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The Third Leg of the Stool:
For-Profit, Online Universities Focused on Economic Development

Dr. Howard B. Schechter

Walden University
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Abstract

The foundation for building sustainable prosperity consists of a stable, predictable financial climate; private sector investment; and an educated, entrepreneurial workforce. The rise of for-profit universities delivering higher education online is well known. These internet universities currently focus on the Americas, Europe, and Asia but have bypassed Africa. This is about to change as the trends of wireless broadband internet access, a quadrupling of the number of Africans online over the past five years, trade growth, and stable financial processes are setting the stage for an economic leap in many African nations. These recently converged trends are creating the conditions suitable for profitable investment in establishing an indigenous, credentialed, professional class. This proposition is further bolstered by recent studies which have revealed that degreed individuals are in demand in their countries, there is employment for them, they earn well, and they tend to stay in their countries.

Overview

This paper explores a model of economic development funded by the private sector and utilizing embedded learning provided by for-profit, online universities. The model is based on three converging trends which are paving the way for a new era of sustainable development. These trends build on lessons learned over the past 50 years of experience and address finance, education, corruption, and infrastructure.

One convergence has been the turnaround of development agencies relative to funding tertiary education at the professional levels. This has coincided with the acceptance and rise of quality, for-profit, online universities offering masters and doctoral level programs at a distance. Together, these are a new concept in traditionally poverty stricken areas such as Africa.

A second convergence has resulted from expansion of free trade and a new development model**.** The first was primarily the result of the African Growth and Opportunity Act (AGOA), 2000) which has opened up and supported free trade between the U.S. and 53 African countries which have reformed their economies along free-market principles. This market reform has coincided with the rise of a mixed-model, private and governmental sector, development aid agency i.e. the Millennium Compact Corporation (MCC). Since 2004, the MCC has funded basic, commercial, infrastructure projects such as ports and bridges, financial and justice systems, and workforce education while simultaneously targeting government corruption, financial corruption, and undocumented financial processes.

Supporting the private sector, the African Growth and Opportunity Act (AGOA, 2000) has encouraged duty-free trade with African countries. U.S. Secretary of State Condoleeza Rice affirmed, in the Fifth AGOA Forum held (June, 2006) in Washington, that ". . . real progress against African poverty is only possible through business-led growth".

Note:

AGOA and the MCC are examples of U.S. led efforts. This emphasis is not intended to ignore or minimize efforts being made by the EU, such as the Brussels Programmme of Action and others. They are noted here due to the enormity of the U.S. market which represents significant opportunity for Africa. In 2006 alone, the U.S. imported $61 billion in products from AGOA partners. This has a multiplier effect when combined with U.S. assistance to Africa which is at $3.3 billion in 2006 up from $1.1 billion in 2000.

Development projects are economic projects whose success depends on a combination of finance, investment, and workforce performance. The achievements of micro- and macro-financing in the developing world are well documented. Workforce performance is a relatively new concept in traditionally impoverished areas.

The use of indigenous professionals augmented by benchmarked process improvements has already yielded economic returns. However, the role of private, for-profit education and training organizations in the developing world has been minimal due to assumptions about financing and profit models. The major for-profit universities such as the Apollo Group's University of Phoenix (US), Laureate International (US), and the Open University (UK) have all but ignored Africa and other developing nations.

This author believes that those countries which have been left behind can soon catch up with the knowledge-based "tiger" economies of India and China. He further believes that the private sector holds the key to such development.

Lessons: 50 Years of Development

The record of development efforts in Africa has, by any measure, been one of limited success and, in many cases, outright failure. There still exists much to be done despite both general and specific investments by countries such as France, Belgium, and Portugal, the U.S. (via USAID), the IMF, and the UN.

It is generally agreed that:

- the lack of governmental controls,
- accountable financial structures,
- inconsistent trade policies,
- land and property confiscation,
- complicated and slow justice systems

and other forms of corruption have directed funds and energy away from intended outcomes. The people of Africa continue to suffer as a result and the sub-continent, as a whole, has yet to see the benefits of technological advances such as those realized by the economies of India, Mexico, and China.

The U.S., under President Bush, created the Millennium Challenge Corporation (MCC) in 2004 to address these problems in Africa as well as in other parts of the world such as Vanuatu, Albania, and Armenia. Under the Threshold Program, the MCC works with applicant governments and aid providers to develop a Compact which is specific to the needs of each country. The programs are uniquely formulated but the overall goals are to lift the population out of poverty, fight corruption, and to build free and democratic structures.

In Benin, for example, the Compact specifies a Land Project which specifically reduces the time and cost to obtain a land title, a targeted reduction in the number of land disputes, and methods to increase the viability of land investments. This is buttressed by funds to:

- Establish a Financial Services Project to expand access to financial services, improve oversight of financial investments, and increase the number of loans guaranteed with land titles,
- Improve port operations and infrastructure, and
- Improve access to justice by construction of new court houses, training court personnel, and establishing an arbitration center to resolve business disputes

These efforts are expected to help over 100,000 rural and urban households, multiply by a factor of three the project funding level, increase merchandise through the port by over 50% while reducing operational costs, and make the court system more responsive and closer to rural populations.

MCC's overarching goal is clear. "Business as usual" in African threshold countries is an idea whose time has come and gone. Direct MCC monitoring as well as monitoring and disbursement of funds through MCC strategic partners, such as USAID, ensure the flow of funds to their intended purposes with measured results and benchmarks reported on a regular basis.

An Indigenous Professional Pool

Education and Development in Africa

The knowledge based economies of the 21st century are succeeding in large part due to an indigenous workforce that is highly educated. It is axiomatic that developing countries would have a strong stake in creating a rich and consistent infrastructure producing, employing, and retaining degreed professionals.

The African record has, unfortunately, demonstrated the opposite. The University of Ibadan in Nigeria is an example. It was doing well in the '70s but was in decline in the '80s and '90s. The University of Dar es Salaam in Tanzania likewise did well after independence in the '60s but followed a similar decline in the '80s and '90s. Universities throughout Africa have similar stories which recount the same "boom/bust" cycle.

Enrollment rates of African students in programs leading to terminal degrees have also been far lower than in any other area of the world. The average across the continent has been 4% while the average for other developing nations has been 10%. Knowledge-based economies that dominate the global economic palette have, by contrast, tertiary enrollments in the 55% to 65% range.

Salaries of faculty likewise rode the waves of plenty and scarcity. Currently, the resurgence of some universities have resulted in faculty annual salaries of USD $10k. These salaries have, at times, shrunk to USD $2k - $3k as funds dried up. The natural reaction of faculty to low salaries was to invest in businesses outside of academia and to find more lucrative consulting work in industry.

Globally, the establishment and ongoing funding of traditional "bricks and mortar" universities is an ongoing problem. The solution to this problem has been the growth of online learning via the Internet. The past 10 years have seen the growth of the University of Phoenix, Laureate International, Kaplan University, Capella University, Jones University, and other online institutions. Online learning has matured to a respectable level and degrees are now accepted by global companies such as Boeing, Anheuser Busch, Tata Steel, Toyota, Cisco, Microsoft, Sun, Motorola, and others.

Economic Drivers for Tertiary Education

One measure of the return on investment for education is the "rate of return", a statistic derived from lifetime earnings relative to educational costs. The rate of return for public investment in education is in inverse proportion to the level of education i.e. the rate of return for tertiary education is less than that for primary education. However, the rates of return to the society as well as to the individual are high and that must be considered. This is especially true in Africa relative to the rest of the world.

According to Psacharopoulos and Patrinos (2002), the private rate of return is 27.8% in Africa compared to 19% worldwide. That rate is higher than for any other region by a significant margin. The societal rate of return is 11.3% in Africa compared to 10.3% worldwide. We can conclude that individuals investing in their own higher education in Africa are making very good investments. African countries that are investing in higher education are likewise making sound investments. In common parlance, higher education gets "more bang for the buck" in Africa than anywhere else.

The numbers are compelling. The returns to society for public investment in higher education, though lower, have been widely documented. Higher levels of education have been positively correlated with improvements in health, greater symmetry in income distribution i.e. the growth of a middle class, adoption of new technology, advancement towards democracy, and achievements in civil liberties.

Higher levels of education have also been inversely correlated with problems that are of particular interest to African and other developing countries. These include reduction in: the spread of the HIV virus and AIDS, poverty, crime, and population growth. While difficult to calculate an absolute rate of return for these factors, they are consistent with national, sub-continental, and international goals.

Embedding Learning in Development: The For-Profit, Online, University Business

In this model of development, the professional earns their degree in an institution whose mission is aligned with economic development at all levels. The result is a degreed professional whose studies have been focused on economic development projects in their country. Examples would be an MBA student developing an online, microeconomic structure for entrepreneurs in Tanzania, a Doctoral student developing epidemiological response models, or a Master's degree in engineering focusing on alternative energy production for rural development.

The practical utility of a for-profit, online educational model lies in its flexibility to adapt to changing needs from country to country. At once it can focus energy and research on port development, fisheries development, and land title process management while elsewhere bringing a focus on a new model of teacher training, allied health field development, or the

justice system. The outsourcing of faculty to countries which have particular expertise and can deliver it via the internet is a new form of global knowledge management.

Higher education produces degreed professionals such as engineers, doctors, educators, and financiers who promote the advancement and modernization of agriculture, fisheries, energy sectors, telecommunications, health, and commerce at all levels.

The paradoxical outcome has been poverty stricken nations with a 90% literacy rate but no substantial or sustained increases in GDP. This is in sharp contrast to countries such as the U.S. which have literacy rates of approximately 70% but are economic powerhouses. The IMF, the UN, World Bank, USAID, and other international agencies have recently begun to change that focus and thus set the stage for 21st century-style tertiary education.

Higher education has, in the past 10 years, undergone a transformation from being primarily traditional "bricks and mortar" institutions to new models of online and "blended" delivery i.e. some combination of online learning and face to face learning delivered via for-profit institutions of higher education.

The spectacular growth of for-profit universities has largely gone unnoticed outside of the financial markets. These institutions have been growing at a rate of 8% compared to 2% for traditional higher education**.** Percentages are interesting and startling in this regard but revenue and enrollments are the two most important and revealing metrics in this sector.

The Apollo Group's University of Phoenix has grown from $769 million revenue in 2001 to $2,251 million in revenue in 2005 according to Standard & Poor's. They have over 350,000 Masters and Doctoral candidates studying in a mixed delivery of online and campus-based programs.

Laureate International had revenue of $485 million in 2001 and reported $875 million in 2005. They deliver Master's and Doctoral programs, including MBA's, in North America, South America, and Europe. They had 226,000 students enrolled in 2005 in online, blended, and campus programs. (2006)

Then there is everyone else. The oldest group, the Open University, a government operated institution of the UK, currently has 180,000 students enrolled in Bachelor's, Master's, and Doctoral programs in the UK, Europe, Russia and the former Soviet republic countries, as well as India and Israel. Familiar names in North America are the DeVry Institute with 55,816 students, ITT with 42,000 students and Capella University (online) with 15,700 students. These are privately held and revenue data are not public. The "everyone else" category totals over 292,000 students enrolled in private, for profit universities.

The grand total is almost one million enrolled in tertiary programs predominantly delivered online by for-profits in the developed countries. None of these providers have presence or evinced any interest in Africa, and are instead focusing on Asia Pacific, Europe, and South America. We believe the time is right and a convergence has arrived.

Internet Commerce and the Online, Higher Education Business

The worldwide growth of internet commerce by region reveals the growth opportunity available in Africa. The data show that internet technological and commercial leverage has largely bypassed Africa even though other areas of the business sector have undergone substantial and positive changes. We include this table since online universities are included in the internet commerce category.

Table 1. Internet Usage Growth 2000 - 2005

World Regions	Internet Users, 2000	Internet Users, 2005	Growth	% Pop. 2005
Northern America	108,096,800	223,392,807	106.7 %	68.0 %
Oceania	7,619,500	16,448,966	115.9 %	49.2 %
Europe	103,096,093	269,036,096	161.0 %	36.8 %
Latin America + Caribbean	18,068,919	68,130,804	277.0 %	12.5 %
Asia	114,303,000	323,756,956	183.2 %	8.9 %
Middle East	5,284,800	21,770,700	311.9 %	8.3 %
Africa	4,514,400	16,174,600	258.3 %	1.8 %
Total World	360,983,512	938,710,929	160.0 %	14.6 %
Source: Internet World Stats, July, 2005.				

Note1: % Pop. is the Penetration Rate, expressed as population percentage.
Note2: Internet Growth Percent is between December, 2000 and June, 2005.

Source: Internet World Stats News, number 008, July, 2005, www.internetworldstats.com

In 2005, the percentage of population using the internet in Africa was the lowest in the world i.e. < 2%. The trend from 2000 to 2005 in number of users tells a more promising tale which is that 4x as many users were online in 2005 as in 2000. Africa is on the verge of explosive growth in the number of internet users.

The outlook has seemed limited due to the lack of a wired infrastructure but that situation is about to change. The Republic of Cape Verde, for example, is moving to broadband wireless technology that will make all of the islands an internet "hot spot". Connectivity will no longer be an issue by 2007. The rest of Africa will follow soon.

The explosive internet growth in Africa is occurring now and there has been significant real investment and progress made in Africa since 2000 due to AGOA and the MCC compacts. Most agree, in principle, that an indigenous professional base would also be a foundational element to sustained growth and development. A nation, in order to achieve a level of prosperity, must have its own professional class of doctors, engineers, managers, health care workers, educators, financiers, etc. The question is: how to move to that stage profitably and at a high level of quality?

Compelling Factors: Cost of Operations

The financial model for an online university is different from an "on ground" university. The capital costs and the running costs are much lower. Classrooms, special purpose buildings, heating and cooling, water, electricity, maintenance expenses, etc. represent a significant budgetary impact to a traditional university. These are eliminated from the online university. It is a model suited as much for developing countries as the developed world.

The cost structure of an online university consists primarily of the administrative, faculty costs, and technology costs. The largest group of employees in any type of university is the faculty. In the online model, the faculty teaches from their homes, offices, or anywhere there is internet access. A large percentage of part-time, adjunct faculty are employed without benefits

and are paid on a per course, per mentee, and per committee assignment basis. Teaching remotely, the knowledge is passed on without need for physical presence.

The second largest group consists of management, administrators, and support staff such as academic advisors, course administrators, and the IT group. These are often housed centrally with support functions outsourced. A relatively small, leased building in any small to medium sized city such as Minneapolis or Milton Keynes centralizes the management function at a fraction of the cost of an urban university in cities the size of Boston, London, New York, or Paris. The savings continue to add up.

The technology costs of servers, networks, learning system software, and the typical organizational software for communication, financial applications, internet services, and telecommunication fees are similar to those of traditional universities. Many of the functions are handled via the internet with branded links to the university. An example of this is the digital library function.

The online university doesn't have a central library which is often the highest cost building on campus. Large collections of books, periodicals, and multimedia material are eliminated and the online university uses the digital libraries which range in price from free to various levels of access fees. The costs for library databases are predictable, leased or rented costs. Students in need of a physical library often use local colleges or universities on an as-needed basis. The "digital generation" doesn't have the same bias towards books as does previous generations of learners. They are as comfortable reading online as the previous generation is with book in hand.

The "Quality of Education" Issue

The author has lectured in South America, Europe, Mexico, North America, and, most recently, Africa. The quality of an online education is always one of the first questions asked of him at press and business conferences. The gist is, "Well, yes, this is all well and good but isn't an online degree really a second rate degree?"

The answer is no, not anymore. Ten years ago that may have been true in some quarters but the student experience doesn't bear that out in surveys. The adult learners say the online degree is actually more challenging because of the higher degree of involvement of the faculty. The studies indicate "no significant difference" in the quality of the learning in traditional classrooms and the online courses.

The author has been a faculty member in both the "stand up" mode as well as online for over 25 years. A physical classroom doesn't have nearly the involvement of each individual with the instructor as does an online course. Many faculty members remark that the very reason they went into teaching is realized to a greater degree online than in face to face classrooms. Reasons? Online courses treat everyone equally and everyone's participation is tracked and measured by the software. Keeping quiet and letting other people dominate the conversation is standard in classrooms and impossible online.

Corporations both large and small, Fortune 500 and Global 2000, readily accept online degrees as evidence of scholarship and credentials (2006). The author's online students have consisted of executives and managers from airlines, oil companies, computer companies, the armed forces, intelligence agencies, banks, insurance companies, construction companies, publishers, and even other online institutions!

The quality issue is no longer an issue. Those who have experienced quality online institutions are "voting with their feet" by planting them in front of a computer instead of driving to a university at night or on the weekend. One million online Master's and Doctoral students in North America, South America, and Europe and that number is growing at 8% per year according to a recent study by the Sloan Consortium (2006).

Implications for International Investors and the Financial Community

The 21st century is going to be defined by the refinement of trade among blocs such as the EU and NAFTA. The "global village" forecast by Marshall McLuhan (1962) is realized as an electronically-leveraged way of life for global companies. Firms in the U.S. and Europe, in order to stay competitive, have all developed "China plans" and "India plans". The African arena is a stage already cast with characters deeply involved in trade and commerce.

The "war for talent" (1997) has been a subject of extensive discourse over the past five years and that continues to be a growing problem as geographic trade opportunities spread. The answer is to develop the professional resource "on the ground" in countries that have the basics of literacy and numeracy but need advanced education and training.

We envision a university focused on embedding learning in economic development using the tools of the internet, available and sophisticated learning management software, and a tight connection with the private sector. The third leg of the stool is education, and it is alongside private sector investment and a stable, predictable financial climate for creating the path to sustainable change and prosperity.

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