
Education and Innovation Theme

Online Higher Education in the United States - explaining market success and diagnosing market friction February 2013

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Introduction

The United States of America (USA) boasts the largest and most developed online higher education market in the world. This paper summarizes the evolution of this market, its regulation, and key market characteristics, past and present. The paper then evaluates online higher education in the USA to date. Since the 1990s, online delivery has been associated with bold claims about student access, cost reduction and improved student achievement. In 2013, to what extent has online higher education delivered on this promise?

The year 2013 is an excellent vantage point to assess the online higher education market in America. The sector has pushed through infancy and adolescence, has experienced dramatic enrollment growth, but now faces a number of market challenges.

The paper is aimed at researchers and policymakers, both in the USA and elsewhere, interested in the preconditions that allowed the U.S. online market to emerge, and understanding the short and long-term potential for online higher education to address some of higher education's biggest and toughest problems.

The paper is structured as follows:

- Part 1: Definitions and Data
- Part 2: The Rise, Regulation and Key Characteristics of Online Higher Education in the USA
- Part 3: Online Higher Education in 2013
- Part 4: Evaluating Online Higher Education

Part 1: Definitions and Data

In the USA, online higher education has emerged as the default term to describe Internet-based postsecondary teaching and learning, where the student and teacher, geographically separate, are connected online. Alternatives, such as e-learning or virtual learning, retain some currency but are fading from common usage, at least in American higher education. Online higher education is typically described as a form of distance learning, making use of a particular medium, even if a student might not be studying entirely online.

A key distinction is between online courses and online programs- the latter where students study entirely online as opposed combining distance and conventional delivery across a mix of campus and

online courses. An online course might stand alone in a non-higher education setting, but in higher education a course is typically one component of a broader program of study, such as a degree. For many colleges and universities, “online higher education” is entirely or primarily confined to this supplementary version of online. The “market” is the student who lives on or attends a physical campus and uses online courses as a convenient way to access certain classes, combine work and study, and engage with material at home. For the institution, online might offer benefits such as more efficient use of physical space and access to valuable instructional resources.

The form of online higher education that has been more controversial and disruptive, and which is the subject of this paper, is online as alternative to the conventional campus. This is online at program level, and means that students are studying either entirely or primarily online, even when the institution has a conventional campus. This kind of online higher education has been central to the growth of for-profit universities in the USA, and has facilitated the foundation of entirely online universities, as well as stimulating online programming at conventional institutions. Online at program level has raised challenging questions about the value of the face-to-face campus, and the nature and adequacy of an entirely online student experience. Breaking convention on institutional decision-making, faculty roles and instructional models, online programming has emerged as an intriguing higher education laboratory.

A word about data. Online higher education, as a relatively new phenomenon has inevitably proceeded ahead of robust data collection. Until recently, there was no federal and rarely any state obligation for schools to report online-specific enrollment or other metrics. For wholly or majority online schools, general reporting was sufficient, but for the bulk of schools with both campus and online students, reporting requirements failed to distinguish online activity. The federal Department of Education, for the first time in academic year 2012/13, is now systematically collecting enrollment, demographic and student performance data by delivery mode, although precise coverage is still to be determined. Up to this point, bespoke surveys and market sizing estimates based on a range of secondary sources have been the only means to gauge the scale and characteristics of the online higher education trend. Since the late 1990s, Eduventures has specialized in this kind of market sizing, as well as forecasting future developments.

The present report offers a narrative summary of online higher education market development, with Eduventures work as the primary resource. Specific Eduventures research is cited in the bibliography. Non-Eduventures sources are cited in footnotes where relevant.

Part 2: The Rise, Regulation & Key Characteristics of Online Higher Education in the USA

Early Days (1990s). Historically, distance learning, whether correspondence, radio or television, has always addressed perceived limitations in conventional education, whether in terms of access, cost or quality. In the early days, the distance innovation is often boosted to the point that it is seen as a prospective alternative to conventional arrangements. To date, what has always actually transpired is that the shortcomings of said form of distance learning come to be acknowledged and the innovation proves to be valuable, if at all, for a marginal category of learners, leaving mainstream students and institutions substantially unaffected. Let us examine the case of online higher education.

In the mid-1990s, as the Internet grew into a commercial and popular phenomenon, the possibilities for higher education were widely discussed. Online higher education was positioned as a solution to key mainstream higher education challenges, such growing the proportion of the adult population with a degree, making universities and colleges more efficient and therefore able to hold down tuition, and making the student experience more compelling and effective. It is not that the 1990s were a time of unique stress in U.S. higher education, but rather that longstanding frictions in the system- access inequalities, pressure on state funding, tuition outpacing inflation, high student drop-out- meant sustained attention for any prospective solution. Certainly, the massification of higher education in the USA, the national pioneer of that trend, meant the country was the first to experience the tensions inherent in making higher education a matter of mass consumption, such as maintaining affordability for the student and the taxpayer, holding constant or improving quality, and making outputs more transparent.

Online higher education first appeared at small scale, led by faculty enthusiasts and institutions dedicated to distance learning. In the late 1990s, as the dotcom bubble grew, the power and potential of the Internet began at times to seem unstoppable, giving online higher education mainstream attention. Numerous colleges and universities began to coordinate online strategies and launch online courses and programs, and a variety of non-higher education institutions, ranging from publishers to technology companies, laid out everything from alternative universities to supporting tools and services. A number of for-profit higher education institutions, some established and mixed mode such as University of Phoenix and others new and wholly online such as Capella University, embraced online as an attractive business model. Most prominently, a number of grand consortia emerged, such as Universitas 21 Global and Cardean University, combining leading universities and the private sector, to offer online programming at scale around the world. Between 1997 and 2001, over \$1 billion of venture capital poured into a host of higher education start-ups and initiatives¹, most characterized by online delivery, and institutions and governments added additional hundreds of millions to the fray.

At the time, it was hard to resist the convenience and flexibility online higher education embodied. Commentators pointed to higher education as vulnerable to the mass production, economies of scale and consolidation that had transformed many others sectors of the economy in prior decades. Peter Drucker, the famed management theorist, predicted that the campus-based university as we know it

¹ GSV Advisors (2012) *Fall of the Wall- Capital Flows to Education Innovation*, p20

would be dead in thirty years². Forecasts concerning the market for online programming ranged from wholesale adoption by mainstream students, interest among working adults looking to further their education, an untapped market internationally for U.S. higher education, personal interest for noncredit courses among alumni and retirees, and a blossoming corporate lifelong learning culture.

In 2000, as the dotcom bubble broke and recession took hold, many big initiatives floundered. Traditional students found the online study experience too rudimentary to be a credible alternative to the campus, while the international market lacked adequate Internet connectivity at scale and was suspicious of higher education without its conventional features. The value of noncredit online courses was often insufficiently compelling, and retirees were among the least Internet-savvy. As the downturn hit, corporations were quick to axe training budgets, and found dedicated vendors and in-house investments more conducive than the vague protestations of the degree and the corporate university. By 2005, most of the grandest, most ambitious dotcom era online higher education ventures with nonprofit universities as leaders or partners had closed.

A Real Market (2000-2009). Yet as disillusionment set in, and inflated expectations turned to repentant skepticism, a more robust form of online higher education emerged from the rubble. Led by a few large for-profit universities, but also featuring some pioneers among public and private nonprofit institutions, the working adult vision for the market began to be realized. Despite a century of continuing education in the USA, led by a number of prominent public and private universities, for-credit higher education remained dominated by traditional age students, in numbers and culture. Even as older and other nontraditional students began to make-up an ever-larger proportion of the student body, the vast majority of universities and colleges regarded such students as ultimately marginal rather than core business. Programming, schedules and services generally assumed a traditional student, with other students accommodated at the periphery with evening and weekend programs. Through the 1990s, nonprofit universities and colleges as a whole had begun to pay even less attention to adult students, focusing instead on the demographic boom in traditional age learners. This meant the for-profit and nonprofit online pioneer schools were walking into an under-stimulated market.

This combination- growing interest among working adults in furthering their education, driven by increased pace of skills obsolescence and a more knowledge-driven economy, and distinct adult needs yet few adult-centric institutions- presented a real opportunity for online higher education.

The leading players in this market positioned their programs or institutions as dedicated to working adults, offering flexible scheduling, multiple start-dates, shorter courses, practitioner faculty and hands-on student services. Online delivery was integral to this vision, enabling adults to more easily combine work, study and family responsibilities. These kinds of online programs focused on a relatively narrow range of career fields, such as business, information technology, education and forms of healthcare.

The adult online higher education market began to take off. This was in part due to an attractive value proposition for an under-served market, but also a factor of marketing technique and expenditure. The for-profit universities active in the market compensated for limited brand awareness with marketing

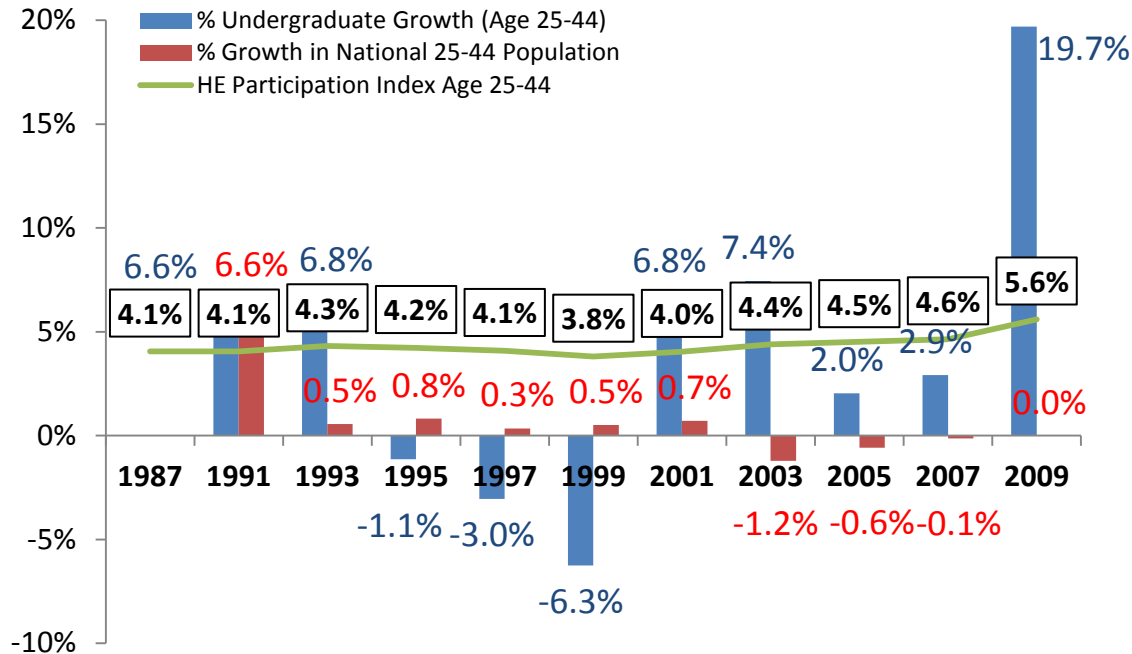
² Forbes (1997) *Seeing things as they really are*, March 10

typical of other industries but atypical for higher education. These institutions spent 20-30% of revenue on marketing, compared to low single digits at the average nonprofit university, buying spots on major television networks and spending millions on the fledgling Internet marketing industry. It is important to note that these schools did not appear out of nothing in 2000. Many had decades of prior experience serving adults or if more recently founded had taken the time to secure mainstream institutional accreditation. These pioneer online institutions, both for-profit and nonprofit, connected online innovation to mainstream sources of academic credibility and funding. This was critical to success.

The enrollment boom continued through the first decade of the 21st century, gaining a counter-cyclical boost during weak economies, but growing regardless. Demographics were not a factor insofar as the 25-44 year old population in the USA, the age group that dominated online program enrollment, was flat between 1995 and 2009. As shown in Figures 1 and 2, adult undergraduate and graduate enrollment both increased dramatically.

At undergraduate level (Figure 1), the 1990s saw significant declines in adult participation, as the economy boomed. In the 2000s, with the advent of online and adult-centric higher education, participation picked up strongly, despite weak demographics. The “Higher Education Participation Index” (the green line- meaning participation as a proportion of population) was flat through the 1990s, but then grew over the next decade. For some years, policymakers had advocated greater adult participation in higher education- online/adult programming made it happen. Figures 1 and 2 concern 1991 to 2009. For discussion of trends post-2009, please see Section 3.

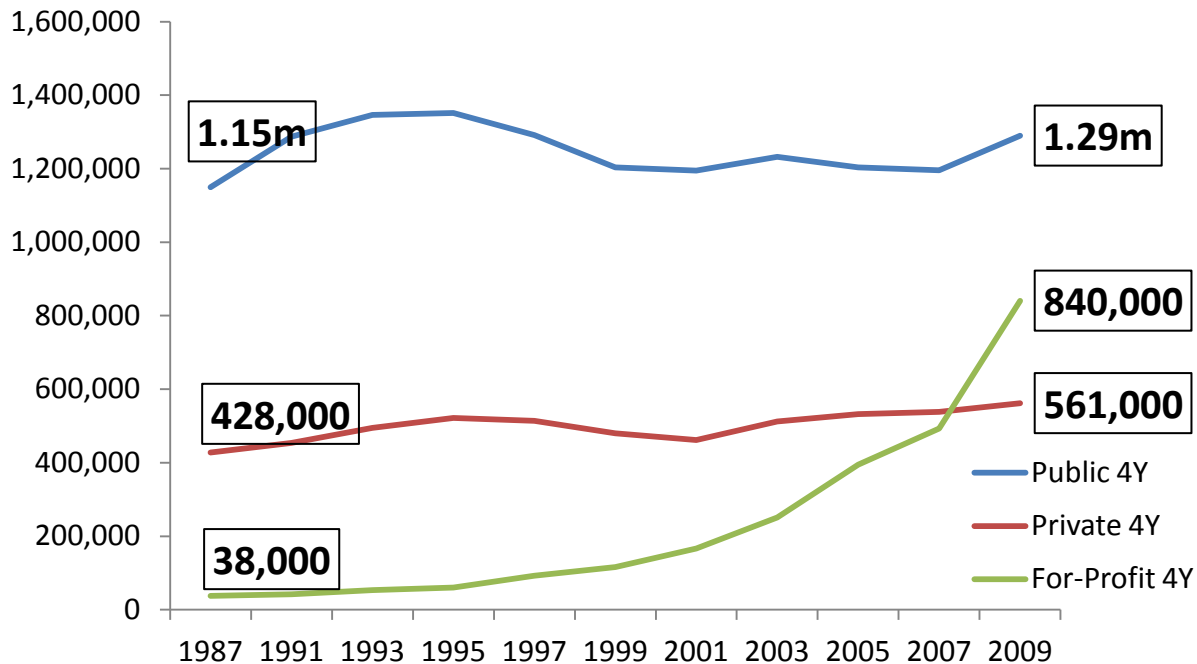
Figure 1- Adult Undergraduate Headcount- Growth 1987-2009



Source: IPEDS, U.S. Census and Eduventures analysis. “Age Unknown” students were modeled to standard age distribution. IPEDS is the *Integrated Postsecondary Education Data System*, an online database higher education institutions must report to as a condition of receipt of federal student aid

Figure 2 looks at adult undergraduate enrollment by institutional type, emphasizing the surge in for-profit school growth driven by online delivery. In 2009, for the first time in modern U.S. history, for-profit 4-year institutions enrolled more adult undergraduates their private nonprofit counterparts. Public 4-year institutions, while the dominant sector in this market, saw essentially flat growth over the period, peaking as far back as 1995.

Figure 2- Adult Undergraduate Market Share 1987-2009 (4-Year Schools)



Source: IPEDS and Eduventures analysis

Over this period, the headcount growth and change in adult undergraduate market share between these three types of 4-year institutions was as follows:

Growth (Market Share) 4Y 1987-2009

Public= 12% (71% v. 48%)

Private= 31% (26% v. 21%)

For-Profit= 2111% (2% v. 31%)

For-profit schools went from a negligible position to owning almost a third of the market. By contrast, 4-year Public schools fell from almost three-quarters market share to less than half.

Up to 2009, the growth of for-profit schools, primarily online, was so strong that nonprofit 4-year schools almost seemed to be conceding this market. But focused on the traditional age student, in most cases, for-profit competition for adult learners was less dramatic at institutional level for nonprofits. Nonetheless, a growing number of nonprofit schools exhibited a mix of skepticism about the quality inherent in the for-profit/online approach, and a desire to emulate aspects of the model and benefit from this dynamic opportunity. While not as dramatic in terms of for-profit growth and share, a similar trend played out graduate level- chart not shown.

In 2008, as the economy weakened, online higher education entered a final boom phase, leveraging the acute counter-cyclicality of what would be dubbed the “Great Recession”. From 2008 to 2011, the online higher education program market added another million students, taking online headcount to 2.75 million, and accounting for about 12% of headcount at degree-granting schools. Among adult students, aged 25 and above, wholly or majority online delivery hit 30% of headcount. For U.S. higher education students generally, it is estimated that about a third are currently enrolled in at least one online course³.

Who is the online student? As well as dominated by the 25-44 year old segment, in the 2000s the online student population was disproportionately female and ethnic minority. Women, particularly those with children, valued the convenience of online delivery. Certain ethnic minorities, particular Blacks, under-represented in mainstream higher education historically, disproportionately turned to online as a second-chance.

In relative terms, online programming was more popular at graduate level compared to undergraduate. The Master’s degree in particular proved the sweet spot, combining an academically prepared student body that valued convenience, and one that had already enjoyed the traditional campus and was less interested in a repeat experience. The Master’s degree is short and therefore more suitable for a novel delivery mode, and graduate education was ready for expansion now that the Bachelor’s degree was so common. At least among more traditional schools, there was greater comfort with delivery mode experimentation at graduate level. At undergraduate level, online programming played best for Bachelor’s completion, targeting adults who had dropped out of school at a younger age and now saw completion as key to a better job. Some for-profit schools and community colleges have attempted to develop the Associate’s degree market online. However, the combination of an academically immature student body and less career and more general education-focused programming led to very high attrition rates, prompting a number of key players to scale back their investment.

Today, Eduventures estimates that the Master’s degree market in the USA is more than 30% online, compared to <15% at the Associate’s level and <10% at Bachelor’s. The doctoral market has also taken off online, with academic maturity and need for convenience a plus, but program length and often limited doctoral activity among leading online active schools a negative. Eduventures estimates that today the doctoral market is about 15% wholly or vast majority online.

By institutional-type, for-profit schools proved disproportionately strong in the online program market. Prior to the 1990s, for-profit schools represented <3% of the degree market in the USA, regardless of delivery mode. Using online delivery as leverage, for-profit institutions have moved up to about 10% market share, although retreating somewhat in recent years (see Section 3). However, in the online program market, for-profit schools, at their peak, achieved in excess of 40% share. Online programs now account for >60% of all students at 4-year for-profit institutions.

³ Babson Survey Research Group (2012) *Changing Course: Ten Years of Tracking Online Education in the United States*

By implication, nonprofit schools, both public and private, were and remain under-represented. This reflects the traditional age student mission and culture of most nonprofit institutions, certainly at university and 4-year college level. Many nonprofit schools embraced online in the continuing education division, and in particular career-oriented departments such as Business and Nursing, but such sub-institutional effort tended to limit scale and weaken infrastructure. A particular kind of vendor, designed to help nonprofit schools expand online by outsourcing certain non-academic tasks, emerged to combat this tension. Eduventures estimates that about 200 nonprofit schools currently work with one of these firms, but this represents <15% of all such schools. While this approach has helped the online programs of partner schools gain visibility, the program rather than institutional focus has kept enrollment at ultimately modest levels. There is evidence of diminishing returns as greater numbers of schools and programs sign such alliances.

The most prestigious universities have tended to pay least attention to online learning, in terms of online courses and programs. Online, particularly at program level, implies physical co-location of student and instructor does not matter, which runs counter to the brand fundamentals of leading schools. Some top brands were involved in grand online experiments in the early days (e.g. Fathom, Cardean, Universitas 21), but over the past decade either remained essentially aloof or devoted energy to open learning and research efforts, such as MIT's *OpenCourseware* and Carnegie Mellon University's *Open Learning Initiative*. The current MOOC phenomenon- see Section 3- is a similar case in point. One vendor- 2Tor, now 2U- has built a business helping a small number of highly selective universities develop online Master's programs consistent with institutional brand fundamentals, emphasizing a proprietary delivery platform, high production values, multimedia student/faculty interaction, and top price. The growing online presence of leading universities can only enhance the standing and appeal of the delivery mode.

To date, the online program market has seen greater consolidation than U.S. higher education as a whole. A small number of for-profit universities have used online delivery to achieve rare scale. At one extreme, University of Phoenix, at its peak, passed 400,000 unique current students, the bulk studying wholly online. Other very large institutions include, at their peak, Ashford University (80,000+ students online) and Kaplan University (70,000+ students online). Using online, these schools grew very rapidly, adding tens of thousands of students in just a few years. Ashford University in fact started with the acquisition of a failing nonprofit university, maintaining a small traditional campus and expanding nationwide online. On the nonprofit side, few schools have truly scaled online. One example is Liberty University, a private religiously affiliated institution, getting to 60,000+ online students, pioneering a non-denominational Protestant Christian online brand in an otherwise generally secular market. University of Maryland University College, a longstanding adult and military-focused branch of the University of Maryland, reports an online headcount above 40,000 students. Western Governor's University, a unique, competency-based institution founded by the governor's of 19 western states, has over 35,000 online students. All told, perhaps 50% of online students are enrolled at c.100 institutions, out of over 3,000 degree-granting schools in the country.

Today, Eduventures estimates that in excess of 50% of all degree-granting schools in the USA currently offer at least one online degree or for-credit certificate program. However, many schools have yet to move from a bottom-up approach dominated by a few faculty enthusiasts and one or two pioneer academic departments to a more top-down, strategic model where online becomes a part of core institutional activity and identity.

How has the U.S. online higher education market been regulated? Regulation has been a crucial determinant of the progress of all forms of distance learning, particularly following large-scale federal government commitment to student funding from the 1940s onwards. Over the past thirty years in the USA, distance learning has been subject to periods of greater and lesser regulation. Following a distance learning boom in the 1980s, dominated by non-degree for-profit schools, the federal government decided to severely limit scope for distance learning students to access federal aid. Federal concern centered on lack of student interaction beyond course materials, insufficient evidence of student achievement, high drop-out rates, and even outright fraud. The so-called “50% Rule”, enacted in 1992, meant that no institution with more than 50% of students studying at a distance, through whatever means, could offer students federal aid. This left most nonprofit universities and colleges free to experiment with distance learning at the margins, but denied support to wholly and majority distance institutions, which were primarily for-profit. The “50% Rule” shrunk the ambitions of for-profits providers and drove many out of business.

As Internet-based distance learning garnered attention in the mid-1990s, there was pressure on the federal government to reconsider. In 1998, the Department of Education decided to institute the “Distance Education Demonstration Program”, allowing select non-traditional distance learning institutions provisional access to federal student aid. The aim was to evaluate whether this new form of distance learning embodied sufficient quality and safeguards to merit relaxing the rules. A number of established for-profit schools that had embraced online delivery, such as University of Phoenix, some nonprofit institutions with significant distance learning investments, such as University of Maryland University College, and some recently founded online-only institutions, such as Capella University, were admitted to the program. With financial aid available, participating schools saw enrollments boom. With other distance-only schools outside the program, and relatively few nonprofit schools with significant online program presence, simply being online and offering aid was a powerful competitive advantage.

The Demonstration Program went about trying to gauge whether participating schools were performing as desired, in terms of student achievement, quality assurance and loan repayment. Schools were required to submit data to the Department of Education, which in turn produced a number of reports. The back-and-forth is a fascinating example of tensions between market demand and regulatory instincts. While the schools did provide data, the reports from the Department expressed a desire for more detail or for missing items to be supplied. The Demonstration Program ran until 2006, when it was decided to eliminate the 50% Rule for non-correspondence forms of distance learning. Yet the final “Demonstration Program” report from the Department still expressed some frustration over the available data⁴. There was in effect a stand-off between schools eager to retain access to federal aid that

⁴ U.S. Department of Education (2005) *Distance Education Demonstration Program- Third Report to Congress*

had been essential to their strong growth, and the Department that instinctively desired more evidence but felt compelled by market enthusiasm to give online delivery the benefit of the doubt. Moreover, the Department, looking for ways to continue to expand higher education but at a lower cost, both to students and the taxpayer, rightly saw potential in new technology, even if the case was as much promise as reality at the time.

From 1998 onwards, aside from the 50% Rule, the Department removed a number of other restrictions designed to harness non-traditional schools and activities. For example, in 1992, the government banned payment of incentive compensation to student recruiters, concerned that some schools were enrolling without regard to ability to benefit, and taking advantage of a funding model that rewarded enrollment over student performance. After lobbying from for-profit schools, the Department introduced a number of “safe harbors” that permitted incentive compensation under various circumstances. The Department also relaxed the so-called 85/15 rule, whereby for-profits were required to earn at least 15% of revenue from sources other than federal aid. After lobbying, the rule moved to 90/10, where it remains. Both these shifts in policy gave additional encouragement for nontraditional schools, leveraging online delivery, to maximize enrollment.

By contrast, there was little direct regulatory attention to student outcomes for online and other nontraditional students and modalities. In general, schools are required to report graduation rates for full-time, first-time undergraduates, but this excludes the vast majority of online program students, who are studying either part-time or enrolled in school earlier in their lives. So there was no obligation for schools to report adult-only or online-only graduation rates, despite a career-enhancement emphasis to the value proposition. All schools, both for-profit and nonprofit, must remain below a certain student loan default rate, if they are to maintain access to federal aid. Many of the largest online-centric for-profit schools have experienced significant default increases, but with a range of default management options available, no major institution has lost eligibility. Indeed, the latest default data saw for-profit schools lower their average default rate⁵. The government is moving to monitoring default over a three-year rather than two-year period, in an attempt to improve federal grasp on the situation, but early evidence suggests leading for-profit schools are able to successfully manage to the new target.

Once the 50% Rule was lifted for online programming, more wholly or majority online for-profit schools emerged, such as Ashford University and Grand Canyon University, both starting with the acquisition of a financially troubled nonprofit university. For most nonprofit schools, the change was less significant, since few had embraced online delivery to the point that the old rule was an issue, but its removal did do away with concern that an online enrollment boom might put an institution at risk. Indeed, the demographic boom in traditional age students was still not quite exhausted, meaning many nonprofits had yet to feel sufficient pressure to consider online programming as a core strategy.

With online higher education enrollment exploding, the Department of Education intervened in a different way. In 2009, the Department published a meta-analysis of numerous prior studies concerning

⁵ See U.S. Department of Education webpage *Two-Year Official Cohort Default Rates for Schools*. Available at: <http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr2yr.html>

online and distance learning in both compulsory and higher education⁶. The report concluded that while many studies lacked rigor, the evidence suggested that online delivery was at least as good as conventional instruction. Indeed, hybrid delivery was cited as potentially superior to either online or conventional. The report garnered significant attention, and reassured many schools and policymakers that online learning was increasingly compelling in quality terms. The report undermined the notion that online delivery was a monolithic activity, with singular and predictable characteristics and outcomes. The report positioned online learning as a tool with certain advantages in particular situations, which could be implemented well or less well in individual cases.

Institutional accreditors did little to formally oppose the rise of online learning, beginning in 2000 with a joint statement of good practice across the six regional accreditors⁷. As online higher education became commonplace, accreditors steadily positioning online as a delivery method to be evaluated against essentially standard learning objectives and quality assurance, and therefore not in need of special guidelines. Initially, one regional accreditor, the North Central Association, was viewed as most open to nontraditional models and delivery modes, and attracted the headquarters of many leading for-profit schools. North Central also approved a disproportionate number of for-profit acquisitions of failing nonprofit schools. But by the end of the last decade, all six regional accreditors had wholly online schools either approved or with candidate status, and sanctioned thousands of online programs across their mainstream institutional membership. One online-specific move by accreditors, encouraged by the federal government, mandated a special review for any institution that grew enrollment 50%+ in a single year.

During the online higher education boom, no major university or college in this market lost accreditation or was at serious risk of doing so. The individual mission and quality assurance process orientation of institutional accreditation, which can only sample program-level activity, is not first and foremost designed to assess online and its outcomes in particular. With initial funding from the federal government, *Quality Matters* emerged as a private, voluntary solution to the online quality assurance question. *Quality Matters* is a subscription-based organization that encourages schools to submit their online courses for evaluation against a quality assurance rubric. Currently, nearly 700 higher education institutions are *Quality Matters* subscribers and thousands of online courses have been evaluated. The model focuses on pedagogic good practice in course development and delivery, not quality of instruction, student experience or outcomes as such.

As the “Great Recession” played out, and online enrollment continued to boom, the federal government, under the new Obama Administration, took a fresh look at online higher education and for-profit schools in particular. Following the 2008 reauthorization of the Higher Education Act, the Department of Education initiated the standard rule-making process to implement the revised statutory language. The new administration took this opportunity to explore a wide range of issues some only partially outlined in the Act itself. These included the role of states as the foundation of quality

⁶ U.S. Department of Education (2009) *Evaluation of Evidence-Based Practices in Online Learning- A Meta-Analysis and Review of Online Learning Studies*

⁷ Council of Regional Accrediting Commissions (2000) *Statement of the Regional Accrediting Commissions on the Evaluation of Electronically Offered Degree and Certificate Programs*.

assurance in U.S. higher education, and the initial gateway to federal aid; the definition of the credit hour that structures student achievement and aid awards; incentive compensation for student recruiters; and the concept of “gainful employment” that first admitted for-profit schools into the federal aid system.

Online learning was rarely directly implicated in these discussions, but it was clear that online was the means by which certain schools had achieved the combination of dramatic enrollment growth and limited outcomes evidence that troubled the new government. In essence, this round of rulemaking introduced a raft of new requirements to better harness the online/adult /for-profit market energy unleashed by the removal of various prior requirements. Developments included:

- **Incentive Compensation-** the new government decided to eliminate all the “safe harbors” for incentive compensation, even tied to student performance, forcing for-profit schools to reinvent their recruitment model
- **Credit Hour-** the government proposed a new definition of credit hour, creating controversy as to whether the definition (one hour of classroom time and two hours of private study per week over fifteen weeks) put too much emphasis on time served rather than outcomes achieved, and therefore undermined innovations such as competency-based learning pioneered by wholly online schools such as Western Governor’s University
- **State Authorization-** the government explicitly required schools to secure authorization for distance learning presence in another state, where required by state law. While secondary to broader concern to strengthen state oversight of home-state institutional presence, this distance learning requirement set off a deluge of complaint, confusion and scramble for compliance across the country, as schools and states confronted the yawning gap between online program and enrollment scale and state jurisdiction. In fact, few states regulate distance learning enrollment alone, but many regulate related activity such as faculty presence, in-state marketing and limited ground presence such as clinicals and internships built into otherwise online programs
- **Gainful Employment-** the government put forward a definition of “gainful employment”, a phrase first used but not fully defined in 1972 as grounds to admit for-profit schools and non-degree credit programs to federal student aid. The wording positioned such schools and programs as essentially vocational in contrast to the “academic” offerings of nonprofit universities and colleges. The government wanted a quantitative means to measure for-profit school performance, laying out various thresholds for loan debt repayment relative to the income of former students. The vision was to cut off federal student aid to those programs that failed to meet these thresholds over a certain period of time

Both mainstream and nontraditional higher education advocacy bodies widely opposed the draft and then final new rules. A flurry of protest letters and emergency conferences made little headway.

Alleging lack of due process and unforeseen consequences, the Association of Private Sector Colleges and Universities (APSCU), the representative body of for-profit schools, went so far as to sue the Department of Education. This proved a decisive intervention, at least in some respects. In two separate judgments, the court ruled in favor of the Department on most counts, but threw out both the distance learning component of state authorization, and some key aspects of the gainful employment rule, pointing to lack of due process for the former and insufficient supporting evidence for the latter. At time of writing, the Department has opted not to enforce this aspect of state authorization, leaving schools and states to come to an understanding. A prospective interstate compact is also in the works. On gainful employment, the Department plans to appeal, and may decide to reconfigure the rule to sidestep the court's concerns but maintain the fundamentals of the approach.

Other recent regulatory developments included a lengthy congressional committee investigation into for-profit schools, requiring various disclosures that highlighted often weak student performance; and a growing number of state-specific inquiries into the activities of for-profit schools. Again, online learning per se is rarely the explicit target, but remains the underlying means by which target schools achieved the enrollment growth in question. Finally, one prominent online-centric for-profit school, Ashford University, in attempting to switch regional accreditors, suffered very public pushback. WASC, the Western Association of Colleges and Schools, the accreditor in the region where Ashford wished to formally relocate, published a damning report denying the school's initial application and citing a host of alleged inadequacies relating to faculty, instruction, student achievement and quality assurance. Following the report, Ashford's current accreditor, North Central, placed the school under special monitoring.

Over the past decade, aside from formal regulation, a variety of law suits and investigations have been conducted into a number of the leading for-profit, online-centric institutions. Allegations ranged from flouting of incentive compensation rules to inappropriate receipt of federal aid for certain students. No suit concluded in the plaintiff's favor at trial, and a number were dismissed, but some ended in out-of-court settlements without admission of wrongdoing.

To conclude this section, what were the preconditions, whether essential or helpful, for online higher education market growth in the USA?

- **An Established For-Profit Higher Education Sector**- unlike most countries, the United States, at the dawn of online higher education, had a long established for-profit higher education minority, including a small number of regionally accredited universities eligible for federal aid. These institutions, narrowly-focused on nontraditional students and career programming, as well as scale and national reach, embraced online as a way to accelerate the business model. Publicly-traded status and willingness to spend a high proportion of revenue on marketing gave online programming notable strength and visibility. Online both enabled and was itself enabled by these institutions. Online higher education at program level would not have developed as rapidly as it did without an ambitious for-profit sector integrated into mainstream accreditation and funding, but equally for-profit higher education would not have achieved the scale and

consolidation it enjoyed without online momentum. Without for-profit schools, online programming would have developed, but it would have done so at a much reduced pace

- **Enabling Regulation**- federal government willingness to reconsider prohibition of federal aid for wholly distance institutions connected online innovation to mainstream funding and legitimacy. More recent federal attempts to tighten aspects of online higher education regulation, in the form of the “Program Integrity” rules, should be viewed, at least in principle, as refinement and not as regressive
- **An Established Adult Higher Education Sector**- as the first country to embrace mass higher education, the USA was also among the first to consider the older student, if not the priority, then certainly as mainstream. The success of online higher education was to build on established assumptions about the value of higher education for adults but add new focus, convenience and appeal
- **Distance Challenges**- the sheer size of the USA, and remoteness of many populations, have long meant a role for distance learning. Online delivery, as the most sophisticated form of distance learning to date, increased interest. However, it is important to note that while rural populations exhibit higher levels of interest in online⁸, the delivery mode’s primary appeal is convenience for the busy, regardless of geography. Moreover, the bulk of online program students are urban, in line with population distribution

Very few other countries, if any, combine these preconditions, whether historically or today.

⁸ Eduventures (2007) *Understanding the National Online Higher Education Market, Part 10: Consumer Survey*

Part 3: Online Higher in 2013. Following these periods of dramatic enrollment growth and regulatory pushback, where is the online higher education market today? In many ways, the present is quite different from the past. Enrollment growth is slowing down, to mid-single digits compared to a norm of double-digit growth year-on-year. The new regulatory environment has made many schools more cautious, and drawn momentum from growth to compliance. A sustained weak economy has ushered in an unusual cyclical relationship with higher education, meaning lower confidence results in lackluster enrollment. Yet with the traditional age student demographic boom at an end, at least in much of the country, state appropriations under pressure and endowment performance in question, many nonprofit schools are looking for new sources of revenue. Many schools are still entering the online market for the first time or expanding their offerings, making supply and demand better aligned, with the risk that supply might exceed demand.

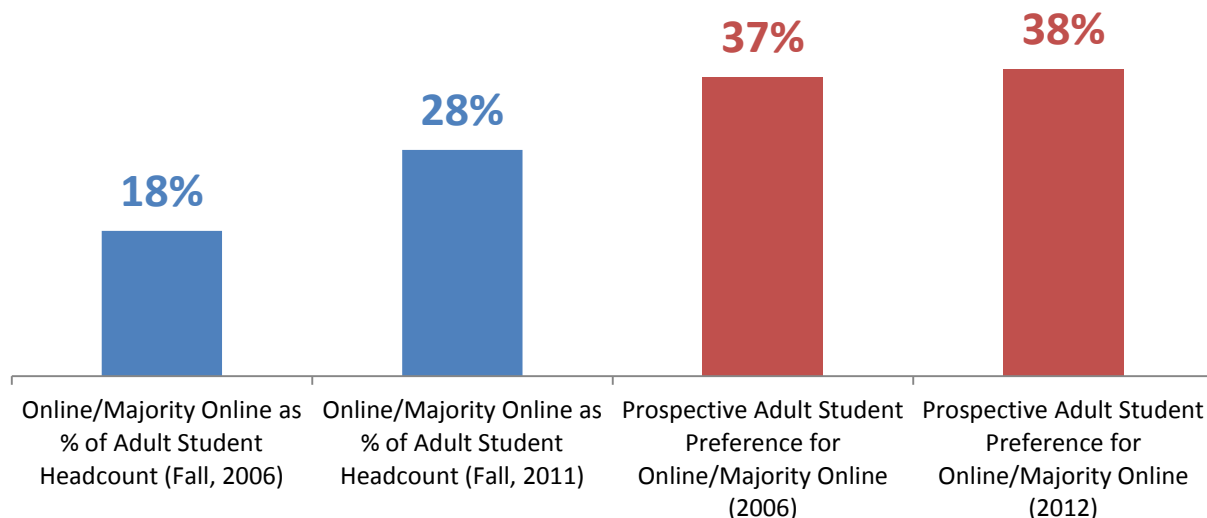
Eduventures has forecast that the online market will plateau around mid-decade, unless new market dynamism can be found. This might come from new markets, such as international, traditional age students and corporate. But tapping these opportunities is dependent on a more fundamental problem, namely the online higher education value proposition itself. Eduventures has long argued that the conventional online value proposition is too basic, dominated by convenience and flexibility for adult students compared to the conventional campus, but poorly articulated in terms of the student experience and outcomes. The Eduventures thesis is not that online higher education has failed to evolve over time, but that the pace of evolution has not kept up with enrollment growth and may be insufficient to propel significant further growth.

An Eduventures survey of U.S. adults, conducted in May 2012, found 33% interested in going to or returning to school, and anticipating doing so in the next three years. Yet another 44% expressed interest but saw no practical possibility, citing cost and time as main barriers. Fifteen years after the emergence of online programming and scaled adult-centric higher education institutions, such widespread concern about cost and time speaks to the limitations of the adult/online higher education value proposition as we understand it today. Adult/online are unquestionably more convenient for this population compared to the campus norm, but a degree-centric model and institutional hesitation on online as cost reduction, have blunted the impact of online on cost and time.

In Eduventures view, the prospective adult learner values convenience and flexibility, and an adult-centric model, but wishes to balance that with a transformative student experience consistent with the legacy of higher education, and outcomes evidence that supports return on investment. It may be true that many prospective students do not articulate such as need in these terms, at least not clearly, but slowing enrollment growth and residual consumer reticence about online point to appetite for something more. Encouraged by an input-focused federal and state funding model, schools have paid too much attention to the access potential of online and not enough attention to student experience and outcomes.

Figure 3 compares the proportion of adult students over time (2006 v. 2012) studying online at program level with the proportion of prospective adult students with a preference for online study.

Figure 3. Preference v. Participation- the online value proposition is evolving too slowly



Source: Eduventures estimates, and Eduventures surveys of U.S. consumers (June 2006 and May 2012)

Online program participation growth between 2006 and 2011 was significant, but a flat preference ratio is perhaps surprising. Following years of greater visibility and acceptance for online, one might expect the preference ratio in 2012 to be substantially higher than in 2006. In Eduventures view, lack of movement reflects consumer appreciation of online convenience alongside a perception, even if only instinctive, of the delivery mode's broader limitations. Unless the preference ratio starts to climb, the risk is that online participation flattens as it approaches this figure.

Further evidence of growing friction around "conventional" online higher education is the rise of MOOCs, Massive Open Online Courses. While MOOCs have existed for a few years, the model only came to prominence in the past 18 months. MOOCs revive much of the original promise associated with online higher education- combining scale, free or inexpensive access, a course rather than degree focus, and at least in prominent iterations, content and faculty from top brand institutions. MOOCs have attracted significant institutional and venture capital, and are led by ventures such as EdX (from MIT, Harvard, University of California Berkeley and others) and Coursera (now working with 30+ universities worldwide including Stanford, Princeton and Brown universities), as well as Udacity (founded by Sebastian Thrun, a computer science professor at Stanford who taught a MOOC and then decided that model was the best way for him to share his expertise and advance the democratization of higher education).

MOOCs now boast hundreds of thousands of students, but critics point to very low course completion rates, often weak pedagogy and lack of a sustainable business model. Business model ideas include textbook sales, examination and certificate payments, and job referral fees from employers, but nothing firm has yet emerged. MOOC scale, with potentially hundreds of thousands of people taking the same course, means automated, self-service instruction and little or no faculty involvement, but it is questionable whether such an approach is sufficiently powerful for the average learner. Free or inexpensive self-service content has long existed in the form of books, television and other media, but has not represented an alternative to the conventional classroom. Consumer curiosity about free courses from top schools is not a clear signal of desire or ability to by-pass the conventional school experience.

The tension between MOOCs as disruptive and sustaining is clear from the debate over academic credit. Prominent schools involved have made it clear that MOOC course completion does not attract credit, while other figures, such as Sebastian Thrun, have stressed that course completion, where the course is the same as that taken by traditional students, is equivalent and should be treated as such. MOOCs represent both a novel form of conventional outreach by traditional institutions, in no way designed to disrupt the core business of those institutions, and a radical alternative to the higher education norm that will only merit the hype currently associated with the phenomenon if true disruption is realized.

It should be noted that MOOCs are not the only examples of next generation online higher education. New or emerging institutions, such as New Charter University, a competency-based, low-cost institution eschewing federal aid, and Minerva University, a hybrid, internationalized “elite” university designed to offer a 21st century high-end experience at half the price of campus peers, have burst onto the scene over the past year. Again, such developments signal that “conventional” online higher education has innovated only so far but it is too early to judge whether MOOCs or other innovations will prove ephemeral, supplementary or a scaled alternative. Similarly, recent years have witnessed a swell of online platform and tool innovation, embracing social media, mobile, and adaptive learning. Value-add and mainstream adoption are still in question, but activity suggests growing consensus that the status quo is inadequate and innovation is possible.

Part 4: Evaluating Online Higher Education. Finally, in 2013, how to evaluate online higher education to date? This section outlines ways in which online has been more and less successful so far.

More Successful

- **Legitimacy**- over time, online programming has steadily penetrated every type of university and college, from the most to least selective, and most to least specialized. Online might take quite different forms across this range, and there is a growing recognition that online might be deployed well or badly in individual cases, but online has achieved ever-more mainstream acceptance as a potentially powerful tool for access, new market entry and pedagogic enhancement
- **Transformation of Adult Higher Education**- online programming has lent the adult market new energy and flexibility, enabling dramatic increases in participation, far ahead of population growth. Against federal educational attainment goals, and a general background of lifelong learning advocacy, this is a major achievement

Less Successful

- **Cost Reduction**- among for-profit schools, and a few wholly/majority online nonprofits, online appears to have enabled margin improvement compared to campus models, although formal comparisons are rare. The top-down, institution-wide for-profit approach maximized the potential of online in this respect. At nonprofits schools in general, where online is smaller scale and more peripheral, efficiency has been less obvious. There is an ongoing debate as to whether online instruction demands more faculty time than campus norms, and many schools continue to incent faculty with special course development and delivery payments. The former implies online may only be configured in a certain way, and betrays the transfer of often untested pedagogic assumptions from the classroom to online. The latter is a reminder that for many faculty online remains non-core and clear pedagogic motivation is lacking. Neither situation supports a tighter focus on how online might reduce costs. Schools across the board have been reticent to try to use online to maintain quality but increase class size, and almost all schools try to distance online programming from an strongly self-paced or automated approach. Administrators are wary of implying that greater use of online might mean reduced need for faculty. Equally, with limited consolidation potential among nonprofit schools, over time online provision has fragmented across hundreds of schools, limiting economies of scale.

To date, schools have not varied tuition by delivery mode. Schools with both online and campus offerings have tended to price both the same, typically unsure of underlying cost comparisons and reluctant to send differential pricing signals to the market that might risk online cannibalizing campus enrollment. There is no question that online programs have reduced cost to the student by enabling easier combination of work and study, reduced commuting time and expense and less need for childcare, but online has yet to effect more fundamental savings.

Well-established cost reduction methodologies do exist, such as those developed by the National Center for Academic Transformation, but it has been difficult to push adoption beyond individual courses, faculty enthusiasts and grant money.

- **Student Experience**- there remains a significant gap between how online might be organized in particular circumstances or for certain ends, and the standard online experience. The latter tends to be overly transactional and consumptive rather than transformative and constructivist. The average online course consists of readings, text-based discussion that often lacks depth, and various kinds of supplementary, one-way multimedia. The online student experience is defined by convenience and flexibility, not a clearly innovative, evidenced pedagogy.

It is not surprising that early-days online focused on infrastructure and basic course design and instruction. Widely inconsistent campus-based instruction is too often a poor starting point for pedagogic reflection and good practice. However, if online delivery is to continue to grow in legitimacy, the value proposition must be more clearly about the student experience as well as access. Hybrid delivery, combining majority online with deliberate, high-value face-to-face experiences, might, at least in the short-term, prove the best way to allow online to grow without making online carry the entire pedagogic burden. As the online market gets ever-more crowded and fragmented, more traditional schools get involved and the consumer craves more than just convenience, hybrid may be aligned with fundamental school, consumer and market needs.

- **Student Outcomes**- given online programming's strong career enhancement orientation, there is strikingly little specific outcomes information to support this participation premise. The absence of regulator mandates for school disclosure of comprehensive graduation or alumni employment data is a systemic challenge, but equally online active schools have been slow to leverage outcomes disclosure as prospective competitive advantage for the online brand both generally and institution-specific. At present, it is essentially impossible to judge one online program or school against another based on specific outcomes information. Federal and state instincts continue to move higher education in the outcomes direction, but the trajectory is controversial and painfully slow- as the "Gainful Employment" saga testifies. The U.S. News & World Report online program rankings appear premature. Without clear, quantified outcomes intelligence, the sector lacks a key tool to strengthen and broaden the online higher education value proposition.

A few schools, such as Capella University and Ashford University, have pioneered institution-specific disclosures, and the "Transparency by Design" effort brings together about twenty online-centric schools with a vision of common outcomes data. However, consistency of reporting and benchmarking remain elusive, as is clarity on which metrics might constitute both a consumer and policymaker-friendly set of performance indicators. Eduventures is working with a group of leading nonprofit schools active online to develop online performance benchmarks, with an eye to both internal and external audiences.

In conclusion, online higher education at program level in the United States represents the largest and most developed such market in the world. The coming decade will determine whether shortcomings around the student experience and outcomes will confine the delivery mode to ultimately marginal status or whether we are on the verge of a new online revolution that will push the modality further into the mainstream.

About Eduventures

Eduventures is a research and consulting firm focused on higher education, based in Boston, USA. Eduventures works with 300+ universities and colleges nationwide.

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