Insulated or Integrated: For-Profit Distance Education in the Non-Profit University

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Introduction

As colleges and universities pursue market-oriented activities in search of added revenue, increased enrollments, and greater prestige and visibility for their "brand names," they are increasingly turning to the for-profit company as a means to meet these goals. This is particularly evident as non-profit colleges and universities create for-profit subsidiaries to deliver distance education. These subsidiaries are aimed principally at the $3.5 billion online education market, which is projected to expand to $7 billion nationally and $25 billion worldwide by 2003 (Goldman, 2000, April 3; Rewick, 2001, March 12; Eklund, 2001, January 26).

With the creation (and now demise, in several instances) of these companies has come controversy, with some faculty claiming that the culture of the academy is being irreparably altered, as traditional models of shared governance are being replaced by a top-down, corporate style management, or by some hybrid. Some faculty members have charged that these companies enable trustees and administrators to circumvent the normal channels of governance (Carr, 2000, March 4). Faculty feel "out of the [governance] loop" (Carr, 1999, Dec. 17, p. A46) and bypassed in the decision-making process (Abel, 2000, June 15). As one professor commented, for-profit subsidiaries "put the standard rules of academic governance on [their] head" (Abel, 2000, June 15, p. A21).

Many argue that these for-profit organizations are inimical to the core values of higher education: shared governance, non-proprietary scholarship divorced from revenue considerations, and faculty control of the curriculum, while others contend that the academy must adapt to new market-driven realities. The recent closure of several subsidiaries has sparked further debate. Though the cause of these closures was announced as economic, some have speculated that it was a result of a mismatch between for-profit and non-profit cultures. One commentator blamed a subsidiary's failure on its inability to "break from its academic roots" and operate like a business (Carlson and Carnevale, 2001, December 14, p. A31), while another stated that the demise of a subsidiary was due to "cultural differences" with the parent institution (Carlson, 2001, December 13, p. 3).

The distance learning administrator is in a crucial position to be a key arbitrator in this potential conflict and to have a substantial impact on the success or failure of these ventures. However, she will be hamstrung in this role without a nuanced understanding of the importance of shared governance in academic culture and the cherished nature of collegial decision-making and review. These treasured values must be balanced with the real demands of non-traditional students who are often fitting online courses into already full work schedules and corporations who operate on a "deliver it yesterday" timeframe.

Governance Differences

Birnbaum (1988) contended that governance is the answer to the question, "Who's in charge here?" (p. 4). Similarly, Chait (2002) defined governance as "the distribution of legitimate authority for the purposes of making decisions and taking actions" (p. 69). Academic governance is typically "shared" by faculty, administrators, and trustees and is characterized by consultative and decentralized decision-making, diffuse authority, and devolution of responsibility (Mortimer and McConnell, 1978; Birnbaum, 1988; AAUP, 1990). It is considered one of higher education's "core values" (Ruch, 2001, p. 141). Yet, despite its vaunted status, shared governance is criticized for producing a system that is "cumbersome" and slow to respond to threats and opportunities (AGB, 1998, p. 4). In shared governance, participation by decision-makers is fluid and uncontrolled, inactivity is prevalent, and interest group behavior and conflict often dominate discourse among the governing bodies (Baldridge, Curtis, Ecker, & Riley, 1977). This contributes to a governance system where it is "difficult to use administrative processes" to take action or make decisions, and that resists top-down direction, hinders accountability for action, and engenders leadership that is often more symbolic than substantive (Weick, 1976; Cohen & March, 1986; Birnbaum, 1988, p. 40).

Governance in the for-profit corporation is the antithesis of shared governance in the academy. Corporate governance involves the "exercise of authority or power toward a particular end" (Lorsch & MacIver, 1989, p. 12), namely the realization of a profit from operations and the maximization of shareholder value and the wealth of the corporation (Besse, 1973; Blair, 1995; Monks & Minow, 1995; Oster, 1995). Because the profit motive dominates corporate activity, "a corporation … is always an authoritarian organization" (Besse, 1973, p. 108), characterized by top-down – "command and control" – authority, hierarchical organizational structures, and centralized power (Giroux, 1999; Pound, 2000; Sifonis & Goldberg, 1996, p. 96).

Under authoritarian control, "corporate governance has always been a matter of enforcing accountability" (Demb & Neubauer, 1992, p. 14). Accountability is achieved by measuring return on investment, profit per dollar of sales, or earnings per share (Besse, 1973). A university has no similar mechanisms for accountability (Besse, 1973; Bowen, 1994). With lifetime employment for tenured faculty, unclear outcome measurements, and a seemingly steady supply of students, many consider the university to be an institution with little or no accountability.

Culture: Key to "Fit"

Organizational culture has been defined as: "a core set of assumptions, understandings, and implicit rules that govern day-to-day behavior in the workplace" (Deal and Kennedy, 1982, p. 4); "a set of commonly held attitudes, values, and beliefs that guide the behavior of an organization's members" (Martin, 1985, p. 148); and "the way we do things around here" (Arnold and Capella, 1985, p. 32). Under any definition, an organization's culture shapes its policies, processes, and structure, and thereby provides a foundation for governance (Masland, 1991). In this way, culture acts as a "mechanism of social control," exerting a powerful influence on how organization members act, think, and feel (Schein, 1992, p. 13).

It is in organizational culture that the corporation and the academy most differ. Higher education values the unfettered pursuit of "truth"; the discovery of knowledge for its own sake, for social good, and for public benefit; and the sharing, rather than hoarding, of knowledge (Austin, 1990).

Along with these values rests the basic assumption, particularly among faculty, that the institution is a "community of scholars who work together to govern the institution" (Austin, 1990, p. 62).

Conversely, basic assumptions in for-profit organizations include capitalism, the pursuit of profit, the discovery of knowledge for competitive advantage, and the patenting and hoarding of knowledge for commercial purposes. Additionally, the for-profit sector prizes market-oriented decision making, efficient operations, cost reduction, and accountability for results. In contrast to governance by a community of scholars, for-profit corporations are typically governed by a clear hierarchy (Oster, 1995). Colleges are ideally collegial in nature, whereas corporations are managerial.

Drucker (1989, July/August) articulated a key distinction between governance in for-profits and non-profits, which underscores cultural incongruencies: "The businesses I work with start their planning with financial returns. The non-profits start with the performance of their missions" (p. 89). Oster (1995) asserted that a non-profit's mission and organizational values are "quite central to management in a way that it is often not in the corporate world" (p. 12).

Two Cases

To document the governance of for-profit subsidiaries and their "fit" within the traditional non-profit university, I conducted case studies of two for-profit subsidiaries established by higher education institutions to deliver distance education. The case synopses that follow – *D-Learning, Inc.* and *EC Online* – confirm the centrality of governance and culture in these ventures and point to several lessons for distance learning administrators in their work, whether with a for-profit subsidiary or in a traditional non-profit unit of the university.

D-Learning, Inc.

Distinguished University created D-Learning as a for-profit company for several reasons: the hope of financial return and access to needed capital, the desire to be free from the university's governance structure, and as a means of retaining its faculty's intellectual property. Distinguished considered itself a very entrepreneurial university, accordingly, there was little objection to D-Learning's creation. The company's initial business plan was to help the university produce online courses and deliver them to students; however, after a year, it shifted strategy to focus exclusively on providing online, non-credit training to corporations. This change in direction followed the hiring of a team of business executives with ample media publishing and e-commerce expertise, but no experience as academic administrators. The distance learning administrators who had managed the company during its first year of operation were transferred back to Distinguished's non-profit continuing education department, where they produced credit-bearing distance learning courses. D-Learning's headquarters were located in an off-campus office building.

Along with this new executive team, D-Learning was governed by a seven-member board of directors, which included three trustees – all very accomplished business executives – and four key university administrators. D-Learning's chief executive reported directly to one of these trustees, and had only an indirect reporting relationship to the university. No faculty members were on the company's board of directors. The university's president was not on the board of directors in order to safely distance himself from the company in case of an adverse reaction by the university's faculty to the company's operations. Though a faculty advisory board was considered, it was never established, and due to the non-credit nature of the course material the company produced, faculty were not involved at all in governing the company.

D-Learning's management team was restricted by the university's central administration from directly contacting the university's faculty to participate in course production, and was instead required to access faculty after first speaking with and receiving approval and direction from the appropriate dean. Because prior to D-Learning's founding the university's central administration had provided no explanation of the company's purpose, scope, and operation, each dean was wary about what participating or not participating with the company meant for them politically in the university. Many were also skeptical about the company's management and its operations. The prohibition from contacting the university's faculty directly left D-Learning's management in a constant marketing position with the deans, continually working to establish their own and the company's legitimacy and trustworthiness, with little help from Distinguished University's central administration.

After two years of operation, D-Learning, Inc. was closed when Distinguished University's board of trustees decided against reinvesting in the company.

EC Online

Entrepreneurial College established EC Online as a means of perpetuating what it considered as its core mission: to not only teach, but to embody entrepreneurship in business. In addition to this, college officials also hoped the company would develop into a profitable business. The college's dean of graduate and executive education founded the company and became its chief executive. From the outset, EC Online set out to create both credit and non-credit bearing courses for use in executive education and graduate business programs.

EC Online was governed by a board that included two of the college's trustees, the college's president, a current faculty member, the company's legal counsel, its chief operating officer (who was a former faculty member), and EC Online's chief executive (who also retained his position as dean of executive education). The company's chief executive reported directly to the college's president rather than to the chair of EC Online's board. Many of EC Online's top managers were alums of the college and some were even former professors. All had a connection and familiarity with the college prior to their employment. The company was headquartered on Entrepreneurial's campus.

In addition to the board of directors, the company established two faculty oversight boards that reported to Entrepreneurial College's curriculum committee. These boards were charged with monitoring the design and quality of the credit-bearing courses EC Online produced and for the oversight of various faculty issues, including workload.

In EC Online's early existence, Entrepreneurial College faculty worked to produce online courses and other materials for the company under only handshake agreements. Because a formal set of contracts had not been developed, the relationship between EC Online and these professors was solely based on trust and good faith. Later, employment contracts were formalized, but with or without a contract, Entrepreneurial faculty were engaged in the work of the subsidiary from the outset.

EC Online, though hurt by the recent downturn in the national economy, continues operations and hopes to remain a viable company for the long-term future.

Discussion

As these case synopses illustrate, organizational culture mattered a great deal in governing these two for-profit subsidiaries. In effect, governance was a reflection of culture – organizational values and beliefs were manifest in governance structures.

For Entrepreneurial College, the subsidiary became a "statement of values" (Chait, Holland & Taylor, 1993, p. 24) and served "to exemplify and reinforce the organization's core values" (p. 9). EC Online symbolically solidified the college's sense of self – " we are entrepreneurial" – and signaled to outside constituencies the institution's willingness to try new things and to practice what it preached. In fact, one could conjecture that if Entrepreneurial had not created the subsidiary, its constituents would have questioned why the college had not entered the online education market when so many others had. Inaction by the college, at a time when entrepreneurial activity was proliferating all around them, would have been incongruent with Entrepreneurial's culture and could have potentially caused more problems than creating the subsidiary did.

Conversely, D-Learning, a cultural incongruity, was insulated from the parent institution. The subsidiary was quarantined, in effect, in order to safeguard the traditional culture of the university and to remove the company from the university's traditional governance protocols. Without a separation of the subsidiary from the parent institution, both entities run the risk that either the traditional academic governance model will be imposed on the subsidiary or that the subsidiary will infect the university. Additionally, it seemed that the academic community had to be assured that the company was quarantined adequately and there was no risk of infection. D-Learning is in essence a contained experiment that has developed a governance structure designed to provide a thicker membrane between the parent and the subsidiary because the host institution views the subsidiary as very different from itself.

At Entrepreneurial College, the subsidiary is a close, next-of-kin to the parent culturally, so there is no danger of contagion, less need for distance, and subsequently more similarity in governance between the two institutions. The traditional academic culture and processes will not contaminate the new venture and the new venture will hardly contaminate the college. In fact, the two organizations enjoy a symbiotic existence.

In sum, the greater the disparity in culture between the parent and the subsidiary, the more separate and distinct governance will be. While D-Learning is clearly a governance hybrid, insulated from Distinguished University because of its divergent culture, EC Online has followed the cultural pedigree of its parent and is merely an extension of the college into the marketplace.

Implications for Distance Learning Administrators

What does organizational culture as it relates to governance mean for distance learning administrators? No matter the type of institution, integration with its dominant culture is important to the success and smooth functioning of any distance learning initiative, be it a for-profit subsidiary or a non-profit continuing education department. Here are several lessons that can be gleaned from the cases:

1. Administrators must remember that culture cannot be discounted or forgotten when managing distance learning initiatives. People are committed to working in the academy because of deeply felt commitments to higher education's distinctive mission; to discount this culture or to appear at odds with institutional mission only invites controversy and opposition. A savvy administrator will realize that rather than grand strategic plans for the future, it may be more important to articulate well the institution's past and clearly demonstrate how online learning fits with this

heritage. An online vision centered on dollar signs and large enrollments will seem anomalous to higher education institutions that thrive on shared values and in the end, may prove disastrous to the success of the organization.

2. A description and explanation of the purpose of the online learning venture must be done in order to prime the university before a full-scale distance learning initiative can be launched, especially if it is a for-profit subsidiary. The scope, plan, and structure of the new venture must be explained, particularly to faculty. And more importantly, how the organization aligns with the university's mission and values must be articulated. Preferably this will be done by the university's president and other top academic leaders.

3. The subsidiary's relationship to the academic side of the institution must be articulated. Access to faculty must be assured and the procedure for this known. Reciprocally, the faculty's relationship to the company must also be considered, whether this is contractual or merely in providing advice and feedback on an ad hoc basis. Ideally, faculty should be involved in the governance of a distance learning venture, even if only in the form of a faculty advisory board. In the case of a for-profit subsidiary, a seat on the board of directors could be reserved for a professor and a formal link to the university's faculty governing body created. Handled carefully, these connections will not slow or hinder the work of the company, but will enhance its legitimacy and credibility with faculty, who provide the organization's lifeblood, in the form of course content.

4. Distance learning administrators may be much better at managing for-profit subsidiaries than the more popular business executives. Even though they may not be Harvard MBA's or finance wizards, experienced distance learning administrators "speak the language" of the academy, know its culture, and are seemingly better positioned to move between the non-profit academic world and that of the corporation, than a business executive, no matter how adroit. In addition, distance learning administrators have credibility with the faculty and are not considered outsiders, or even worse, "evil invaders," as many might consider a corporate executive.

Conclusion

While remembering these four lessons it is important for both key university administrators and distance learning personnel to actively work for integration, rather than isolation, of their distance learning units with the larger college or university. Isolation breeds suspicion and opposition, while integration fosters understanding and support. Of course, no two institutions will be exactly alike and not all cultures will readily support a for-profit subsidiary, but handled appropriately and with appropriate governance processes and structures in place, even the most traditional academic culture can be convinced of the importance and benefit of distance learning and its place in the academy.

As higher education moves from an "integrated academic culture" to "the many cultures of the conglomerate" (Clark, 1980, p. 25) – which is underscored by the creation of for-profit subsidiaries to deliver online education – a richer understanding of organizational culture will help "reduce adversarial relationships," "minimize the occurrence and consequences of cultural conflict," and "help foster the development of shared goals" (Tierney, 1991, p. 128). Distance learning administrators are central to these outcomes and with a thoughtful approach to the creation and governance of for-profit distance learning organizations can aid in establishing a good "fit" for these organizations in colleges and universities.

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