%
6 Personal and Miscellaneous Services	10,492	7.1%
7 Mechanics and Repairers	6,847	4.6%
8 Law and Legal Studies	3,704	2.5%
9 Education	2,146	1.4%
10 Protective Services	1,988	1.3%
Other	5,629	4.0%
<b>Total</b>	<b>148,176</b>	<b>100.0%</b>

SOURCE: U.S. Department of Education, Integrated Postsecondary Education Data System, 2002; analysis by JBL Associates.

have the following traits in common:

- They offer very few student programs (athletics, clubs, social events, special cultural events);
- They don't do research or provide community services;
- They pay lower salaries to faculty, many of whom are contract employees;
- They change offerings quickly, mostly in response to employers needing different mixes of skill sets;
- They have smaller facilities, often located in office buildings or parks convenient to students;
- They are located almost exclusively in urban areas;

- They don't offer tenure;
- They generally develop courses centrally and distribute them to faculty.

Some critics contend that proprietary schools are more likely to push the boundaries of acceptable education in the name of profit than are other types of postsecondary institutions.<sup>5</sup> One of the biggest risks, they say, is that a proprietary school can go out of business and leave students with problems in continuing their education. In the event of a school closing, all accredited proprietary schools have to provide students with "teach-out" options for attending other institutions and completing coursework. While this can provide a

safeguard, it still represents a problem.

Some of the issues regarding the quality of education at proprietary institutions are less of a concern now than they have been historically. Legislative changes assure that proprietary schools have to meet the same accreditation standards as other colleges. In addition, proprietary schools are licensed and approved by the state in which they operate. Their management of student aid is closely monitored by the U.S. Department of Education; while problems have not ended completely, such oversight has greatly reduced them.

### **Proprietary Schools Are Financially Strong**

There have always been chains of proprietary schools, but the number of publicly traded companies providing college education has expanded from one ( DeVry ) to 13 in the last 15 years. More are ready to go public. At the recently traded value of their stock, these companies represent nearly \$44 billion in combined assets. Table 2 shows the stock value of publicly traded postsecondary education companies. The two University of Phoenix ( Apollo ) companies alone represent nearly \$25 billion. Such capital means these companies have money to invest in expansion, and many are moving into markets outside the U.S. Many also provide corporate and professional training.

**Table 2**

### **Stock value of publicly traded postsecondary education companies**

<b>Company</b>	<b>Stock Value</b>
The Apollo Group Online	\$9,819,960,000
The Apollo Group (University of Phoenix and Western International U.)	\$13,976,028,000
Career Education Corporation (American Intercontinental, Briarcliff, California School of Culinary Arts, International Academy of Design and Technology, Whitman-CTU, Sanford Brown and UDS)	\$3,136,616,800
Concorde Career Colleges	\$82,730,000
Corinthian (Rhodes, Florida Metropolitan, Wyotech, Bryman, and CDI)	\$1,023,645,150
DeVry (Keller School of Management)	\$1,364,421,400
Education Management System (The Art Institutes, Argosy Education Group, American Education Centers)	\$2,066,038,400
EVCI Career Colleges, Inc.	\$93,030,000
ITT Technical Institute	\$1,501,440,000
Laureate Education Inc. (Formerly Sylvan Education Systems) (Canter, Walden, Wall Street, International Universities)	\$1,479,708,000
Strayer Education Inc.	\$1,480,000,000
Universal Technical Institute (UTI)	\$730,628,700
Washington Post (Kaplan, Concord)*	\$6,841,118,000
<b>Total</b>	<b>\$43,595,364,450</b>

*\*Includes all Washington Post Company businesses.*

### **Student Aid is Important to Proprietary Schools**

Proprietary colleges prosper in high unemployment periods, during which enrollment goes up and institutional support for public colleges goes down. Increasing amounts of governmentally-provided student aid help proprietary schools and colleges by narrowing the tuition gap between public and private institutions. Figure 3 shows the distribution of student aid among the different post-

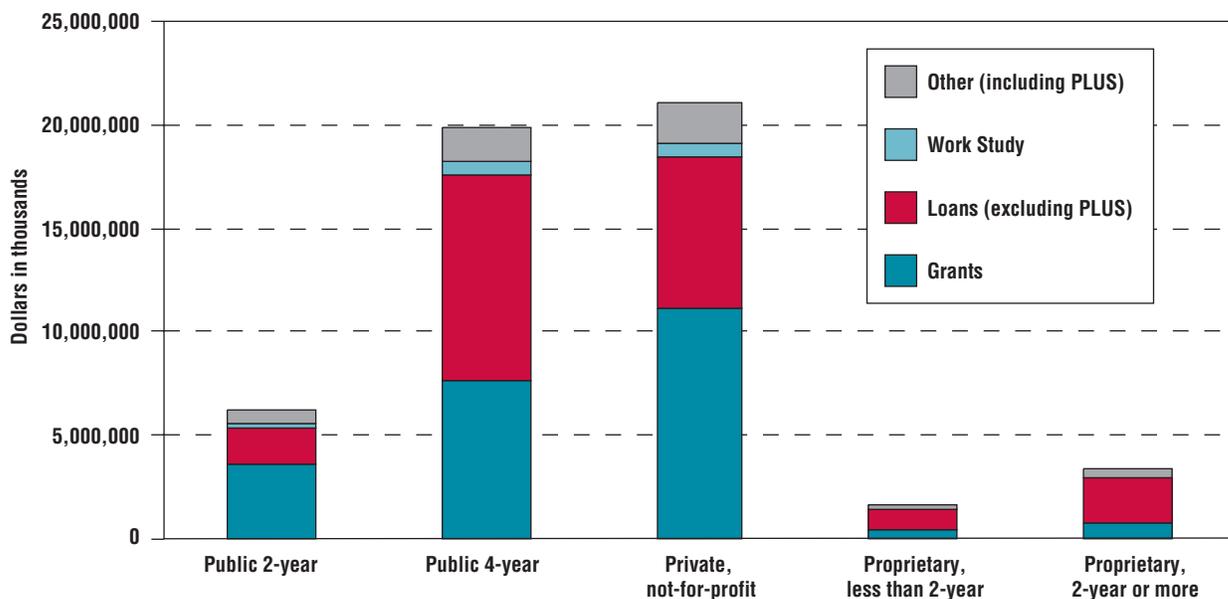
secondary education sectors.<sup>7</sup> Even though students in proprietary schools are more likely than those in other sectors to receive aid, they still represent only a small share of student aid dollars.

### **Threat, or Not?**

Proprietary colleges offer an alternative education model. They stress practical experience and job skills more than the theoretical, cultural, and research fundamentals emphasized at most traditional under-

**Figure 3**

**Distribution of student aid by sector, 1999–2000**



SOURCE: U.S. Department of Education, Integrated Postsecondary Education Data System, 2002; analysis by JBL Associates.

graduate programs. Proprietary colleges develop and offer programs because they have the largest enrollment potential. This strategy has the potential to reduce enrollments at other, perhaps neighboring colleges, especially among the more popular fields of business, education, and health.

Because of these and other factors, proprietary colleges represent a “Wal-Mart model” of education, with a standardized course delivered to every classroom and usually taught by a part-time, non-tenured teacher. They provide very little support and few activities, or extras, outside the classroom. Administration and financial management are provided by a central office

with a high level of automation. Proprietary colleges are considered a cost-efficient mode of course delivery.

This type of college does not necessarily appeal to full-time 18-year-old students out of high school. It does appeal to older students who have spent time in the labor market and need a convenient way to upgrade their skills. Older students are not necessarily seeking cultural and personal development as part of their educational experience.

The evidence suggests that the proprietary sector will continue to expand. This growth is fueled by increasing amounts of public student aid and a growing need for skills beyond those taught in

high school. One of the strengths of proprietary schools is the ability to constantly evolve to meet the changing needs of local and regional employers. The ability of proprietary schools to place graduates in jobs is a major selling point.

Proprietary colleges compete with traditional colleges and universities that offer evening and part-time degree programs to older students in urban areas. Traditional institutions that may be threatened by proprietary college’s inroads in these areas should continually examine their course offerings. Colleges’ and universities that offer traditional programs to full-time residential students are least threatened.



---

## NOTES

<sup>1</sup> Burd, Stephen. 1997. "Default Rates on Student Loans Fall for Fifth Consecutive Year," *Chronicle of Higher Education* November 21. Burd writes that 900 proprietary schools had closed because of federal efforts; other estimates are as high as 1,500.

<sup>2</sup> National Center for Education Statistics. January 2000. *Students at Private, For-Profit Institutions* (NCES 2000-175). Washington, D.C.: U.S. Department of Education.

<sup>3</sup> Kelly, Kathleen. August 2001. *The Rise of For-Profit Degree Granting Institutions: Policy Considerations for States*. Denver: Education Commission of the States.

<sup>4</sup> News from the Committee on Education and the Workforce. 2004. "Current Higher Education Law Unfair to Proprietary Schools and Students, Must be Reformed, Witnesses Tell Congress." Press release, downloaded August 15, 2004, from <http://edworkforce.house.gov/press/press108/second/06june/prop061604.htm>.

<sup>5</sup> For an example, see recent charges against ITT Technical Schools in Wall, J.K. 2004. "ITT Tech accused of faking grades, enrollment," *Indianapolis Star* August 20.

<sup>6</sup> Sources for dollar values were downloaded, in descending order of appearance, August 15 from:

<http://www.apollogrp.edu/Investor/Shareholders.aspx#so>

<http://phx.corporate-ir.net/phoenix.zhtml?c=87390&p=irol-fundamentals>

<http://www.marketwatch.com/tools/quotes/quotes.asp?siteid=mktw&dist=newsq&symb=CCDC>

<http://www.irconnect.com/coco/pages/stock-quote.html>

[http://investor.devry.com/ireye/ir\\_site.zhtml?ticker=DV&script=950](http://investor.devry.com/ireye/ir_site.zhtml?ticker=DV&script=950)

<http://cbs.marketwatch.com/tools/quotes/quotes.asp?siteid=EDMC&siteid=mktw>

[http://www.ittesi.com/ireye/ir\\_site.zhtml?ticker=ESI&script=950](http://www.ittesi.com/ireye/ir_site.zhtml?ticker=ESI&script=950)

<http://cbs.marketwatch.com/tools/quotes/profile.asp?siteid=STRA&sid=17398&siteid=mktw>

<http://cbs.marketwatch.com/tools/quotes/quotes.asp?siteid=mktw&symb=LAUR&sid=1736612>

<http://cbs.marketwatch.com/tools/quotes/quotes.asp?siteid=mktw&symb=UTI&sid=1613639>

<http://cbs.marketwatch.com/tools/quotes/quotes.asp?siteid=mktw&symb=WPO&sid=5339>

<sup>7</sup> These figures are calculated from data supporting Figures 1 and 3. As a group, proprietary school students receive a smaller share of government aid dollars than do their counterparts in other sectors. However, individual students enrolled in proprietary schools on average receive disproportionately larger grants/loans than do students enrolled in other sectors. For example, in 2000 the average 2-year proprietary school student received approximately \$1,700 in grant aid and \$4,670 in loans while the average public community college student received about \$630 in grant aid and roughly \$300 in loans.



### Office of Higher Education

1201 Sixteenth Street N.W.

Washington, D.C. 20036

202-822-7100

E-mail: [HigherEd@NEA.org](mailto:HigherEd@NEA.org)

### Higher Education Staff

Rachel Hendrickson

Georgia Treadaway

Rex Costanzo

Cathie Sheffield-Thompson

Darrel Drury

Valerie Wilk

This issue prepared jointly by John Lee, JBL Associates, and NEA Research Staff

To view back issues of *Update*, go to [www.nea.org/he/](http://www.nea.org/he/)