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The Challenge of Convergence: Nonprofit and For-profit Governance in Higher Education

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Introduction

There is a growing consensus in emerging research that the next decade will be a period in higher education defined by significant competitive gains by for-profit providers of degrees, educational services and products (Ortmann, 2001; Ruch, 2001). Reports from market analysts evoke images of an imminent collision between, efficient, innovative, well-capitalized for-profit education providers, and a host of tradition-bound, revenue-challenged, postsecondary institutions (Marchese, 1998; Soffen, 1998). Governance structures in any enterprise – higher education included – are fundamental in the determination of what is produced and how it is produced. At issue is how the marketplace, and the emerging competitive political economy will affect governance structures and processes in higher education.

Among the first institutions incorporated in the United States were colleges and universities, with Harvard College leading the way in the early 17th century. A wave of small liberal arts colleges followed in the late 18th and early 19th century, with denominational groups establishing new postsecondary institutions in New England and the midwestern states. The 19th century also led to the widespread introduction of colleges and universities chartered by the states, including the opening of the University of Virginia in 1819 followed by the widespread funding of state universities under the Morrill Acts of 1862 and 1890. The establishment of these institutions as charitable nonprofits and public institutions with the benefits of tax exemption legitimized the direct production of higher education as an activity recognized in the public interest.[1] Their organizational status also created the strongest differentiation between institutional types at that time: source of funds. Public nonprofits were distinguished by their

[1] Nonprofit organizations recognized under section 501(c)3 of the Internal Revenue Code are known as the "charitable" nonprofits and include a range of organizations providing public benefits as educational, religious, literary, scientific, social welfare, or other charitable functions.

receipt of significant direct appropriations from state sources. Private nonprofits received donations and also benefited from favorable tax treatment, while for-profits relied solely on tuition income.

For-profit institutions of higher education have had a distinctly different developmental trajectory over the course of the last century. While public universities were in their ascendancy at the start of the century, proprietary schools were nearly forced out of the market – or at least forced to the shadows of higher education – due to reports of exploitative practices and financial scandals.[2] Near the end of the 20th century a new form of for-profit took hold: the corporate university. No longer did "for-profit higher education" necessarily imply a storefront sole-proprietorship. The new model brought a blend of the scale economies familiar to public universities, with marketing and organizational practices drawn from the corporate sector. These new for-profits – Strayer, Inc., the University of Phoenix, etc. – saw no conflict between the provision of educational services and profit maximization. What is more, these institutions benefit from many of the same public subsidies as their nonprofit peers, as students are eligible for extensive financial aid through federal Title IV programs.

At least on the surface, the regulatory burden placed on the new for-profits in higher education is not much different than the regulatory constraints on other colleges and universities. For example, federal criteria governing Title IV financial aid programs do not discriminate among institutions, although accreditation is required.

Where public and private nonprofit and for-profit providers potentially diverge is in their governance processes. Of particular interest is the question of how differences in governance

[2] The release of the Flexner report in 1910 which documented un-scientific practices in many for-profit medical schools was one of the events that led to the reputational decline of for-profit medical schools and the rise of the training of physicians in the university environment. In addition, what might be thought of as technological change in higher education – the development of complementarities between teaching, research, and economic development – also contributed to the decline of the for-profit institutional form in higher education during the early 20th century.

may lead to differences in the response to market forces such as changes in student demand or the introduction of new technologies in the educational process.

The first section of this analysis begins with a comparison of the missions, outcomes, and governance structures of colleges and universities with different institutional control. In turn, we consider the variation by institutional control in revenue sources, academic employment, and board governance. Our central conclusion is that, while public and private nonprofit universities and for-profit institutions were at one point vastly different in their missions, sources of revenue and outputs, there has recently been substantial convergence in what these institutions do, and how they allocate resources. To be sure, there remain meaningful differences in revenue, output, and governance by institutional control; yet, with some significant exceptions among very elite institutions, these differences are narrowing rather than widening (Ehrenberg, 2000). The questions for public policy raised by this convergence of revenue sources are whether governance forms will – or should – follow suit, and whether public and private nonprofit colleges and universities will continue to generate positive spillovers in the educational enterprise.

Mission and Constituency: Overlap in Higher Education

Perhaps the easiest way to distinguish between public and private nonprofit institutions, on the one hand, and for-profit institutions, on the other hand, is to look at their legitimate objective functions. In for-profit colleges, the objective is clear: maximize profits. More formally, this means that we would expect for-profit colleges and universities to choose faculty and other inputs to produce a given level of output or course offerings at the lowest cost. As in the corporate sector more generally, external threats – including the possibility of hostile takeover – are powerful forces that push managers and directors in for-profit higher education to maximize profits.

For nonprofit providers, the legitimate objective functions are far less easily defined (Ehrenberg, 2000). What nonprofit providers maximize depends on the enacted institutional mission, with institutions differing in their emphasis on quality versus quantity, the production of public and private goods, and the balance between research and teaching.[3] As Glaeser notes, "what nonprofits do maximize is a significant and difficult question" (2001, p. 3). While the competition among colleges and universities in the market for higher education provides one check limiting institutional waste and inefficiency, public and private nonprofits lack the residual shareholders and the capacity to distribute profits that form powerful incentives for administrators to maximize profits in the for-profit sector.

Glaeser (2001) argues that in the face of weak governance structures, colleges and universities have evolved to resemble "worker cooperatives," representing the preferences of faculty with particular emphasis on the institution of tenure and the rise of the importance of research as a faculty activity. Yet, while this model may have characterized the nature of governance in higher education through the late 1970s, when Jencks and Reisman wrote the *Academic Revolution*, the revenue shortfalls of the last three decades brought about yet another transformation in academic organization. To varying degrees across colleges of different types,

[3] It is obvious that MIT and Amherst have different institutional missions. MIT places a greater emphasis on engineering and the sciences, while Amherst emphasizes the humanities and the liberal arts and places a greater weight on small class sizes. While such differences in mission may be known at a descriptive level, it is hard to find an explicit codification of either institutional mission. Each institution does have a mission statement, but translating the mission to well-defined objectives is difficult. For example, MIT's website states "The mission of MIT is to advance knowledge and educate students in science, technology, and other areas of scholarship that will best serve the nation and the world in the 21st century. The Institute is committed to generating, disseminating, and preserving knowledge, and to working with others to bring this knowledge to bear on the world's great challenges. MIT is dedicated to providing its students with an education that combines rigorous academic study and the excitement of discovery with the support and intellectual stimulation of a diverse campus community. We seek to develop in each member of the MIT community the ability and passion to work wisely, creatively, and effectively for the betterment of humankind."

the locus of control has shifted from faculty to professional administrators (Slaughter and Leslie, 1997).

While distinguishing institutional mission is inevitably subject to significant ambiguity, identifying market participation is a relatively straightforward exercise. Table 1 shows the distribution of institutions by the broad distinction of baccalaureate and associate degree granting and institutional control. To be sure, there is considerable specialization with public nonprofit institutions dominating the two-year sector, private nonprofit institutions dominating four-year degree granting institutions, and for-profit institutions dominating the category of institutions awarding less than two-year degrees or certification. While there is much to explain the existence of some comparative advantage across institutional type, there is also a considerably degree of plurality with each institution type represented in each sector.

Despite the presence of several very large for-profit institutions like the University of Phoenix (with enrollment over 75,000), the for-profit share of total collegiate enrollment is relatively modest, accounting for less than 4 percent of all enrollment (bottom panel of Table 1). Public nonprofit colleges and universities, which are generally much larger than their private nonprofit counterparts, continue to account for the majority of student enrollment, registering about three-quarters of all students in 1997-98.

What should be clear at the outset is that while there are many postsecondary institutions that produce quite similar outputs, some institutions are extremely specialized. While path dependence is one explanation (Kerr, 2001), it is also possible to suggest several economic arguments. Following Hansmann (1980), public nonprofit provision is particularly appropriate when "outcomes" are difficult to observe or can only be revealed with the passage of time, where rapid expansion of capacity requires resources not provided for by capital markets, or when there are likely to be externalities associated with the development of particular types of human capital. Others have argued that public nonprofit provision is also essential where consumer demand is insufficient to ensure the production of particular socially useful outcomes (Pusser, 2002). Given that a number of activities are efficiently produced through public subsidies to for-profit firms, the observation that there may be economies of scope in higher education provides a strong argument for production outside the for-profit sector.[4]

Despite the traditional distinctions between public nonprofit, private nonprofit, and for-profit postsecondary institutions, we argue that these organizations are undergoing transformation on three dimensions. First, there is an increasing convergence of revenue sources to these institutions. Second, the penetration of for-profit providers into a variety of postsecondary sectors has been one factor in a convergence in outcomes. Third, while the embedded structures and constitutional constraints on nonprofit governance make adaptation in that realm somewhat slower than in other parts of the institutions, given the trends for revenue and outcomes, we suggest that a convergence in governance structures and processes is likely to follow.

A convergence of revenue sources

Research on nonprofit organizations has long suggested that a fundamental distinction between nonprofit and for-profit organizations is the source of their revenues (Hansmann, 1996; James, 1998; Weisbrod, 1988, 1998; Winston, 1997). Yet, while the historical difference in revenue sources is unambiguous, there appears to be a contemporary convergence in revenue sources. Overall, the share of revenue coming from tuition charges as well as revenue coming

[4] One example is that if the production of research and graduate students are both activities that produce externalities and these activities are complements, it is efficient to produce them jointly in a nonprofit setting rather than producing them separately in a commercial setting. Presumably, these arguments are most persuasive in the context of large, complex research universities that produce a range of "outputs" including research, undergraduate education, graduate training, and local economic development (Goldin and Katz, 1999).

from fee for service activities has risen at all three institutional types. While the share of current revenues accounted for by tuition remains appreciably larger at the private institutions than the public institutions, the tuition share at public institutions rose by approximately 47 percent at the public institutions between 1980 and 1995, relative to an increase of 15.5 percent at private for-profit and 17 percent at private non-profit institutions (see Figure 1).

For public institutions, the largest source of revenue – and the factor distinguishing these colleges and universities from private institutions – are current fund revenues from state and local appropriations. While private institutions typically receive less than 3 percent of revenues from state and local sources, public institutions historically received over one half of all revenues from state appropriations. Yet, in the last two decades, the relative importance of state funding has decreased appreciably at public institutions, falling from 49 percent of current fund revenues in 1980 to a bit less than 40 percent of current fund revenues in 1995 (NCES, 2001). While total state appropriations have not fallen appreciably, what is clear is the leveling off in state support, in both total dollars and dollars per student (see Figure 2). In this regard, as costs have escalated in higher education, state support has not kept pace, leaving public institutions to garner a larger share of their revenues from service activities (Mingle, 2000).

In response to uncertainty over state funding, a significant number of public nonprofit institutions have initiated efforts to offer programs and degrees without direct state subsidies, charging tuition quite close to those of for-profit providers (Pusser and Doane, 2001). This search for alternative markets for revenue-generating services has followed in the private, non-profit sector, as well. Some of these programs originate in existing continuing education or extension programs; others have been created anew, as in the case of UCLA's OnLine Learning.net, E-Cornell, and NYU on-line. In some instances these entrepreneurial programs are created in partnership with venture capitalists, as in the case of University of Maryland's University College, or in partnership with for-profit corporations. To the extent that these new endeavors prosper and generate enrollments, they will expedite the convergence of tuition prices across institutional types.

The burden of increased tuition revenues is borne not only by the consumers or students, but also by the federal government through student aid payments. Individuals often fund tuition payments through federal subsidies, including financial aid programs like the Pell grant program, subsidized student loans, and tax credits. In the three decades since the passage of the Higher Education Act of 1972, federal financial aid, once the sole province of the nonprofit sector, has been increasingly made available to for-profit providers. For-profit providers are also significant beneficiaries of tax subsidies. Nearly half of the students enrolled in the University of Phoenix have some or all of their tuition paid by their employers, who in turn receive tax deductions for those payments.

While the overall share of Pell grant dollars going to students attending for-profit institutions has declined somewhat since a peak of over 22 percent in 1989-90, the share of federal financial aid dollars going to students attending for-profit schools is greater than the associated share of total postsecondary enrollment at these schools (see Figure 3).[5] Without question, both the for-profit and nonprofit sectors of higher education have relied on Pell grants (as well as capital available through student loans) as a source of tuition payments. What is, perhaps, most interesting about the distribution of student aid is the large share of Title IV aid

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[5] The marked decline in Pell revenues to for-profits in the period 1988-1994 coincided with state and federal investigations, and increased regulation of for-profit providers. With the emergence of corporate for-profits as a significant lobbying force the constraints on for-profit access to a variety of forms of federal subsidy are likely to be reduced, and those subsidies increased. The University of Phoenix recently placed on its board of directors a retired Congressman and former head of the House Committee on Education and the Workforce. The present assistant secretary for postsecondary education in the U.S. Education Department was previously Phoenix's chief Washington lobbyist (Lobbyist Watch, 2001; Ways & Means, 2002). This process is not unique to Phoenix, as many other for-profit institutions and associations have become significant political

distributed to independent students (see Figure 4). These students are largely beyond the traditional college-going age (over age 24 for those without dependents) and must demonstrate the absence of parental support.

In many respects, the provision of postsecondary training in the form of continuing education, certification, or part-time degree credit programs has been one of the largest "growth areas" in higher education over the last three decades. Some of this expansion has been fueled by the increased availability of federal financial support for non-traditional students (Seftor and Turner, forthcoming). Revenues from programs targeted to this group of students are increasing their share of university activities in all sectors. More to the point, this is an area in which the traditional distinctions in "production technology" across sectors are less obvious, as the on-campus activities such as dorms and athletics that are integral to traditional undergraduate education (and largely unique to nonprofit institutions) are peripheral to these activities.

Nonprofits have also increased revenue from entrepreneurial behaviors in a number of arenas. University auxiliary enterprise income from the provision of housing, parking, food services, bookstores, and the like, have increased rapidly over the past three decades. Figure 5 shows the growth in income from university auxiliary enterprises, with this budget line increasing by nearly 60 percent overall between 1975 and 1996. In addition to increasing revenues, it has been argued that these activities increase the size and influence of the administrative cohort of public and private nonprofit universities (Pusser, 2000).

At issue is whether the increase in revenues to nonprofits in activities for which for-profits provide a relatively close substitute, combined with declines in direct appropriations to colleges and universities from government sources, will "squeeze out" the capacity of colleges and universities to produce those educational services that are unique to the nonprofit sector and

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contributors (Selingo, 1999).

may have a high degree of public spillovers. Such programs may include investments in very basic research with few identifiable patent or licensing prospects or providing educational opportunities in a range of abstract topics such as classical languages. Institutions with substantial private endowment support are able to make such activities institutional priorities (essentially sticking to a bad business), but institutions without such private or public support may not have this luxury.

Most plainly, a key expectation is that there will be a growing stratification between the institutions that are able to raise substantial donative revenues or receive direct public appropriations, and those lacking access to such resources. In the latter case, there will be little difference in governance or outcomes between those under-sourced nonprofit providers of educational services, and for-profit providers (Winston, 1999).

Convergence in Outcomes

As might be expected given a convergence in sources of revenue to nonprofit and for-profit postsecondary providers, there is also considerable evidence of a steady convergence of outcomes. The extent to which this will occur or continue is by no means certain. If nonprofit colleges and universities are true to their missions, convergence in outcomes will be limited. John Whitehead, an experienced nonprofit and for-profit trustee notes: "A for-profit board has an obligation to *get out* of a bad business while a nonprofit board may have an obligation to *stay in*, if it is true to its mission" (Bowen, 1994, p. 23).

Nonprofit and for-profit providers are increasingly producing degrees through new forms of delivery, such as distance education. Nonprofit continuing education programs that offer courses and degrees on and off campuses are some of the fastest growing enterprises in the nonprofit postsecondary sector. As these programs have competed more directly with for-profits, an isomorphic convergence of price, delivery structure, labor contracts, and curricular content has emerged (Adelman, 2000). A similar story holds in the market for contract education, where nonprofit community colleges have constructed competitive programs to maintain market dominance against for-profit encroachment (Levin, 2001).

In a similar fashion, public and private nonprofits have increasingly relied upon the private benefits of their degrees in marketing and outreach (Marginson and Considine, 2000), while for-profits have begun to market themselves to accrediting and regulatory agencies as providers of public goods. The University of Phoenix recently revised an application for licensing to practice in New Jersey with the additional claim that the university would build educational capacity in under-served communities around the state (Selingo, 2001).

While there are indicators that nonprofit and for-profit providers are competing in many of the same markets, full "convergence" is some ways off. Particularly noteworthy is the absence of for-profit provision in what might be considered the "core" enterprises of liberal arts colleges (residential undergraduate education) and research universities (doctoral-level training in the arts and sciences). Yet, it is in the activities outside this traditional focus of colleges and universities – particularly professional programs – where there are growing similarities across institutional types.

Governance & Organizational Behavior in Higher Education

The question of the link between changes in revenue sources and changes in governance is at the heart of this paper. While a key observation of this paper is the incidence of convergence in revenue sources and outcomes in higher education, whether a convergence in governance structures will take place is less clear. The governance structures and processes in higher education determine what is produced and how it is produced within a college and university. By tradition, charter, and statutory design, there have been significant differences between for-profit and nonprofit institutions in how decisions are made.[6] While all of these institutions have (at least nominally) faculty, administrators, a variety of external and internal stakeholders, and boards of directors, the role of each party in decision-making differs markedly between the for-profit sector, on one hand, and the nonprofit sector on the other.

Research on governance in higher education has long addressed the problem of how to characterize institutions. Scholars have generally relied on multi-dimensional models of organizational behavior that portray colleges and universities as at once bureaucratic, collegial, political, and anarchical (Berger and Milem, 2000). Research on for-profit corporations in general, and those in higher education specifically, have characterized the organizations in a simple, direct fashion, as rational profit maximizers (Ortmann, 2001).

In a for-profit institution, the nature of the relationship between faculty, administrators and the board is dictated by corporate control. The structure is straightforward in that the board of directors, representing shareholder interests, sets objectives intended to maximize profits. Management or administrative officers report to the board of directors and are largely responsible for hiring faculty and determining curricular offerings. It is the objective of the board and management to structure employment relationships in a way that provides incentives for high productivity, particularly in areas that are difficult to measure. Indicators of success – and failure – are ultimately quite clear in a for-profit, and can be captured by market performance in terms of stock price, dividends and earnings.

[6] In this paper, we focus on the comparison between corporate for-profit providers and nonprofit providers. Corporate for-profit colleges, like Strayer and the University of Phoenix, are part of publicly traded corporations, as distinct from sole proprietorships or other small operations owned by individuals or partnerships. Notably, small proprietary institutions are the numerical majority of for-profit institutions in higher education, although they enroll a small share of students. These institutions receive public subsidy through tax exemption and tax deductibility of contributions.

Nonprofit colleges and universities ultimately lack clear metrics for evaluating what constitutes legitimate mission-related activities, how to prioritize those activities, and how to measure their success in pursuing priorities. Governance in this sector involves not only making decisions about what to produce and how to produce it, but also evaluating the extent to which institutional outcomes coincide with institutional mission. Bowen, et. al. (1994) argue that the most important activity of nonprofit boards is the assurance of fidelity to an organization's stated mission. In contrast, for a for-profit board, the overriding concern is the development of strategies to enhance shareholder value, since profit maximization and mission are one and the same.

In describing the nature of governance at public and private nonprofit institutions, it has been a long-standing tradition to draw on the notion of "shared governance."[7] What this implies is a division of authority between faculty, administrators, and governing boards. The influence of interest groups from the wider political economy on shared governance has largely been ignored (Pusser, 2001). This draws attention to the distinction between internal governance, those processes and procedures made by boards and administrative leaders within institutions, and the external direction of public institutions by system boards, state coordinating agencies, and legislatures.

Whether governance was ever limited to, or even functionally shared between administrators, faculty, and trustees continues to be a matter of some debate. In recent decades, increased division of labor between administrators and faculty, and the development of

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[7] Although the courts have not ruled definitively on the issue of shared governance in public and private nonprofit universities, they have addressed some aspects of internal governance, and have generally favored trustee or board authority. Courts have suggested that there is no compelling reason for trustees to refrain from intervening in university affairs, for example in teaching, research, or publication, if to fail to interfere would constitute an irresponsible neglect of their oversight duties as commonly understood (Van Alstyne, 1990). The Supreme Court, in Minnesota State Board for Community Colleges v. Knight, refused to recognize a "constitutional right of faculty to participate in policymaking in academic institutions," and concluded, "Faculty involvement in academic governance has much to recommend it as a matter of academic policy, but it finds no basis in

professional managers in higher education not drawn from the faculty ranks, makes it increasingly more difficult to sustain existing norms of shared governance. Nonetheless, nonprofit boards are distinguished by an explicit charge to protect academic freedom as part of the institutional mission.[8]

If governance is increasingly less collaborative at nonprofit colleges and universities, how are such institutions governed? The strongest similarity in governance between nonprofits and for-profit providers resides in the link between administration and boards of directors. The most significant difference rests in the absence of "ownership" or residual shareholders and the potential ambiguity in mission on the nonprofit side.

In evaluating how well governance works in higher education, it is necessary to distinguish between productive efficiency – getting a given output at the lowest cost – and mission efficiency – choosing the combination of outputs that is true to institutional mission. A convergence of governance in higher education might have both positive and negative consequences. The positive effects are likely to come in the form of increased productive efficiency, while the adverse consequences may be the decreased attention to providing educational services that fulfill the charitable or public purpose of an institution's charter. What is clear is that convergence will have significant implications for academic work.

Academic Labor

Division of labor has been a cornerstone of the evolution of the modern university. In the first order, the division of labor was fueled by the evolution of scientific thought and the growth of economies of scale in higher education, producing clear disciplinary specializations (Goldin

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the Constitution" (Rabban, 1990, p. 296).

[8] Former University of Chicago President Hanna Gray describes the link between faculty responsibility and trustee responsibility, "[Faculty] are individual talents and intellectual entrepreneurs, demanding developers of their disciplines … who have in fact certain constitutional rights in the process of governance and hold the most important authority that exists in the university, that of making ultimate academic judgments. And boards exist to ensure this freedom and creativity and to protect the

and Katz, 1999). A further wave of specialization has taken hold more recently and concerns the distinction between faculty expertise and management expertise. While it remains common that the "chief executive" of a college or university is someone with faculty experience, colleges and universities now quite frequently employ a cadre of managers not trained as "academics." These include specialists in investment management, athletic coaches, development officers, or deans trained to counsel students.

While this further specialization may have numerous benefits from the perspective of the efficient management of the enterprise, it serves to further unravel notions of shared governance. It is certainly the case that an individual trained as an accountant or an investment manager may be far more able in making university budgetary decisions than someone trained as a Greek scholar. Yet, if faculty members no longer participate in governance outside their spheres of expertise, it is at least recognized that the independent judgment of faculty in their areas of expertise is important. Articulated under the heading of academic freedom, the General Declarations of the American Association of University Professors addressed "freedom of inquiry and research; freedom of teaching within the university or college; and freedom of extra-mural utterance and action" (AAUP, 1915).

While no college or university has renounced the general principles of academic freedom articulated by the AAUP, many institutions have substantively changed the nature of faculty employment. In for-profit institutions, tenure was never an institutional employment relationship, while nonprofit colleges and universities have shifted decidedly from tenure-track employment relationships to increased employment of faculty in adjunct and part-time capacity (Baldwin and Chronister, 2001). The most direct shift in the nature of the employment relationship is the reduction in tenure track appointments as the primary employment relationship

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processes and health of the environment that make them possible." (Bowen, 1994, p. 22) for faculty in the university (see Table 2). The reduction in tenure-track employment is a clear manifestation of a differentiation in faculty responsibility for knowledge generation and knowledge dissemination. The institution of tenure at public and private nonprofit institutions for faculty is, perhaps, the mechanism that most significantly differentiates governance at public and private nonprofits from governance at for-profit institutions. Yet, tenure does not, in itself, necessitate shared governance. Moreover, tenure as an employment relationship has declined markedly within higher education, even over the relatively short period for which data are available. Between 1987 and 1998, the proportion of faculty at nonprofit colleges and universities with tenure or tenure track appointments declined from nearly 80 percent to 67 percent (see Table 2). Notably, these changes were not limited to the comprehensive sectors, but were spread throughout higher education.

What is more, the importance of academic freedom as a tenet of the faculty employment relationship depends crucially on the scope of faculty responsibilities. Defined most narrowly to include only teaching from a pre-selected curriculum, "academic freedom" would carry little weight as the individual would have little latitude for the exercise of judgment or intellectual creativity. In contrast, where faculty responsibilities extend more broadly to include the choice of research questions and the organization of curricula, academic freedom for faculty is a principle with considerable weight.

For-profit universities take an entirely different approach to governance, with a very distinct stance on hierarchy, collegiality, and "sharing." In for-profits the faculty are quite clearly employees, few faculty are involved in creating curriculum, and decision-making of all sorts is firmly in the hands of managers. As one oberver with experience in both nonprofit and for-profit postsecondary institutions puts it, "The governance structures and processes of the for-profit university are based on the values of traditional corporate management. Accountability for certain outcomes is fixed with individual managers, who have both the responsibility and the authority to make decisions" (Ruch, 2001, pg. 15). In these environments, governance is not "shared" in the way the traditional academy has operationalized the term.

Yet, it is not just the role of faculty that has changed. The most notable convergence between for-profit and nonprofit governance is in the area of administration or management. Rhoades (1998) suggests that faculty "influence" is now a more appropriate term than "faculty control." With regard to budgets, salaries, reductions in force, elimination of programs, faculty size, class size, student enrollments, intellectual property agreements and employment policies, Rhoades concludes, "I simply note that these matters are ultimately decided by those who manage faculty, by administrators and boards," (Rhoades, 1998, pg. 5). In short, it is difficult to avoid the conclusion that decisions about the allocation of institutional resources are increasingly outside the scope of faculty decision-making.

Faculty with extensive research portfolios are a modest exception, as the availability of external sources of support such as foundation and government grants provide these individuals with more bargaining power within the institution. In this way, some faculty are able to maintain more control over the allocation of student aid, teaching loads and equipment purchases. Yet, these faculty members are a relatively small share of those employed at nonprofit institutions and they tend to be concentrated at a small number of colleges and universities (Slaughter and Leslie, 1997).

The control of academic labor in public and private nonprofit institutions is rapidly changing. The power of faculty authority over appointments, promotion and tenure has been eroded by shifts to part-time and non-tenured faculty (Baldwin and Chronister, 2001). While the relative shifts have been significant in nonprofit organizations, faculty in nonprofit postsecondary organizations continue to possess a level of influence over academic labor that is unheard of in for-profit institutions. Such key practices in public and private nonprofit institutions as admissions, promotion and tenure, peer review, research and scholarship, and the construction of curriculum are largely under faculty control.

To be sure, there is considerable – and increasing – heterogeneity among institutions in higher education in the extent to which faculty are expected to be "intellectual entrepreneurs" or simply classroom instructors. One indication of this stratification is the widening of the dispersion in teaching loads between faculty at elite research universities and those at liberal arts colleges or comprehensive institutions.

At issue in comparing the responsibilities of faculty in different types of employment situations is what their outside options are. In thinking about how faculty employment relations have changed (or differ across sectors) it is important to also keep in mind the extent to which the terms of employment will affect the composition of the labor pool. To the extent that faculty are increasingly employed to "deliver content" in higher education rather than to "advance knowledge," it is inevitable that the characteristics of the faculty will change as well.

Where for-profit colleges differ most markedly from nonprofits is in the extent to which individual faculty set the curriculum, choosing what to teach and how to teach it. In the for-profit sector, there is a strong division of labor between "content developers" and "content deliverers." The benefits to "unbundling" traditional faculty responsibilities of course design, assessment and content delivery are that there may be efficiencies to gain through specialization. Ruch comments, "In a real sense, faculty in the for-profits are viewed by the business side as being delivery people, as in delivery of the curriculum" (2001, pg. 118). The curriculum they deliver is produced, for the most part, at a distance, and adopted through a process that excludes the vast majority of for-profit faculty. As contested as tenure may be in the nonprofit institutions, it is not even an issue in the for-profits.

While differentiation and the synergistic links between teaching and research are lost, the standardization presumably reduces the variance in course delivery and facilitates the evaluation of student learning and faculty performance. Unbundling is also central to maintaining an extremely low faculty wage structure in the for-profit sector. As faculty responsibilities are further divided, the degree of faculty autonomy – and implicitly academic freedom – is eroded within the college.

Another concern is the shift in control of resource allocation from faculty – defined as those involved in teaching and research – to administrators or managers (Rhoades, 1998). In this environment, administrators are increasingly positioned as managers of particular institutional functions (e.g., the library, computer services, or student guidance) and, as such, are assessed based on performance of these functions. While increased accountability of particular service centers may yield some benefits, there is also a potential cost, in that the incentives to use the university mission to internalize potential externalities is lost.

Governing Boards

The key difference between public and private nonprofit institutions rests in the process of board and administrative appointments, and the degree of autonomy the respective boards possess. For private nonprofits, governance positions are essentially self-perpetuating, in the sense that current officers – both administrative and at the board level – choose their successors. For public institutions, such decisions are either directly or indirectly a function of the state or local political process.

Public nonprofit and for-profit postsecondary governing boards are distinctly different in origin, composition, reproduction, compensation and expertise. This is not surprising, given the traditional distinctions in their missions and constituencies. Private nonprofit boards, while quite distinctive, bear many similarities to for-profit boards. The composition of private nonprofit boards often includes student and faculty representation, constituents who are generally absent from for-profit boards. For-profit board members have significant fiduciary interests in the success of the institutions they preside over, through stock holdings and stock options. Although board members in both sectors endeavor to avoid conflicts of interest, trustees of public universities receive virtually no compensation for their service. At the University of Phoenix, in contrast, individual directors received significant compensation and sold hundreds of thousands of dollars of stock in Phoenix's parent company last year. While the faculty senate representative and the president of a large public nonprofit university generally each have one vote on the board and no equity in the university, the Chairman of the Board of Phoenix's parent company, Apollo, holds over 700 million dollars in Apollo stock. There is no faculty representative on the Phoenix board.

Another key distinction at the board level concerns the role of political actors in the composition of public nonprofit boards. Given their role as democratic institutions, public nonprofits are largely composed of trustees appointed by governors directly, or appointed by governors and subject to legislative approval (Jones and Skolnik, 1997). Ex-officio members often include governors and other elected officials who serve as voting members of the boards. While politicians may also serve as directors of for-profit postsecondary organizations, they do so as allies of the organization and they stand to profit financially from the success of the institution. Politicians on public nonprofit boards may have agendas at odds with that of the majority of the board or the organizational leadership (Pusser, 2001). In either instance the board membership governs to either maximize shareholder value or the legitimacy of the organization. However, the process of relying on gubernatorial appointments may not allow publics the flexibility and adaptability in composing a board that can be effective in a rapidly changing postsecondary environment. A longitudinal case study of public governing board dynamics indicated that governors often appoint major political contributors to trustee positions, without sufficient attention to expertise in either higher education or trusteeship (Pusser and Ordorika, 2001).

Over the past decade there has been a significant increase in conflict at the nonprofit public board level. The so-called "activist trustee" movement (Ingram, 1996) has been fueled by demands from trustees seeking increased institutional accountability on a range of organizational behaviors. While there has also been increased conflict in for-profit corporate boards of higher education, they have generally been challenges to lack of administrative responsiveness or institutional profitability.

Trustees on nonprofit public postsecondary boards are much less likely to serve on other corporate boards than trustees of nonprofit private boards or for-profit boards. The prevalence of "board interlocks" has long been a significant concern of researchers on for-profit organizational behavior. In a number of studies, director interlocks have been found to generate substantial effects, including increased organizational control over resources (Pfeffer and Salancik, 1978), greater inter-firm cooperation (Burt, 1983), isomorphic adoption of strategic tactics across firms (Useem, 1984), a reduction of information and monitoring costs (Mizruchi, 1996), and the maintenance of social elites (Palmer, 1983). Board interlocks also offered opportunities for career enhancement for directors and increased legitimacy for the organization (Haunschild and

Beckman, 1998). While board interlocks are much less prevalent on nonprofit public boards, they have increased rapidly over the past two decades (Thomas, Slaughter and Pusser, 2002). These interlocks are likely to be a key driver of convergence, as they provide a significant source of information for nonprofit trustees about for-profit corporate structures and processes.

Conclusion: Implications of convergence of governance norms

The effect of new patterns of resource dependence in the nonprofit postsecondary sector is already evident in changing governance structures and procedures. A number of authors have suggested that the increase in entrepreneurial fundraising behaviors has led to disproportionate administrative growth (Gumport and Pusser, 1997) and increased administrative influence over internal resource allocation and decision-making (Lowen, 1997; Rhoades, 2001; Slaughter and Leslie, 1997). Competition between nonprofit and for-profit providers accounts for some degree of convergence (Pusser, 2002; Slaughter, 2001).

One implication of the convergence in governance structures is that the role of colleges and universities in producing positive spillovers may be eroded. If nonprofits increasingly emulate for-profit colleges in governance, it is likely that the outcomes will converge. Yet, such a convergence would, in a sense, invalidate the strongest argument for public subsidy and nonprofit provision of educational services. That is public and private nonprofit colleges and universities must – as part of their mission – work to resolve failures in the education market and produce positive externalities that would not evolve from an independent market mechanism. The rationale for the protection and privileges of nonprofit status requires that the governance of public and private nonprofit universities facilitate these outcomes.

A key issue going forward is how – or whether – increased convergence in governance will change the objective function and the provision of higher education services with public benefits. Plainly, the issue is not one of changing the underlying behavior of for-profit providers. For these institutions, the target is largely fixed: maximize profits subject to regulatory constraints. Competition may have the virtue of pushing public and private nonprofit providers to more efficient provision of certain types of educational outcomes. Yet, a central question is whether the convergence of governance structures between nonprofit and for-profit providers will lead nonprofits to abandon their charitable missions, shifting toward the emulation of for-profit behavior (essentially, for-profits in nonprofit clothes). Slaughter and Leslie (1997) and Marginson and Considine (2000) suggest that the nonprofit university research enterprise has moved significantly in the direction of commercial production at the expense of public goods. The costs of a broader institutional shift in behavior are real and require significant future research. Little is currently known about how convergence will shape under-provision to particular educational markets, the tension between long term strategic planning, and ad hoc decision-making, or the separation of research and teaching in faculty responsibilities. The emerging question for public policy makers is whether regulatory and funding incentives can be structured in order to encourage the positive dimensions of mixed-market competition, while minimizing the unintended side-effects and preserving essential public commitments.

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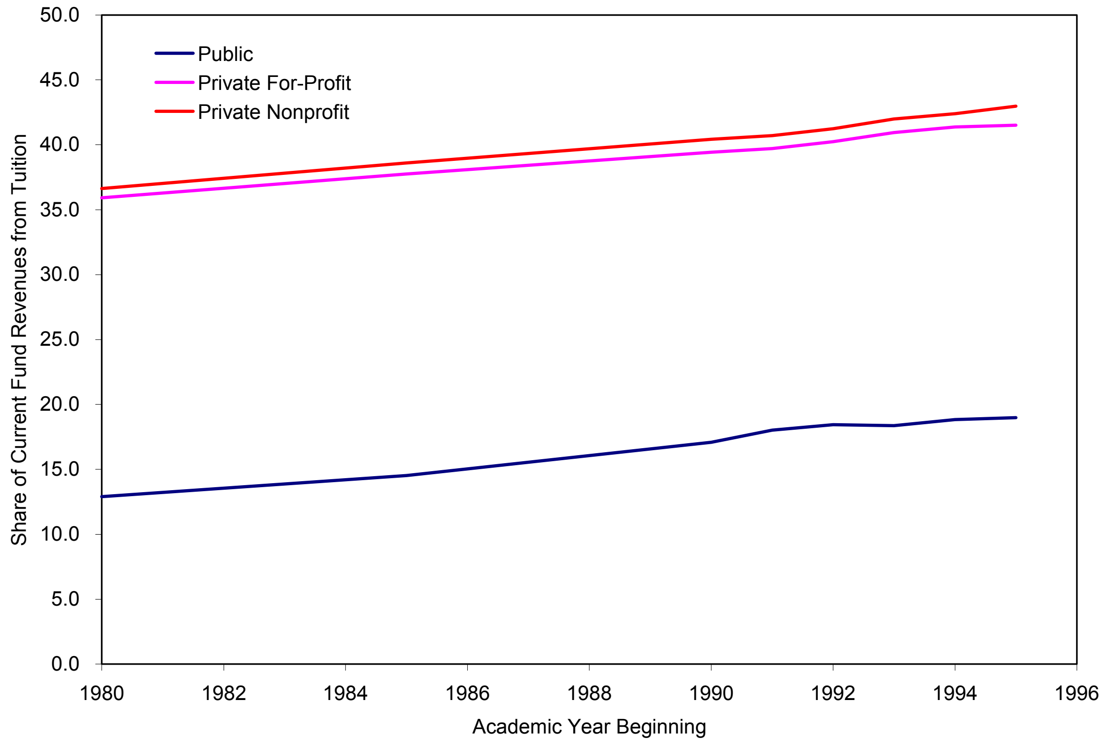
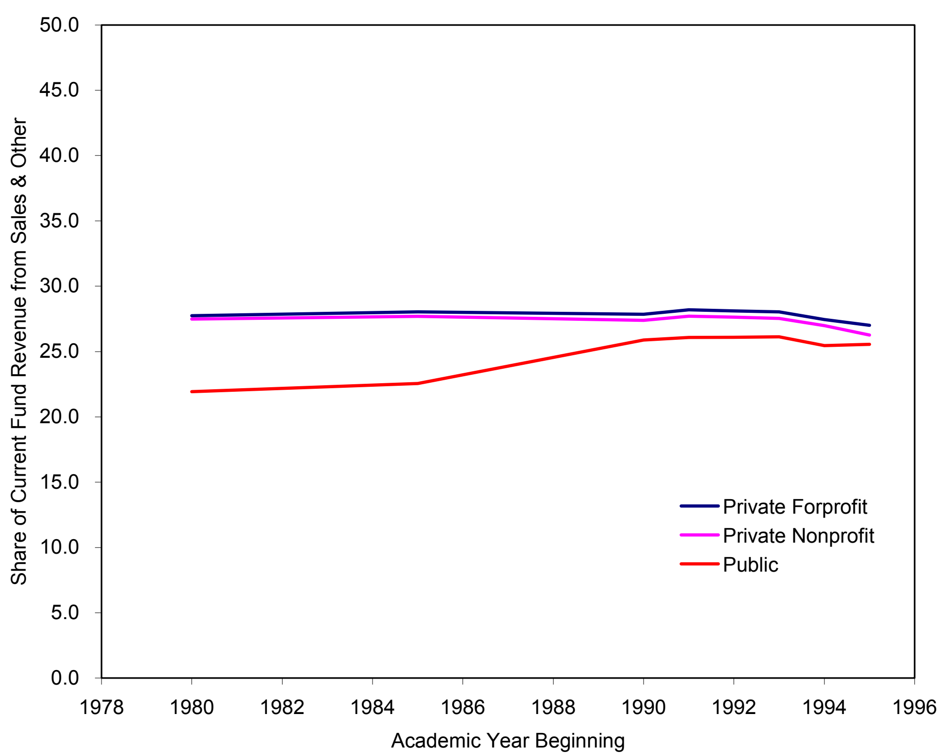
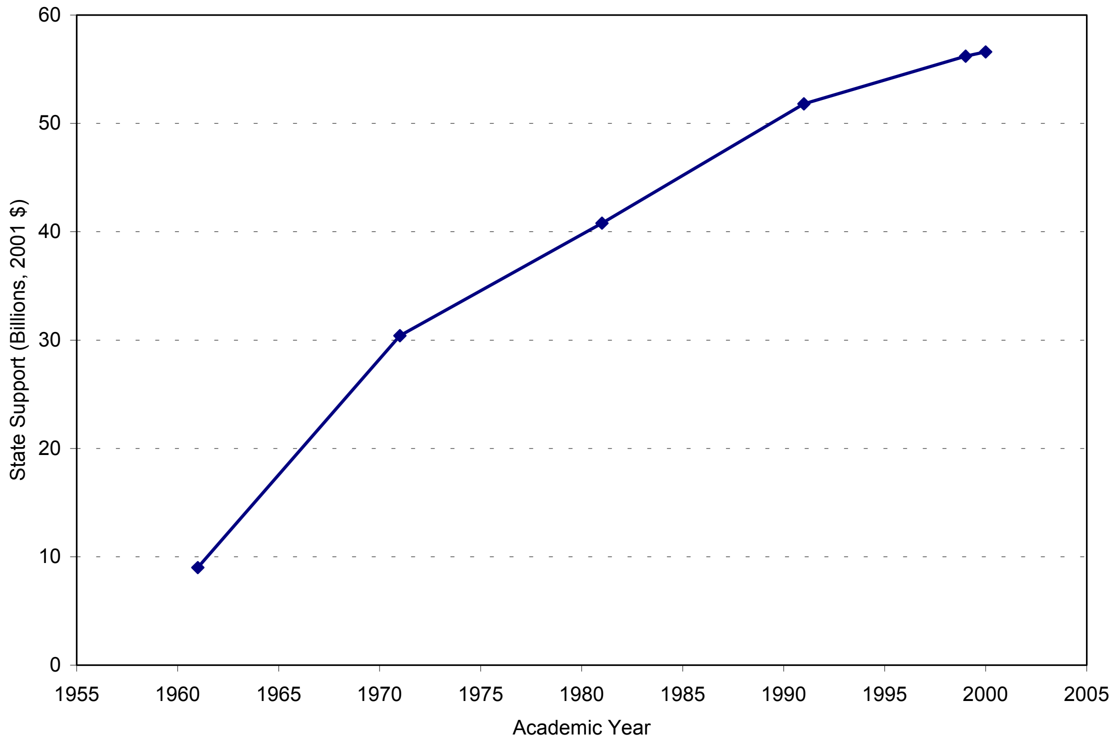
Figure 1: Distribution of Current Fund Revenue by Type of Institution, 1980-1995

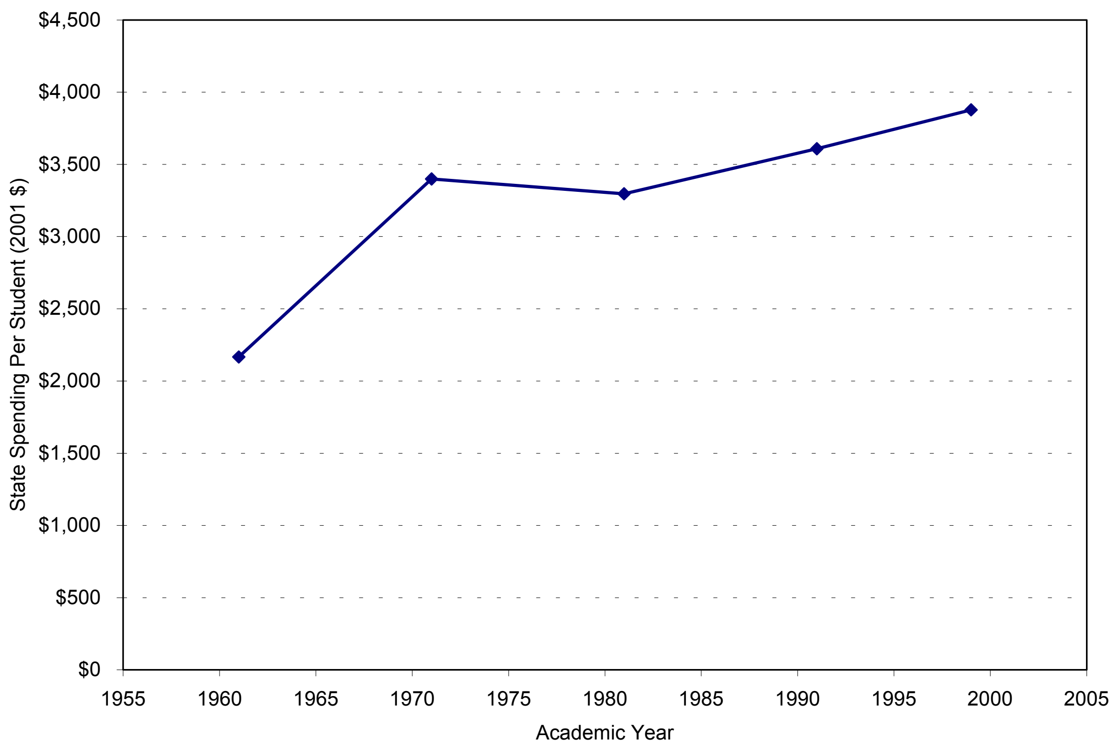




Source: *Digest of Education Statistics*, Tables 328-330.

Figure 2: State support for higher education





Source: Grapevine (http://www.coe.ilstu.edu/grapevine/)

Figure 3: Pell grant revenues by type of institution

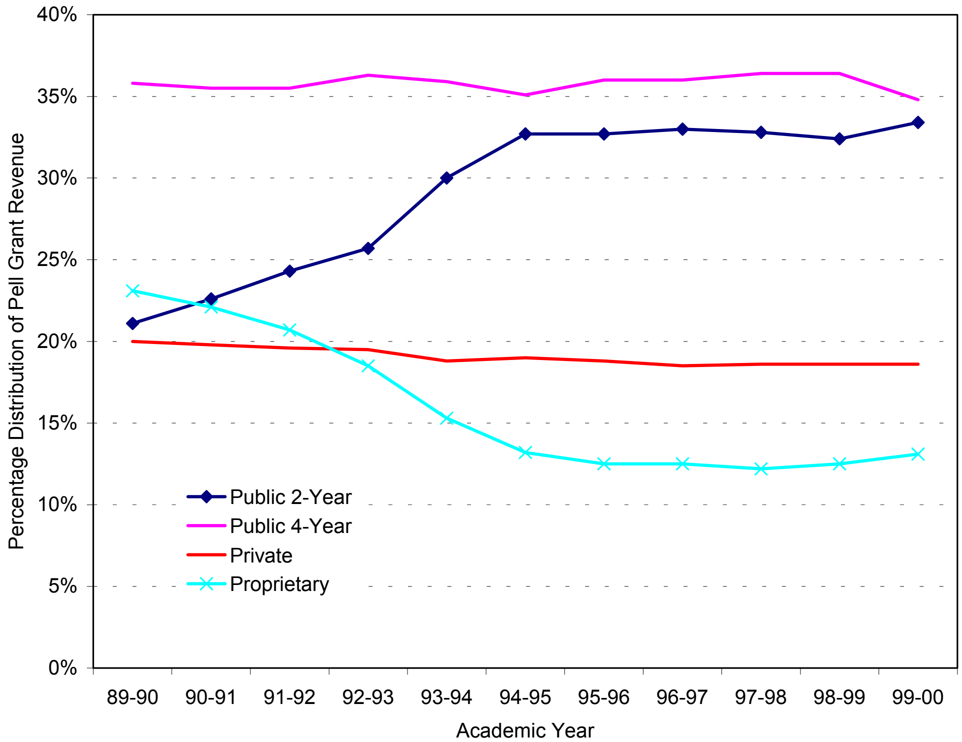
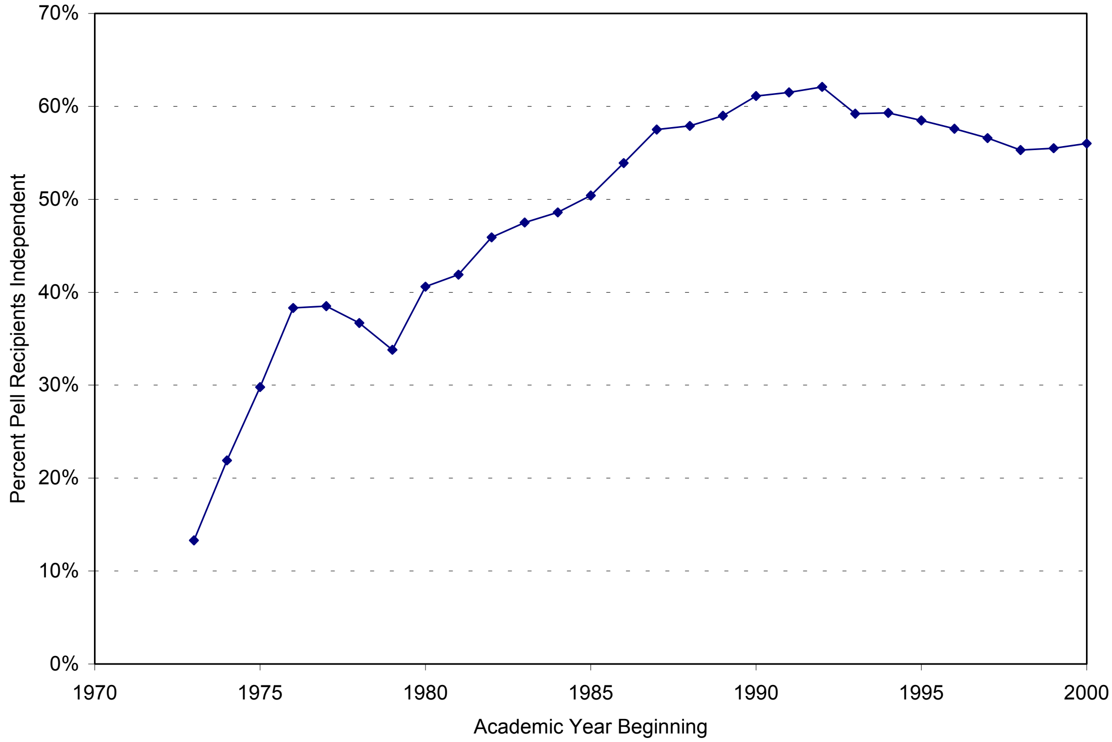
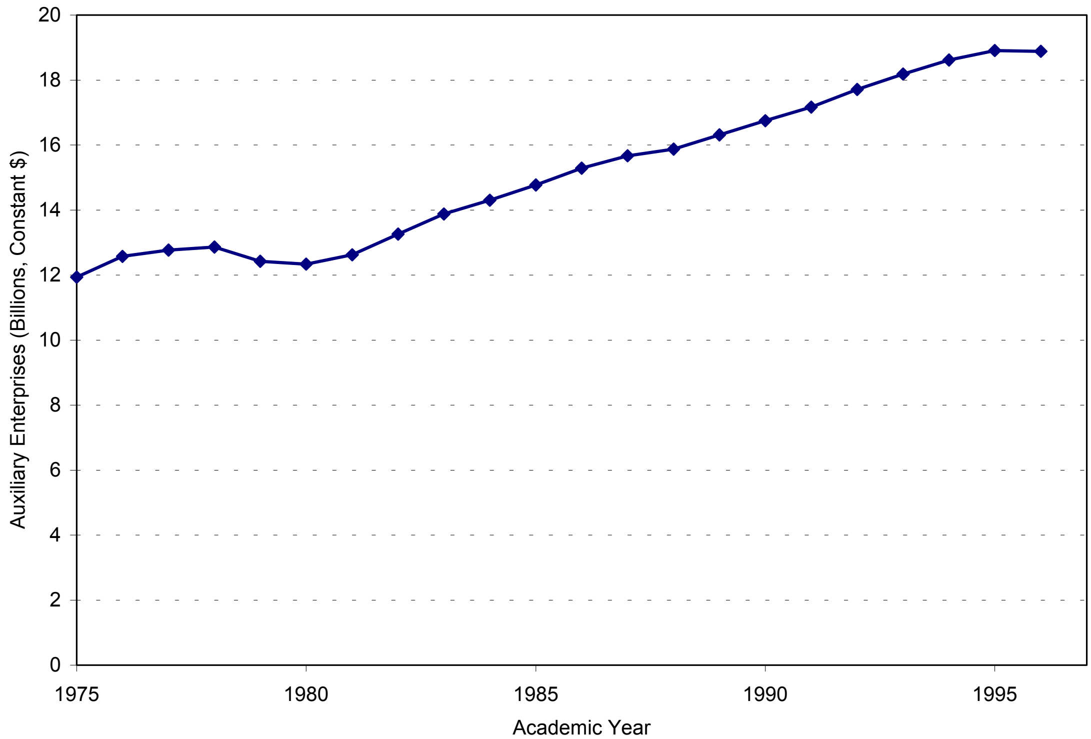


Figure 4: Independent as a fraction of Pell Grant Recipients



Source: College Board, Trends in Student Aid.

Figure 5: Overall revenues from auxiliary enterprises, 1975-1996



Source: NSF WebCaspar Database System.

Table 1: Distribution of Institutions by Control

a. Institutions

Degree Granting Post-Secondary Institutions, 1997-98	
4-year	
For-profit	216
Non-profit, Public	1,880
Non-profit, Private	631
2-year	
For-profit	529
Non-profit, Public	218
Non-profit, Private	1,113

Source: Table A1. U.S. Department of Education, National Center for Education Statistics. Postsecondary Institutions in the United States: 1997-98.

b. Enrollment

Degree Granting Post-Secondary Institutions, 1997-98	
4-year	
Forprofit	216
Nonprofit Private	1,880
Nonprofit Public	631
2-year	
For-profit	529
Nonprofit Private	218
Nonprofit Public	1,113

Source: Table A. U.S. Department of Education, National Center for Education Statistics. Fall Enrollment in Title IV Degree-Granting Postsecondary Institutions: 1998.

Table 2: Distribution of faculty by tenure status, by type of institution and year

Tenured & Tenure-Track[1]	**1987**	**1992**	**1998**
All Institutions	79%	76%	67%
Public Research[2]	86%	83%	70%
Private Research	82%	73%	66%
Public Doctoral[3]	85%	80%	68%
Private Doctoral[3]	72%	73%	76%
Public Comprehensive	87%	85%	82%
Private Comprehensive	84%	79%	66%
Private Liberal Arts	74%	71%	65%
Public 2-Year	69%	68%	55%
Other[4]	51%	43%	57%

Source: National Center for Education Statistics (NCES)

[1] Includes tenured faculty and faculty on tenure track.
[2] All public and private not-for-profit Title IV participating, degree-granting institutions in the 50 states and the District of Colombia
[3] Includes institutions classified by the Carnegie Foundation as specialized medical schools and medical centers.
[4] Public liberal arts, private 2-year, and religious and other specialized institutions except medical schools and medical centers.

Note: Percentages may not total to 100 due to rounding.