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THE KEY WITH INSIDE HIGHER ED

EP. 18: THE UNIVERSITY OF ARIZONA'S DEAL WITH ASHFORD

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INSIDE HIGHER ED

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PAUL FAIN

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PAUL FAIN: Hello, welcome to a new episode of The Key with IHE. I'm Paul Fain, the podcast host and a news editor at Inside Higher Ed. We're back after a little breather, which was partially due to it being an unusually busy time at Higher Ed News.

Speaking of news, the University of Arizona made some earlier this month with its acquisition of Ashford University, an online for-profit institution enrolling 35,000 students. I spoke with two experts with interesting perspectives on what this unusual partnership means amid all of the action with online education. Kelly McManus directs the higher education portfolio at Arnold Ventures, a philanthropic organization. She previously was director of government affairs for influential nonprofit group the Education Trust. McManus shared her concerns about the Ashford arrangement and others like it.

KELLY MCMANUS: I'm much more worried, though, about the student who goes to the U of A global campus and thinks that they are getting an education from the U of A when, in fact, they are getting an education from Ashford.

PAUL FAIN: I also spoke with Trace Urdan, a managing director at Tyton Partners, a consulting firm. Urdan's a longtime expert on the for-profit college sector as well as the online education marketplace.

TRACE URDAN: This notion of a taking a large, already scaled online institution, which almost by definition means that you're talking about for-profits, and plugging it into a public university system is sort of a big and obvious topic that is quite common around the country.

PAUL FAIN: We've got a lot to cover in this one. Thanks for listening.

Okay, well, I'm with Kelly McManus. Good to see you. Thanks for doing this.

KELLY MCMANUS: Of course, any time.

PAUL FAIN: So among the various news items in higher education right now--we're speaking, by the way, on Thursday August 20th--recently, the University of Arizona and Ashford University announced an interesting partnership, a complex one. Can you just briefly give me your reaction to what you've heard about that one and what it means to you?

KELLY MCMANUS: Sure. So, I would say my first reaction when I heard about the news of the University of Arizona acquiring, but really building out a partnership with Ashford and its parent company Zovio, my first reaction was concern, and that continues to be a feeling that I have about this deal.

I also, frankly, am a little confused, not just about the structure of the deal and how it will actually work, but I'm more fundamentally confused about why the University of Arizona would choose to align with Ashford. I think we at Arnold Ventures are focused on improving return on investment in higher ed for students and for taxpayers. We care about value, we care about quality. We care about outcomes. We are concerned about predatory practices. And when you look at the all of those things, this deal, and Ashford in particular, kind of raises a lot of red flags on most of those things.

And so for me, the University of Arizona is a reputable academic institution. It's a strong flagship in the state, and why University of Arizona would want to align with Ashford, which has a 25 percent graduation rate, that has a long history of law enforcement activities, when it has paid repeated fines for abusive practices. For me, it just raises real questions about what the motivations are there, why you would put your reputation at risk to do that.

It also, though, raised questions for me again about the motivations of U of A, and I want to take them at face value. I consider Arizona a second or third home. To me, it's a state that I love and I love the people there. But with the U of A, they're saying that one of their goals in this merger or acquisition or partnership, or however we decide to define it, is to better serve more students. Absolutely, higher education in general needs to better serve more students, more diverse students, adult learners, people who are only able to access higher ed online. Absolutely. I want to take them at face value on that. But when you look at where the University of Arizona is now, particularly compared to some of its peers, it has a lot of work to do kind of in-house with the students that it has now before it starts to try to serve more students. I mean, U of A's graduation rate right now is just over 60 percent. That's almost 20 percentage points lower than some of its peers. It also has some pretty significant gaps by race and income. And in particular, one of the data points that I saw , their 2017 graduation rate for indigenous students was only 35 percent. So I would say that, if the U of A wants to serve students better, it should start at home first.

PAUL FAIN: Our reporter Lindsay McKenzie has written about this. You know, Arizona made a pretty good case that this wasn't driven necessarily by COVID and any sort of urgency there. But it sounds like it might have at least sped up their desire to get active in the space. But, you know, a point that we've heard with others, and we'll get to other similar deals in a second, you know, we felt like we couldn't ramp up without doing this, doing something like this. On our own we would have struggled to get to scale. And that I assume means both capacity, know-how, technical marketing, etc., but also a shared governance, faculty involvement. Do you buy that argument, and either way, do you worry about the watering down on an Arizona credential?

KELLY MCMANUS: I'm going to answer your second question first, in that, I actually, I'm more concerned, I am concerned about the University of Arizona's reputation and the risk that comes with that right now. The degree from the U of A means something. It means something in the market place, it means something to graduates, to the alums. I do worry that this will cause some reputational harm.

I'm much more worried, though, about the student who goes to the U of A global campus and thinks that they are getting an education from the U of A, when, in fact, they are getting an education from Ashford. And, you know, we see in our work just the insidious predatory nature of some schools, and the devastation that that causes to students when they graduate and realize that the degree that they thought they had means nothing in the marketplace, or is laughed at. And so I'm deeply, deeply worried about the students who might be sold a bill of goods that they are going to the U of A when in fact they are going to Ashford. So that is one thing. That's what worries me kind of the most is the students who are going to, potentially going to be taken advantage of in this.

That is not to say, you know, I hope that there is a significant amount of transparency I think in all of these deals. That is an area that we need to do much better. Students deserve to know who is developing their curriculum and who is teaching them. They are going to a school. They deserve to know who is providing that education. Frankly, taxpayers deserve to know that as well, that we are actually investing in a reputable institution. And so I do hope that as this deal, if this deal goes through, I hope it will be heavily scrutinized and I hope that the University of Arizona commits to a minimum high degree of transparency for students so that they don't just import the predatory behaviors that we've seen from some for-profit schools, including Ashford.

PAUL FAIN: This obviously isn't the first deal that resembles this one, Purdue-Kaplan being one that... I remember when that press release came under by transom. It was like, wait, what? You know, really interesting partnership. And it a lot of it, again, like this one, not a big payment up front, nominal at most, but the University of Arizona on the hook through some sort of revenue share going forward. And that is similar to Kaplan. We don't have time to parse all the details there. It would be a two-hour program. But what do you think about that type of arrangement generally, concerns about the way revenue might be structured, and concerns about others emulating it?

KELLY MCMANUS: I do think that this is going to be, this is the second, I guess, this is going to continue to happen. I think that it is, because of in many ways a perfect storm. There are real budgetary pressures on institutions, and there is a need to better serve more students. That being said, I think that what concerns me the most is that this is a very kind of gray and not at all transparent area of policy. And it is one that I hope as we see this becoming more prevalent, that it is something that we can address from a regulatory perspective. We have to make sure that we are seeing value. That we are, that students have the transparency that they deserve, that we're able to look at outcomes and MSS quality from that.

I think that one of the things that over the past ten years there has been a lot of attention to predatory for-profit colleges. Not all for-profit colleges are predatory, but there's a disproportionate existence of those bad behaviors in that sector. And what we're seeing now is that these schools are evolving and adapting, and they are recognizing that they're going to struggle with additional regulatory attention. They're going to struggle with some of the public perception issues, but instead of changing the behaviors, they are just changing their governance structure, or changing how they operate. And what we're seeing now is nonprofits and publics incorporate that, and that's really concerning. And that's a big gap from our perspective in the consumer protection regulations.

The other big thing to highlight here is what you talked about in terms of the structure of the deal and the revenue sharing. I think that there is a reason that incentive compensation is banned in HEA. But...

PAUL FAIN: Just real quick, can you explain what that means to folks?

KELLY MCMANUS: Sure. So that just means that you can't be paid for bringing people in to school. But if that is baked into your deal, then what incentives do you have to keep quality high? None, really. Like then, the driver is getting people in the door, and so that is the root of a lot of the predatory behavior that we've seen in the for-profit sector over the decades. And so it is deeply concerning that the U of A, Purdue, and any other schools that go down this route might be incorporating some of that behavior.

PAUL FAIN: So where this week there's a convention going on, Democrats getting ready to potentially resume power in Washington. You mentioned regulations that could affect this, and I assume more than just Purdue-Kaplan, or Ashford and Arizona, the online program management space as well, what would you like to see? What's possible? What could the Democrats really pursue to try to rein this in or up consumer protection?

KELLY MCMANUS: I think at a minimum, when we're talking about OPMs in general, and first and foremost most important thing that we can do is require transparency, so that students know who is developing and delivering the instruction that they are paying for. We also absolutely have to revisit the incentive compensation guidance that allowed this whole thing [LAUGH] to develop, this behemoth is taking on a lot of different forms in the OPM world.

I think it is... I don't want to sound as if I don't think that there is a role for OPMs. It would be crazy for every single institution to develop its own online platform or some of its own services. But when we're getting into the heart of curriculum and instruction, that's when we're really talking about the value that a school provides. And that I'm deeply concerned about the integrity of those programs. So I think that the Obama Administration, frankly, did not foresee this coming and they opened a gaping loophole in the guidance, and I think we need to address that.

But more broadly, this is one facet and it is going to be an emerging facet, it's going to continue to get bigger and evolve into who knows what kind of big, again, behemoth it's going to be. But I think that we need to be talking more broadly about value and accountability. We invest billions, hundreds of billions of dollars every year in our higher education system. Students are taking on debt that they are struggling to repay. We need to make sure as a higher ed community that we are delivering on that promise, that we are giving people, that people are better off... No one should be worse off for having gone to higher ed. We should be making sure that every single student is better off for having gone to higher ed than if they hadn't.

And so we are really hopeful that a new administration, if there is a new, administration, will really take on that question of value and that question of making sure that we are continuing to make higher ed live up to the promise that it has always had, but has not always done a great job at, particularly for students of color, for first generation students. Like, higher ed is supposed to be the key to economic mobility and stability. We need to do a much better job at making sure that that's true.

PAUL FAIN: Well, that feels like a good note to end on, Kelly. Thank you so much for tackling these complex issues in this medium. I know it's not easy.

KELLY MCMANUS: Happy to be of service. It was always great talking to you.

PAUL FAIN: Well, we may call on you again. Thanks again.

KELLY MCMANUS: Happy to...

PAUL FAIN: If you're looking to go even more in depth in IHE's news coverage, check out our special reports. These deep-dives feature rich data and reporting, as well as thoughtful, substantive analysis you can trust. Visit insidehighered.com/special-reports, to view the topics we've covered and to purchase the report that best supports your area of work or study.

So, Trace Urdan, good to see you. Thanks for joining us.

TRACE URDAN: Good to see you. Thanks. Happy to be here...

PAUL FAIN: So you and I have talked a lot over the years about the for-profit college space. In this case, we're talking about an unusual, but not the first, partnership between a big public university and a for-profit online player. Can you tell me just your thoughts about this deal, whether or not you were surprised to see it come to pass. You know, has this sort of thing been in the works for a while?

TRACE URDAN: I was not surprised. Although I didn't know about this partnership specifically, I have been privy to a fair number of conversations that are taking place in public university system offices around this question. And obviously, getting a deal like this done is incredibly difficult and complicated. So a lot discussions don't go anywhere, but this notion of taking a large, already scaled online institution, which almost by definition means that you're talking about for-profits, and plugging it in to a public university system is sort of a big and obvious topic that is quite common around the country.

PAUL FAIN: You know, one of the bigger points made in defending these or explaining the interest in these sort of partnership is that the nonprofits, the publics, whether it's Purdue or Arizona here, can't do it on their own, can't get to up to scale, can't do a lot of the pieces as well as they could through an acquisition. Do you buy that? And if so, why?

TRACE URDAN: No, I am a big subscriber to that perspective. I think there really isn't a public university that doesn't have some kind of online offering that they've started up themselves. I think the problem comes in dealing with the working adult population, which requires a lot of systems and processes that are really alien to how traditional universities function. Traditional universalities are generally set up to serve, you know, the old-fashioned type of student that starts in the fall and stops at the holidays, and comes back in the spring, and takes the summer off.

And when you're dealing with working adults you need a number of things that are really quite different from how universities usually operate. You need to be able to have rolling admissions so that you're starting new classes throughout the year and you're not making these folks wait until the fall. You need to have a much more standardized curriculum than most traditional universities are comfortable with. You need much more explicit pathways towards completion than most traditional schools are generally comfortable with. And the biggest issue and the biggest stumbling block I think is that you need really different approach to marketing. These are busy people. They have a lot of questions, and it means that you sort of need to find them. You need to get them on the phone, and you need to address their concerns and answer their questions at whatever time is convenient for them. And that's just not how traditional institutions are set up.

And so, it's really the kind of the business processes, if you will, that I think get in the way of universities scaling up their operations. It is very difficult to make those kinds of changes or set up an operation like that within the standard kind of consensus-driven stakeholder decision-making process that exists at most universities. And so doing something outside of that is almost requisite. And then you're sort of left with the question of buy versus build, which is a question that any organization has when they're trying to sort of think about getting into something new and scaling it up. It's a very natural kind of analysis to perform. And in this case, given that you have a whole lot of eager sellers out there at this moment, the buy versus build conversation is naturally going to include this notion of acquisition. So I think that's why it's happening and why I think we're going to probably see more of these types of deals going forward.

PAUL FAIN: So it's obviously an unusual environment for higher education more broadly than online education, but certainly online education. How optimistic are you for Arizona and Ashford's sake that this works, that they'll be able to pretty quickly see growth?

TRACE URDAN: That's really difficult to judge. I think that there is a branding issue around proprietary schools, which isn't a surprise to anyone. In general, over the last ten years or so we've seen contraction in the adult market, which is largely a function of the macro-economic environment. When there's a healthy employment market and people are getting raises and they're busy, it's easy to postpone the idea of going back and completing their degree. But when times get tough, they think about going back. So we've had a growing economy and enrollment in adult education has declined during this period. But at the same time, you've seen a massive share shift away from for-profit institutions and towards non-for-profit institutions. So the growth of Southern New Hampshire, of ASU, of even Liberty, have all come at the expense of the previous large institutions in the space, you know, University of Phoenix and Ashford. So Ashford has been contracting since about 2012.

There are a couple of assumptions in this deal. One of them is that we're at a moment in time in the macroeconomic environment where there's probably going to be, where adults are going to be looking to back to school. So there might be tailwinds that could just help the deal on that basis alone. And then, of course, there's a branding issue, this idea that, okay, now as part of a public university, as a non-for-profit institution, there will be more reasons for students to trust enrolling in the school than might have existed when it was Ashford and it was for-profit.

That thesis, I think, holds some water, but we've had a couple of test cases so far, right, we've seen what's happened with Purdue Global and to a lesser extent, we've seen what happened with Dream Center. And both of those situations, I think, were premised on something like the same idea, which is, as a non-for-profit, students will be more inclined to enroll. It didn't go like clockwork. I think Purdue Global is now growing, but I think initially they had a period of contraction even still as a non-for-profit. And, of course, Dream Center, that thesis didn't work out for them at all. So it's not a given that UAGC is going to necessarily grow just because of this change, but there's certainly a lot of reasons to think that it's going to have a better chance to grow that it might have otherwise.

PAUL FAIN: That's a good point. You know, I always... I have pretty strong belief in the power of the brands in higher ed, and Purdue is a strong brand, Arizona is a very strong brand. And, you know, I'm inclined to believe that that'll be good sell to folks, certainly more than, no offense to Ashford, but University of Arizona is a name. We know that football team. We know it. You know, why in Purdue's case, I know it's a complex piece here, but why didn't it work more quickly, that Purdue was a draw?

TRACE URDAN: Well, again, part of it was the timing, right? So the macroeconomic environment was such that is was just a less appealing... You know, the market itself was contracting, so that they had that working against them. I think the other thing is that there's just momentum in these kinds of enrollments situations, right? Enrollment momentum doesn't really turn on a dime. And when you're in this period contraction, it's hard to turn it around. And sometimes that works in the other direction too. When things are going up, it takes a lot to get it to turn around the other direction. So some of it may just have been that. You know, some of it may have been execution. You know, it's hard to say.

I think they're in a much stronger, and I think, growing position now. So I don't doubt for a second that this was the right decision for Ashford to make. I think for UA, you know, as a public institution, I think they rightly perceived that there's some need to serve the adults in their home state. Now, it's a little bit more complicated, because they've got ASU down the road, which is already serving the working adult students of Arizona quite well. So it's a little bit different. But it also represents a different revenue stream for a predominately ground-based institution, and, you know, these days in the COVID era, that's important too. I think universities are looking to diversify their streams of revenue, you know, just to be crass about it. And, you know, having a viable online offering is more important than it used to be.

PAUL FAIN: You mentioned earlier, there are some sellers in the market right now. Our mutual colleague Goldie Blumenstyk tweeted the other day, how many big for-profits are there left to buy? But, you know, what are you seeing out there? What are you... Who... You don't need to get into specific names, but what type of institutions would we look to to see future arrangements like this or in the vein of this?

TRACE URDAN: You know, it's complicated, right, because if you're talking about a for-profit institution, you have to actually compensate the folks that own that asset currently. So, you know, if you're going to something outright, that means cash, and that's pretty complicated, especially for a public university system. It's why these deals are complicated, the way that the UA one is. And in that situation, you had a seller that had already decided to hive off the university asset and kind of retain a services component. You know, so part of the question is, what's the institution? What kind of brand baggage does it bring? What's the profile of the population, and how big is it and how expensive is it likely to be?

Alternatively, there are smaller institutions out there that have just the sort of the capability set, right? So one way to think about this is to buy the revenue, the enrollments, the students as they exist today. Another way to think about this to buy something like your own personal OPM, right? So if you buy... You can buy the expertise and the platform of something that might be very small, you can make a case that you can then take that and grow it into something else. And so that really widens the market of opportunity quite a bit when you're willing to sort of look at smaller assets that might be, you know, competent. On that basis, I think we'll see a lot of these kinds of transactions up and down that size scale.

PAUL FAIN: Speaking of the size scale, you mentioned that there have been, there's been a lot of growth in nonprofits in kind of the national market. There's obviously players in regional markets. You know, are we starting to get to a place where there might be some saturation? It's going to be tough for, let's say, Arizona to go as national as their neighbor down the road ASU. You know, can a Maryville break through nationwide with, I think, Pearson's their partner there? Like, what should be look at in terms of nonprofits on the rise, I guess?

TRACE URDAN: Yeah, I think, you know, there's sort of two different dimensions. So if we're thinking about state institutions, where I think the mandate is the clearest, because it really is part of their mission. There's sort of two categories.

So one are sort of state systems that have, as you say, a brand around education, right? So you think about UMass and the deal that they announced recently with Brandman is a good example of that. People, when they hear UMass, they think of high quality post-secondary education, and that extends outside of the state of Massachusetts. There are other states that don't have the same kind of brand around education, but they might very well still want to do a better job of serving the folks in their own state that could be helped by getting a bachelor's degree, right?

And so this is the point about scale. You're right, there's a limit to how many national competitors there can be before people are going to start making bad bets. But there is almost a limitless amount of folks that can sort of bite off something a little bit smaller and expand the market in their home states. There are still, you know, tens of millions of people out there that are potentially in a position to benefit from advancing their education from a reputable quality brand. And so on that basis, you know, you sort of have 50 state university systems that could do something more than what they're doing right now, which, you know, tends to be in the couple of thousand student range in some cases, and really not making a difference at all. So, you know, I think there's a spectrum. But there's definitely a limit to how many more giant, for-profit online schools are going to get purchased by state institutions.

PAUL FAIN: I've kind of chuckled at this. You know, in the run-up to this interview and some of our recent conversations, we tend to talk about big for-profits. In that space, the regulatory fights over the last decade plus. But, you know, we're talking about nonprofits and I suspect that's going to keep being a big part, you know, not just the market shift that you're tracking and working on, but also the regulatory discussions going forward. Who knows? I mean, it really hasn't been at this point. I mean, I'm simplifying, but I haven't heard a lot of pushes to rein in big nonprofits from a regulatory standpoint. But just, where do you see the conversation going about, beyond even just partnerships between, you know, an Ashford and Arizona, but the publics and the big private nonprofits kind of driving the online education discussion?

TRACE URDAN: And it's an interesting case. I think, you know, my perception is generally that nonprofit institutions and public institutions for sure, kind of like to keep their head down as much as possible when it comes to regulatory debates. I think we've seen this a little bit in the OPM realm where you have, you know, growing criticism from public policy people, and you know, there's this sense that, okay, the OPMs are doing something that we're suspicious of and they need to be reined in. And, you know, my question is continually like, where are the nonprofit and public partners of the OPMs in this debate? Why aren't they stepping forward to say, basically to defend the practice? And my perception is that they just want to keep their head down and hope that goes away.

You know, it'll be interesting to see. I think, my general cynicism is that, you know, whatever the issues are around completion and online, and around growth in online, that people's concern over those issues with probably mitigate as the market share shifts towards non-for-profits. They just tend to get a little bit less concerned when institutions are not, you know, explicitly seeking profit in those enterprises. So I actually think that the volume probably turns down on online schools generally in non-for-profit hands, and probably refocuses itself on whatever the residual for-profit part of the market looks like. And if that looks like services, then I think that's probably where the laser beam moves next.

PAUL FAIN: Do you think, as we're speaking, many institutions nationwide are moving back to remote only. Most of them are doing at least hybrid now. Does the fact that all of the United States higher ed space is dabbling in online, if not entirely in online, change the way we view quality and rigor and what needs to be regulated?

TRACE URDAN: Yeah, I hope so. I mean, I think it has the potential to sort of make the conversation a little bit more open around those issues. I think ironically, you know, Tyton Partners has done some research in this area and I think the initial assumption was, oh, this bad online experience is going to turn people off to online learning. And while I think that some students and parents have had that experience, strangely enough, it looks like professors who got their first exposure to online teaching in this COVID process are actually finding themselves liking it or more open to it than they ever thought they would be. And I think that's a positive sign, because those are people that are really in the middle of making change inside traditional institutions. So if you can get the faculty on board, then I think it goes a long way towards making this whole conversation a little bit less fraught.

PAUL FAIN: Don't knock it till you try it, basically.

TRACE URDAN: [LAUGH] Exactly!

PAUL FAIN: Well, Trace, always appreciate your expertise and time. Thanks for doing this one, and I hope to catch you again soon, not just on Twitter.

TRACE URDAN: You bet. Take care, Paul.

[MUSIC]

PAUL FAIN: That's it for this episode. Thanks for listening. I'll be back soon. We'll be talking about short-term, alternative, and online credentials, and their place in the marketplace amid all the disruption. Hope you'll join me. Catch you then.