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The Profit Motive in Higher Education

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Last year's massive student protests in Chile had, in the pursuit of profit in education, one of their main targets for denunciation. The argument defended by demonstrators and shared—according to opinion polls, by a large majority of Chilean society—was that seeking financial gain from education is morally illegitimate and ought to be legally banned. Under any circumstance, education cannot be a business enterprise, as most people seem to believe.

One query concerns the actual state of affairs students were complaining about. Schools in Chile can operate as for-profit firms in all levels of K–12 education and at the nonuniversity sector of higher education. Only universities are required to organize themselves as nonprofit charities. However, this rule is shunned by many, possibly the majority of private universities in the country resorted to clever triangulation with companies owned by the proprietors of the university—to make earnings available to the founders or owners of the university.

From the point of view of policymaking, accommodating the demands of mobilized students was technically easier in the case of universities, for it was solely a matter of enforcing the laws as they appear in the books. Whereas at the other levels of education, current for-profit providers would have needed to be expropriated of their legitimate businesses by the government, a constitutional quagmire, and foreseeable lawyers' paradise of legal wrangling.

Politically, a change of the state of affairs involved a nonstarter for a rightist coalition government that places high value in private education and free enterprise, solely or combined, as well in the stability of the rules of the game for the sake of investors.

Beyond the case of Chile, it may be a worthy exercise to consider, in abstract, what are the pros and cons of for-profit higher education. Can higher education be a legitimate business? Is it a necessary business?

A FAIR GAME FOR BUSINESSES SEEKING PROFIT?

For a long time, all of higher education around the world has been public, private-philanthropic, or affiliated with religious institutions. But the participation of profit-seeking providers is growing, not only in the United States, but also in Latin America. Some estimates, for instance, put the share of Brazil's for-profit sector at over 30 percent of total enrollments in higher education, public and private. But Brazil, as well as Peru or Costa Rica, allows profits in higher education. In addition, perhaps a few million students globally are enrolled in ostensibly nonprofit institutions whose controllers ignore the ban on profiting via under-the-table dealings.

Why should there be no space in education for economic gain? One argument underscores the confidence-based nature of the education relationship. Such a conformation is subverted when the dominant goal of the undertaking is not to educate people but to make money from educating people. Those receiving the education may reasonably ask themselves whether the owners are in fact investing as much as they should in instruction, as opposed to cutting corners to maximize earnings. The counterargument here is that for an education business to remain in business it must deliver good-quality education; otherwise, people will take their business elsewhere. This pressure for performance creates an exogenous virtuous effect, even where there might not be any virtuous endogenous motives. Evidently, for this beneficial competitive outcome to materialize, as with any other market, good-quality information on performance is needed for consumers.

An additional issue has emerged with the concentration of enrollments in a few large-scale providers within the for-profit universe—a phenomenon observed in the United States as well as in Brazil, Mexico, and Chile—possibly fostered by economies of scale in management and in instructional design and delivery: For-profit private higher education apparently applies to the formation of large institutions (or conglomerates), much more than nonprofit privates and publics. Whether this is good or bad depends on one's take on market concentration or diversification.

Proponents of education as a business often point to the efficiency gains derived from a focus on maximizing profits. If the enterprise is to obtain economic gain for its owners, waste has to be reigned in, downtime minimized, investments carefully measured and approved by their expected returns, and incentives smartly tailored to make everybody in the organization produce their best. These measures not only benefit customers but typically do not take place at nonprofit and public institutions. Moreover, the legal structure of for-profits could be considered better suited to the unforgiving competitive environment of higher education of today than the cumbersome configuration of foundations and other charitable forms in the private, not for-profit domain. This greater expedience for management and mobilization of financial resources, found in the for-profit organizational form, is the trend noted in the past few years toward large investments in education facilities and equipment by proprietors of these institutions leveraging money from shareholders through initial public offerings or from financial institutions or investment funds—a scenario not unthinkable for nonprofits, but perhaps less frequent and more complicated to pull out.

EFFECTS ON QUALITY

Yet, the empirical question arising from this arrangement is not just whether it is true that publics and nonprofits operate less efficiently, but more critically, whether the efficiency advantage allegedly obtained by for-profits over charitable and public entities is larger than the share of income that goes to remunerate the executives and owners and for that reason cannot be reinvested in education. In other words, what is the net effect of profit seeking, based on how much is left for funding quality education? Opponents also stress that the organizational mechanisms, individual rewards, and overall culture of efficiency maximization is deleterious to academic integrity: programs in undersubscribed fields in the humanities may be closed because they have too few students and do not break even, regardless of quality. Also, large minimum class sizes may be good for business but bad for teacher-student contact; expensive faculty may be shirked for less costly and inferior colleagues, who can nonetheless deliver the basics, and the like.

Based on the issue of quality, can a profit-seeking institution, redirecting part of its income to shareholders, deliver more quality—quality measured, let's say, as fitness of graduates for the workplace, which is the mainstay of the promise of value in for-profits—than comparable nonprofits, free to spend all of their income in the requirements of education? Thus, an empirical question includes the issue of the magnitude of the efficiency premium in for-profits, compared to the size of the remuneration to the owners. Observers in Latin America maintain that local institutions in Chile and Costa Rica improved after being acquired by international education companies. As Brazil, a worldwide leader in testing of graduates, continues to expand its national program to test all graduates of higher education institutions in all disciplines and professions, data will become available to approach this question. Preliminary analyses of average scores by type of institution show mixed, inconclusive results.

Is For-profit Higher Education Necessary?

Even if profit seeking in higher education gave ground to more cons than pros, it may still be "a necessary evil" of sorts, necessary to provide access in times of worldwide massification of higher education, where the state is not financially capable to support the growth of the public sector. Moreover, philanthropy is in short supply—a combination of factors that pretty much describes the whole of the developing world. Indeed, it seems a good risk to stake that legal or illicit profit making is more prevalent in the developing South than in the industrialized North. If in these latitudes higher education is not provided as a business, it has been argued that the system will not be provided at all. However, adjudicating on this proposition would require accurate accounting of what is for-profit and what is not—a difficult task in the current information-starved environment.

Finally, why would people be barred from choosing to take their education from a profit-seeking provider? Regardless of the response to this question, there is one condition of plausibility for this argument nobody can negate: information. Customers must know whether the institution they are dealing with is a for-profit; and financial performance summaries of all institutions, whatever their corporate form, must be readily available. But the worldwide reluctance of for-profits to make of this condition a central element of their public persona should give us pause as to the social legitimacy accorded to educational businesses in our societies.