Jason Altmire (00:05):
Hello, and welcome to another edition of Career Education Report. I am Jason Altmire and today we have one of the big thinkers and most respected people across higher education. And if you work in higher education, you have certainly heard the name Larry Ladd. And the odds are better than not that you have probably worked with Larry Ladd. He is someone who’s had 40 years of experience across higher education, and he’s been a financial executive for colleges and universities, and just brings deep experience as a financial consultant. He’s been a consultant to over 100 colleges and universities and foundations, and we’re talking about financially strong and financially challenged, large and small, public and private, not-for-profit and for-profit. He's chaired numerous search committees for university positions and he's assisted clients in filling key executive roles.

Jason Altmire (01:05):
And his prior experience, just to give you a small snippet, this is not all of it, but he’s been director of budget and financial planning at Harvard University, he's been Dean of administration and chief financial officer of the faculty of arts and scientists at Tufts University. Been an assistant provost for budgeted administration at Boston University and assistant to the president at Duke University. And he he’s currently a consultant again, consulting with schools on generally financial and strategic matters.

Jason Altmire (01:39):
But Larry, I just want to thank you for taking the time, for being with us today. And what struck my interest regarding having you on the podcast was in June, there was in the business journals, which is the national publication that appears in over 40 cities across the country, there was a discussion on for-profit colleges and specifically their dwindling numbers. And it focused on four year universities, which of course is not the entire sector on the for-profit side. But the numbers that they put forward were 744 of those four year for-profit universities across America in 2016. That number had shrunk to 377 in the year 2020, which represents about a 50% drop across those four years.

Jason Altmire (02:37):
And you were widely quoted in the article. I wanted to just kind of get your thoughts on that phenomenon. You offered some interesting insight regarding why enrollment numbers, for example, have stayed relatively stable while the number of schools overall has dropped. And what the trends were and why you thought that the enrollment had stayed the same. But also you had some interesting thoughts on the for-profits that remain in the market today and their viability moving forward. So again, thank you for being with us and I'll just start with that being the first question.

Larry Ladd (03:15):
So it is interesting that enrollment had stayed basically the same. What we may be seeing within the for-profit sector is a flight to quality that is, as you know, the number of providers of higher education services in the for-profit sector went up very dramatically around the turn of the century. There was a lot of quick response to market conditions at that time, the market was changing rapidly and then the not-for-profit sector of higher education is not good at responding quickly to changes in the marketplace. It's just not built to do that.

Larry Ladd (03:54):
So as the need of programs in technology, the need of programs in nursing and other kinds of medical profession, by the way, the shift in technology to online programming. All those things, the nonprofit
sector couldn't respond to quickly. And so the for-profit sector can respond quickly. That's one of the strengths of the sector.

Larry Ladd (04:17):
And so they did, and they brought new methods of doing it. One is of course the online technology, but another is the not using physical plant that they owned. But instead if they used physical plant leasing it, something that I actually advise my not-for-profit clients to consider. It's one of the many innovations that the for-profit sector brought that the not-for-profit sector should emulate.

Larry Ladd (04:44):
So all those things happened. There was a high demand for higher education, and then the private equity people got involved, decided to become a real source of opportunity. And so large amounts of money was rolled into it. And so it resulted, all of those factors, the changes in the way education is being delivered, the need to respond quickly to the marketplace. The sudden availability of a lot of private capital led to the growth of a lot of very big institutions that some of whom had high quality and high ethical standards and some of whom, least based on what you read did not.

Larry Ladd (05:24):
And the ones that did not continued to grow, but tarnished the industry. So there was the GAO report in 2010, that looked in at the sales practices of some of those. And there were reports of the disproportionate number of students that had high debt levels and did not complete their degrees. And all of those things led to a regulatory crackdown, for better or for worse, on the sector as a whole. On the bad apples and the good apples. But the bad apples actually were forced eventually just to get out of the market. And what has happened is the providers that had relatively good consumer practices and relatively good quality have survived. And so that's good for the whole sector.

Jason Altmire (06:13):
And that's something that we've had to deal with at CQ. And as you know, we're the national association representing generally the proprietary sector of higher education. And we don't shy away from the fact that Corinthian and ITT, they really did happen. Students really were harmed. We don't pretend like that wasn't the case and that there was action that was required as a part of that. But that certainly is not indicative of what we see taking place across the entire sector. And we do feel like the reputational damage to the hundreds of schools that are out there every day, doing the right thing, offering life changing opportunity for students, that reputational damage has been incalculable because of what happened with those big institutions.

Jason Altmire (07:01):
And as you mentioned, the innovation that you see across the for-profit sector became apparent very recently, just as one example, for as horrific as the COVID experience was for the country and for the world, it did accelerate the technological advances that we would probably have seen, but would've taken years to materialize. And in particular, in higher education, distance learning. And the for-profit schools that have remained and continue to enroll students and do a good job in that distance learning environment, other schools have been able to take advantage of that expertise and learn from them. And I wonder, given your experience dealing with hundreds of schools yourself, what you have seen with regard to the evolution in higher education that was driven by that transition.
Larry Ladd (07:56):
Well, we saw the nonprofit sector actually behaved more like the for-profit sector during COVID. All of a sudden it was possible to make all these big changes. Which were, for the nonprofit sector, hard to conceive for so many of them. Again, because they are just slower. And there are some good reasons why they're slow, but they are slower. And so COVID in that sense was positive in that it pushed a lot of innovation forward that might not have occurred for a long time otherwise.

Larry Ladd (08:27):
And you'll see, just like in all industries, I mean, the COVID changed all industries. And it will change the nonprofit sector as well. I don't actually see enough of the for-profit sector to know how it impacted them, but it certainly impacted the not-for-profit sector a lot. It showed it can be supple and nimble when it has to be, but generally it's not.

Jason Altmire (08:51):
And you mentioned in your comments today and also in that business journal article. And I think I've heard you talk about it in other places with regard to nursing in particular. And there's a huge nursing shortage in the country, as everybody knows, the pipeline for nurses is very large. A lot of schools out there producing high quality nurses, but the need in America is just exceeding that pipeline. And with regard to the innovation that you've seen across higher education, and you've mentioned the nimbleness of for-profit organizations and being able through higher education to address that need and increase and accelerate that pipeline. What have you seen across higher ed related to that?

Larry Ladd (09:40):
Well, I've seen, again, the nonprofit sector slowly try to address the nursing shortage. But it takes them a long time. The for-profit sector, you can actually raise capital quickly. You can go to private equity firms, you can arrange the debt financing, you can do all sorts of things. You can hire faculty that have the actual qualifications to teach, higher education will have a broader definition of what the qualifications of a good faculty member are than a for-profit institution might have. But that's a reason the for-profits can do it faster.

Larry Ladd (10:16):
In the nonprofit sector, the ability to raise capital is you take from reserves if you have any. Probably you don't. You usually can't get capital financing for a program, you can get it for buildings, but it's hard to get it for a program. And it's slow. It's tax exempt when you get it, which is nice. But the result of the tax exemption is you have to go through a long public process to acquire it.

Larry Ladd (10:45):
And then the approvals inside the institution are more difficult to obtain. In a for-profit institution the CEO and the board make a decision, and it happens. In a nonprofit institution. It goes through three faculty committees. This is my life. I've spent most of my career in these nonprofit sectors. And I love it, but it's just slow. And you go through three faculty committees, they bring in an external review process, the board debates it, you have to wait for the board meeting, might be six months away. Then you begin the recruitment of faculty and you set up committees to do that. It's hard to find the faculty because you have a tough set of requirements. You want people who either publish or are want to publish, and it's just very complicated and tedious.
Larry Ladd (11:37):
So there are many presidents of nonprofit institutions that I have talked to who were eager to get into nursing in particular. And were frustrated with their own institution, because they were worried that by the time they got it up, the opportunity would've passed. But the beauty of the for-profit sector throughout its history is how quickly it responded.

Larry Ladd (12:00):
I'm a historian of higher education as well, or at least interested in it and the first field where for-profit higher education was successful was the field of accounting. It was called bookkeeping at the time. But in the 19th century, accounting schools and bookkeeping schools emerged with entrepreneurs creating them and making them successful. Because colleges and universities looked down on accounting. It was not a legitimate field for them. They had a much more narrow definition of what their mission was. And now, of course, we have places like Bentley University right outside of Boston, proud, a large not-for-profit highly successful that started out as a bookkeeping school, started by Richard Bentley. And eventually it evolved into what it is. And there are quite a number of places like that around the country. So that's what for-profits do. They find a need, and they quickly need it.

Jason Altmire (12:57):
Kind of continuing on that thought you're talking about, it was a great lesson in the history of not just the, for-profit sector, but how higher education itself has evolved. One of the evolutions that we're seeing now that is sure to continue towards the future is the idea of online learning and these, for example, Purdue global university of Arizona now, recently, Arkansas has entered into this type of agreement where they're bringing in for-profit entities. We expect there will probably be similar movement in the market involving some recognizable names in the for-profit sector of higher education, moving into that public sector. What can you say about that transition? What does that look like for the future and what do you think the implications are for higher ed?

Larry Ladd (13:45):
First of all, this is an example of the difference in how quickly a decision can be made in the for-profit sector versus the not-for-profit sector. These universities, these nonprofit universities that acquired previously for-profit large online programs, strategically, they needed to get into online education in a big way. But they knew that if they developed it internally, it would take a very long time and they weren't sure they would be very successful at it.

Larry Ladd (14:17):
So Blake industry in general, they said, "Well, why don't we grow by acquisition instead of growing internally?" And there were a set of successful to varying degrees, large online programs that they could acquire. Purdue did, the University of Arizona. They've discovered, needless to say, that there are cultural differences between the not-for-profit and the for-profit sector. And so the integration in any merger or acquisition, the literature talks a lot about the challenge of integrating different cultures. And there are cultural differences between in general between the for-profit sector and the not-for-profit sector. And so the integration has been challenging for many of these schools. But it is the way they can get into it on their own.

Larry Ladd (15:10):
I would say as well, there are examples, needless to say, of not-for-profit big online programs that were also successful, just not as many. The Western Governors University, Southern New Hampshire University, University of Maryland Global was developed internally. So it can be done internally, but if you want to get into it quickly, you can't do it that way. That's not the reason why the controversial OPMs, online program management companies are a growing business. They are a growing business, they are for-profits, that deliver education. You can make an arrangement with these entities for a variety of services, address marketing all the way through to course development and teaching.

Larry Ladd (15:56):
But they are thriving because for nonprofit colleges and universities, if they want to get into online quickly, the OPM is the way to go. Even though the OPM wants a share of the revenue, heaven forbid. And that's very controversial as a result. But because the not-for-profits want to be able to move as quickly as for-profits, one way to do it is to acquire for-profits. And then struggle with the culture issues.

Jason Altmire (16:23):
Yeah. And there's been political pushback. There's been consumer groups have pushed back on that and you've seen the impact of that. And kind of sticking with that theme, I wanted to talk about in any industry, even outside of higher education, generally speaking, it is usually the case if you are standing still, you're falling behind. If you're not evolving with the times, if you're not moving forward, if you're not adapting to the change that you see around you, it's not going to work out well for you. And you've outlined a number of ways in which higher ed institutions have struggled with that dynamic. And certainly the less successful ones.

Jason Altmire (17:02):
And given your history as a consultant regarding financial planning and budgeting and investment managing and risk management for over a hundred higher education institutions, what do you see as the trend in sectors outside of the for-profit sector, but generally speaking, the larger and wealthier institutions, well known the brand names across higher education, doing very well, continuing to move forward, larger endowments? If you take a step below that and even a few steps below that regarding size, and the financial capability of some of those institutions, they're not doing quite as well. So what do you see as the trends for the viability of schools like that?

Larry Ladd (17:49):
And you are absolutely right. The most of the press covers the Harvards and Amhersts and Swarthmore's and University of Michigan, Berkeley, places like that. There are over 3000 nonprofit colleges and universities in the country. And there are maybe a hundred of the ones that are rich and wealthy. And just like in the nation, the rich are getting richer and the poor are not getting richer and are sometimes getting poorer. That exact trend is happening in higher education. So those top brand universities are doing exceptionally well. Great fundraising, they can borrow all the money that they need, strong endowments. They can charge any price they want and people will pay it. So they're doing very well. But that's a minority, a very tiny minority of colleges and universities.

Larry Ladd (18:39):
And the rest, again, I get back to the slowness, the slow pace of change. They are suffering because the demographics are changing, the number of students graduating from high school is flat, or for a while is going to start going down. Those who graduate are going to be now, a majority are going to be people of
color. They're going to have to appeal to very different constituencies. Their market is shrinking, and they're trying to get a larger share of it and maintain their pricing structure. Certainly in the for-profit sector, you worry a lot about pricing, I'm sure. And for the not-for-profit sector, it's the same issue. They do not have the pricing power that they had. It's really starting about 10 years ago they began to lose their pricing power.

Larry Ladd (19:31):
So if you look at net tuition per student in the nonprofit sector, it's either flat or going down across the country. So while the newspapers cover the tuition increases that universities are announcing, hardly anybody is paying those amounts. Actually net tuition per student is going down. And universities are having difficulty getting enough students. And they're having difficulty because of the demographics. And they're having difficulty getting enough money from those students to support their cost structure.

Larry Ladd (20:09):
And there isn't a lot of bloat in these colleges and universities that everyone would probably assumes there are. And that's why tuition is high. No, they are responding to the market. They know that if they don't have modern athletic facilities, excellent counseling services and faculty who are well known in their fields, they won't attract students. So they are investing in programs and facilities that will attract students. And that's why the tuition is what it is. It's not price gouging, it's not anything like that. One difference between the for-profit and not-for-profit sector is any profit the nonprofits make has to be plowed back into the business. It doesn't go to anybody else.

Larry Ladd (20:50):
So they do, and they charge whatever the market will bear. But many of the places either decide they won't invest, or they won't make the programmatic changes they need to make. And I mean, program both in terms of what they teach and how they teach it, to attract students. They say, "Our college has always offered business engineering and the liberal arts, and we're going to do it the way we've done it." And they should come. We have built it, why do they not come? And there's a sense of entitlement around it. So those places that have that sense of entitlement, and there are too many of them, just suffer. They go through rounds and rounds of budget cuts, which of course makes them less attractive to their students. And so one by one, we will see many of those close or be acquired if they have something worth acquiring.

Larry Ladd (21:47):
And the good news about the pandemic again, is it forced a lot of places to make changes that they should have made before that may help some of them survive. The places that are doing very well, make significant changes. Again, unless they're among those top 100, that don't need to make a lot of changes. They create new programs, they change who is doing the teaching. It's sad in many ways, the fact that the proportion of tenured faculty at college and universities is shrinking, and there's this a growth of part-time and adjunct faculty doing the teaching. At one level, that's sad, but it allows colleges to respond more quickly to needs and to hire people who over time have generally been better teachers. And so there's that plus to it. So I love the nonprofit sector, I want it to succeed, but there are characteristics of some of the colleges and universities where they're their own worst enemy.

Jason Altmire (22:49):
Well, this has been just an incredibly enlightening conversation, Larry, and I would love to sit here for hours and just continue and talk and I know you could do that. But just to wrap, I'm sure there are people listening who might want to get in touch with you, have liked what you've said and might want to discuss their own situations with you. How would somebody get in touch with you?

Larry Ladd (23:10):
They would send me an email Ladd.larry@gmail.com. That's all it would take.

Jason Altmire (23:16):
All right, easy enough. Larry Ladd, thank you for being with us today.

Larry Ladd (23:20):
It is a pleasure.

Jason Altmire (23:24):
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