

American For-Profit University: Business Practices, Issues and Suggestions for Vietnam

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During the past same two decades, Vietnam has also experienced in an explosive growth of for-profit private colleges and universities (FPPCU) and may want to know how the American for-profit higher education sector works and it is managed/regulated by the government. The knowledge gained will benefit Vietnamese educational leaders and professionals in managing/regulating this sector.

The article consists of the following topics: (1) Steps in the establishment of an American for-profit university; (2) Organization and governance of a private university; (3) Role of accreditation bodies; (4) Role of governments; (5) FPPCU issues and solutions; and (6) Suggestions for Vietnam.

Key words: *Vietnam, for-profit private colleges and universities, accreditation bodies, Vietnamese education.*

1. Introduction

According to the National Conference of State Legislatures [4], a consortium of state legislators from 28 American states, enrollment at for-profit institutions of higher learning increased impressively 225 percent during the past two decades. During the 2009-2010 school year, for-profit institutions received \$US 32 billion in federal grants (free money to spend on education) and loans. Today these institutions enroll about 12 percent of all post-secondary students, about 2.4 million students as of 2010-2011 academic year.

As more and more community colleges meet and exceed their enrollment capacities, for-profit

private colleges and universities (FPPCUs) are becoming an attractive option for students. They aggressively seek new students, assist them in finding financial aid (grants and loans) to pay for the education, and provide flexible scheduling with year-round enrollment, online options, small class sizes and convenient locations. These characteristics are attracting a large and growing population of students entering the education market, the population that has been ignored or under-served by public and non-profit colleges and universities. Its students also include working adults, part-time students, adults with children, unemployed individuals and

veterans.

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- Steps in the establishment of an American for-profit university
- Organization and governance of a private university

- Role of accreditation bodies
- Role of governments
- FPPCU issues and solutions
- Suggestions for Vietnam

2. Steps in the Establishment of a For-Profit University

To establish a private American university, regardless its profit motive (non-profit or for-profit), the establisher needs to do numerous major tasks, some of which (2.c through 2.f) may be done in parallel.

a. Raise a lot of money from investors or donors: Without a pile of cash, the university won't be able to pay faculty and staff, buy land/buildings, obtain operating licenses and accreditation, etc.

b. Incorporate the university as a profit-seeking enterprise: The investor group must register with a state government as a profit-seeking enterprise and obtain the tax ID's from both the state and federal governments.

c. Obtain a state license to operate the university: Before a university can start to accept students, it needs a degree-granting license. Each state has its own process that usually requires the submission of the university's curriculum to a committee for review. Some of the most relaxed states – Virginia, Colorado, and Wyoming – don't require so much for a site visit. In tough-as-nails Maine, inspectors visit the campus, all other university presidents in the state must be notified of the application, and a state legislator must introduce a bill to grant the license.

d. Hire faculty and staff: These employees are needed to operate the university.

e. Obtain suitable

accreditation: Accreditation is the most important thing to do. The university must obtain accreditation from an accreditation agency that is approved by the federal Department of Education so that its students are eligible for grants and government-insured loans to pay for the education.

f. Recruit students: The revenue of a FPPCU comes largely from the tuition paid by the students. The more students are recruited, the more the revenue will be.

g. Operate the university in compliance with all governmental regulations: Higher education is a highly regulated business, and the university must comply with all governmental regulations to avoid being shut down.

h. Pay taxes and distribute profits: When making profits, FPPCUs pay taxes and distribute profits to their investors/owners.

3. Organization and Governance of a Private University

FPPCU's are private enterprises that seek profit in providing educational services. The university is owned by shareholders that may be an individual, a group of private investors or shareholders of a publicly traded corporation, i.e., company whose shares are traded in the stock market. The control of the university belongs to the shareholders with more than 50% ownership interest using the one-share-one-vote concept regardless how much they paid for their shares.

Only shareholders can elect the board of directors that sets up rules/policies/procedures for the university and hires senior

administrators to run the university. When the university is a publicly traded corporation, its directors are usually elected using a much more transparent process, and its senior administrators are professional managers with credible academic credentials. Thus, shareholders via its elected board of directors, not the faculty or senior administrators, have total control of the university by electing directors who carry out their wishes, and those with the most shares have the most power in electing directors to run the university their way. Professors/senior administrators are employees who have control over day-to-day teaching of their classes, curriculum development and other academic matters. On matters such as finance or strategic direction, professors and senior administrators only have an advisory role, not the decision-making role.

When the university is owned by one individual or a group of people, this person or group has the total freedom in electing its board of directors whose members may include the largest shareholders. Further, the largest shareholders may also serve as non-academic senior administrators of the university such as vice presidents of finance, information technology, human resource, etc.

When the university makes a taxable profit, how to pay the income tax depends on its type of corporation: C Corp, S Corp or LLC (limited liability corporation) [1]. When a C Corp university makes a taxable profit, it pays income tax on the profit and keeps the after-tax profit as retained earnings. The university may pay periodic dividends from retained earnings



to its shareholders. Undistributed profits can be used for future expansion of the university or for whatever projects/endeavors that the board feels appropriate.

When an S Corp or LLC university makes a taxable profit, the profit is passed along as income to its shareholders who will pay income tax on this passed-along income.

4. Role of Accreditation Bodies

Accreditation is a status granted by an accreditation body to an educational institution that has been found to meet or exceed its stated criteria/standards for quality [5]. American accreditation bodies are non-government non-profit professional associations that set their own standards of quality.

There are two basic types of accreditation, one identified as “institutional” and one referred to as “specialized” or “programmatic.” While institutional accreditation applies to the entire institution, specialized accreditation applies to a degree program, a department or a school within the institution. To be perceived of quality, American

institutions must be at the minimum accredited by an institutional body. When a university receives institutional accreditation, it must meet or exceed all quality standards at the institutional level established by the granting body. In other words, the entire institution is judged by the body as having high quality, and this quality is passed down to all of its degree programs, departments and schools.

American institutional accreditation bodies are generally categorized as regional and national. When an institution wants to receive regional accreditation, it must apply from the regional body to which it geographically belongs. The following six regional institutional accreditation bodies have the highest standards of quality. Their members are usually academics-oriented, and consist largely of public, non-profit private institutions and a small number of large FPPCU’s. The regional bodies that are recognized by the U.S. Department of Education are:

- Nationally accredited institutions have less stringent

standards for quality than those of regional bodies, and their members usually small for-profit-seeking, vocational and/or distance-learning institutions. The national bodies that are recognized by the U.S. Department of Education are:

- Middle States Association of Colleges and Schools for 524 institutions in Delaware, District of Columbia, Maryland, New Jersey, New York, Pennsylvania, Puerto Rico, U.S. Virgin Islands, Central America, Europe, and the Middle East

- New England Association of Schools and Colleges in Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont, Europe, Africa, Asia, and the Middle East

- North Central Association of Colleges and Schools in Arizona, Arkansas, Colorado, Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Navajo Nation, Nebraska, New Mexico, North Dakota, Ohio, Oklahoma, South Dakota, West Virginia, Wisconsin, Wyoming, and international locations

- Northwest Association of Schools and Colleges in Alaska, Idaho, Montana, Nevada, Oregon, Utah, and Washington

- Southern Association of Colleges and Schools in Alabama, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee, Texas, Virginia, and Latin America

- Western Association of Schools and Colleges in California, Hawaii, Guam, American Samoa, Palau,



Micronesia, Northern Marianas, Marshall Islands, and other Australasian locations

- Accrediting Commission of Career Schools and Colleges
- Accrediting Council for Independent Colleges and Schools
- Council on Occupational Education
- Distance Education and Training Council, Accrediting Commission

The word “national body” sounds larger in scope than “regional body.” However, quality standards of regional bodies are higher than those of national bodies. Credits earned from regionally-accredited institutions are usually accepted by all other regionally and nationally accredited institutions. On the contrary, credits earned from nationally accredited institutions may not be accepted by regionally accredited

institutions.

Specialized or programmatic accreditation is usually acquired when a university wants to have standards that are higher than those of their institutional body for an academic program such as ABET standards for engineering program or AACSB-International standards for business program. The vast majority of FPPCU’s don’t acquire these optional high-quality specialized accreditations for their individual programs.

5. Role of Governments

The U.S. has a three-tier system of government: federal, state and local. Granting university licenses belongs to state governments. The federal government via its Department of Education (DOE) only requires FPPCU’s to obtain institutional accreditation from a DOE-approved accreditation body so that their students are eligible for federal grants and

government-insured loans to pay for their education according to a law known as Higher Education Act - Title IV [2]. Thus, FPPCU’s must be accredited by a body approved by DOE to ensure that its students can have access to grants and government-guaranteed loans to pay for their education.

6. Issues and Solutions

A growth rate of 225 percent in two decades and the total enrollment of 12 percent of all postsecondary students or about 2.4 million students as of 2010-2011 academic year are a great success, especially when serving the neglected and underserved population. However, this success is also accompanied by a number of issues.

A highly-publicized report, Subprime Opportunity: The Unfulfilled Promise of For-Profit Colleges and Universities, was released by the Education Trust

in November 2010 [3]. This report concludes that graduates of FPPCU's, in general, are having difficulties finding careers with a high enough salary to repay student loan debt. When compared with public and non-profit private universities, FPPCU's:

a. Consume much more grant money and government-guaranteed loans.

b. Have significantly lower graduation rates and loan repayment rates, and significantly higher loan default rates. Consequently, defaulted government-guaranteed loans become a liability for the government.

c. May use improper and unethical recruiting practices to attract students.

State and federal governments are implementing or proposing regulations on for-profit universities as follows:

a. Outcome regulations: FPPCU's are required to meet a number of outcome measures, i.e., some government-required minimum rates such as graduation, post-graduation loan-default, and post-graduation loan-repayment. These rates must be comparable to those of public institutions and are also adjusted to take into consideration of the non-traditional nature of students from FPPCU's such as inadequacies in personal/family finance and academic preparation.

b. Disclosure regulations: FPPCU's are required to fully inform prospective students on graduation, job placement rates for the programs of their choice, financial facts such as salaries and

monthly loan repayment amounts upon graduation, and where to transfer when not attending their current universities.

c. Recruiting regulations: Fraudulent, deceptive and unethical recruiting practices are prohibited in bringing in students who may not have to the intellectual capability to succeed, who are overpromised of an unattainable post-graduation future, who do not understand negative consequences of the education, or who falsify their applications for grants and government-insured loans.

When these regulations are fully in place and strictly enforced, FPPCU's will serve the society well.

7. Suggestions for Vietnam

The Vietnamese FPPCU sector is still in its infancy and may have its own systemic issues. In dealing with the issues, the Vietnamese government should consider the three American regulations: outcome, disclosure and recruiting.

For outcome regulations, the government needs to develop a set of metrics to annually measure performances of the public universities, adjusts these metrics to account for the academic preparation difference between the public and for-profit sectors, and gives FPPCU's a reasonable time frame to meet the adjusted metrics.

For disclosure regulations, the government requires all universities that include for-profit universities to fully inform prospective students on graduation, job placement rates for the programs of their choice, financial facts such as salaries upon

graduation.

For recruiting regulations, the government needs to develop regulations to prohibit fraudulent, deceptive and unethical recruiting practices that might be used by some FPPCU's.

In conclusion, FPPCU's are much more market-driven than their public and non-profit counterparts. They only provide educational services where there is a genuine need and students are capable of paying. While the US government subsidizes FPPCU's via grants and government-guaranteed loans, the government of Vietnam does not. Consequently, Vietnam does not need regulations dealing with grants and government-guaranteed loans. What Vietnam needs are sensible regulations that show whether FPPCU's can perform as well as the public ones on a number of meaningful metrics and that allow them the operational freedom in serving the public.

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Mô hình khuôn khổ chi tiêu...

(Tiếp theo trang 81)

Rõ ràng với những thách thức đó, yêu cầu chúng ta phải sửa đổi luật ngân sách, thế nhưng có nhiều ý kiến cho rằng sửa đổi luật ngân sách chưa phải cách để giải quyết vấn đề mà còn có các quy định khác về định chế tài chính. Thực trạng lồng ghép giữa các cấp trong quản lý ngân sách làm cho việc theo dõi quan hệ giữa đầu vào, đầu ra rất khó khăn, quy trình lập ngân sách song trùng giữa chi đầu tư và chi thường xuyên gây ra những khó khăn cho việc lập kế hoạch chi tiêu trung hạn dẫn đến nhu cầu cấp thiết đổi mới phân cấp trong quản lý hành chính, nhất là quản lý tài chính công. Điều kiện tiên quyết để thực hiện thành công quản lý ngân sách theo MTEF là năng lực của bộ máy Chính phủ về phân tích, dự báo kinh tế vĩ mô. Công tác phân tích, dự báo chỉ có thể đạt chất lượng cao khi có số liệu thống kê, nhất là số liệu thống kê kinh tế, tài chính đáng tin cậy và chính xác. Đây là một thách thức không dễ vượt qua trong bối cảnh hệ thống thống kê của VN còn rất nhiều hạn chế●

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