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The lessons are there to be learned from the recent closing of NYUonline, New York University?s for-profit distance-learning subsidiary, but most are sure to be missed. With the demise of the company, traditional academics have proclaimed victory over their corporate-minded rivals in the ever-escalating battle for the soul of the university. However, this is a simplistic and self-serving conclusion that, with the level of commercialism permeating academe, is clearly not the case.

NYUonline was created in October 1998 amid great fanfare and with a $21.5 million investment by the NYU board of trustees. The company was organized as a for-profit subsidiary and was managed for the first year by NYU administrators. In January 2000, the NYUonline board of directors began hiring a team of experienced business executives to run the subsidiary. This group managed the company ? which was often referred to internally as NYU?s 15th school ? until the funding ran dry in October 2001 and the university?s board of trustees decided against reinvesting. The company was formally shut down several weeks ago.

What are the lessons those claiming victory?e.g., defenders of the traditional academy, opponents of online education, adversaries of capitalism?will take away in the aftermath of NYUonline?

1. The for-profit corporation, particularly in the form of a subsidiary organization, doesn?t ?fit? in the university.

Many believe that NYUonline was a visible triumph of the culture and

values of the collegial academy over the for-profit corporation. However, the data are not yet in. Even though it seems that NYUonline?s culture was not congruent with the larger culture of the university, and though there are indications that this may have contributed to the difficulties NYUonline faced, it is not clear whether this was the cause of the company?s dissolution. NYUonline seemed to be caught in a crippling concatenation of events. As the economy cooled, corporations became much more frugal in their spending on employee training, the subsidiary?s lifeblood, and then, just as funding ran out, the events of September 11th devastated lower Manhattan. Two weeks later, with the dust literally still settling, the board met to decide the company?s fate. Many would like to believe that this was all about a mismatch of cultures and purpose, but as of yet, there is no hard evidence to support that conclusion.

2. Universities will cease to establish for-profit subsidiaries.

True, the excitement has waned, but the for-profit subsidiary is not dead. When the economy thaws and reheats, there is no reason why a number of these subsidiaries won?t sprout up again. Even as late as 2001, George Washington University created a for-profit subsidiary, GW Solutions, from its continuing education department. UCLA created a subsidiary of its School of Theater, Film and Television at the same time. As intellectual property policies continue to be crafted to allow institutions greater control of course content, the potential for added revenue from a for-profit subsidiary would seem to be too great for trustees and administrators to ignore for long.

3. There is no market for education and training delivered by for-profit subsidiaries.

Just as many of the current subsidiaries were being created?by Duke, Columbia, Cornell, and NYU?the Internet economy was failing and the easy riches that were once seemingly everywhere for the taking were quickly disappearing. Unfortunately, the economy has since continued its downward trajectory, but to say that there is no market for online education and its permutations delivered by for-profit subsidiaries is a major mistake. In fact, the market seems to be growing, maybe even due to the poor economy. About 2 million students take online courses in the U.S.; by 2006, this number is projected to grow to 5 million. Of course, internationally, the potential student audience is much larger. To meet this demand and opportunity, even in times of austerity for many institutions, spending on e-learning technology is estimated to double by 2005.

Time will judge the truth of these lessons, yet no matter how valid,

they seem to miss what NYUonline really means for higher education. Another look at the subsidiary reveals a different set of conclusions with potentially far greater import for the academy.

1.

> The creation and now subsequent closing of NYUonline sharply illustrate how business-like universities really are.

NYUonline was only a failure for NYU. For the rest of higher education, the company?s birth and death confirmed that it is possible, and, in better economic times, still potentially profitable, to create a legally structured corporate entity within the aegis of the university. Unlike academic departments, a subsidiary can access financial markets, partner efficiently with other companies, attract talent from the business world, and operate completely outside the traditional structures of shared governance. Most importantly, NYUonline shows that these subsidiaries, unlike an academic unit or program, can be closed with little difficulty or controversy. With retrenchment and cost-cutting on the horizon for many institutions, this operational ease is what every administrator yearns for. There were no tortured deliberations by academic committees, no tenured faculty that could not be relocated or let go, and no student protests to endure. The decision was simply made and then executed. Surely alert presidents and their staffs did not miss this fact.

2.

> With NYUonline, the role of faculty and their relationship to the university changed dramatically and will continue to be redefined in the future.

Moving beyond the part-time and adjunct instructor model that has proliferated in academic departments, NYUonline contracted with faculty as ?content providers? to create course products. Faculty essentially became vendors who sold their wares?syllabi, subject knowledge, and pedagogical expertise ? to NYUonline, in the same way that freelance computer programmers were hired to write code for the company?s technology platform. The professor?s traditional job was unbundled, with the compilation of materials, course writing, and technical design accomplished by freelance consultants/academics. An individual professor, at the outset, provided the overall course design, and at the process?s conclusion, gave final approval to the finished product, but, most importantly, the professor was paid to put his or her ?brand name,? along with NYU?s, on the course, which added prestige and provided a signal of quality. Faculty?s traditional ?do-it-all? role was thus reduced to a supplier of raw course material and a provider of

packaging pizzazz. Of course, some faculty entrepreneurs may like the idea of delivering the goods, either in content and/or presentation, without worrying about the details. These faculty thus make money doing what they do best, and in effect, outsource other functions.

The redefining of the faculty role underscores a growing tendency toward isolating major institutional decisions from the faculty?e.g., athletic contracts, commercial partnerships, corporate sponsorships. As faculty become non-participants in strategic decision-making and investing, power and money will continue to shift from the core teaching and learning mission of most institutions to revenue generating activities established on the periphery. This tendency foreshadows the next lesson.

3. NYU demonstrated that significant amounts of money can be used in experimental internal ventures, and be considered solely as investments seeking a favorable return, thus avoiding the approval or even comment of faculty.

Trustees control what are often very substantial endowments, which for the good of the institution have to be dealt with in a ?business-like? manner. Because of this, in the boardroom at least, business principles reign. These principles are given fertile soil in the ?loosely coupled? academy where the creation of experimental business units, like for-profit subsidiaries, is facilitated by relatively few regulations, a lack of coordination and interdependence between units, infrequent inspection, and a broad sense of institutional mission and purpose.

Moreover, the NYU trustees who oversaw NYUonline do this type of transaction all the time in their work lives, do it without remorse when it doesn?t turn out, and then quickly look ahead to the next opportunity where the returns will make up for past losses. When I sat down to speak with a university president about his institution?s for-profit subsidiary, his first question back to me was why I wasn?t more interested in the company that they had formed to manage the university?s endowment. ?That?s where the real action is,? he asserted. As this president declared, it may be true that for-profit subsidiaries are just a product of the real commercialism in the university.

Maybe these lessons are hard to see. I am convinced there are others that haven?t yet been articulated but that will come to light soon enough. Now that NYUonline has completed its life cycle, it provides a ready case study. Early adopters always bear the brunt of the learning curve, but often, even in failure, unlock the door of success to others. Along with the dozen or so for-profit subsidiaries that were created between 1998 and 2001, there were undoubtedly many other boards

of trustees and presidents mulling over the idea of spinning-off a company in search of new revenues. To these intrepid souls, NYUonline is a perfect specimen for dissection and analysis. As they identify the cause of the company?s fatal malaise, they will feel better prepared to undertake their own ventures.

When one considers what is happening every day in the business of higher education, the failure of a single for-profit subsidiary, no matter how visible, becomes less a sign of victory or defeat and more a confirmation of a continuing trend. The business-like path higher education is careening down is being followed by presidents and administrators who are forced to operate in an environment that is increasingly competitive. When joined by trustees, who are quite comfortable maneuvering in competitive markets, a potent combination is generated. Because of this, what is espoused as an institution driven by mission and academic values is in reality an organization controlled by the bottom-line?seat bottoms have to be filled. This imperative motivates administrators to aggressively market their programs to prospective students, continually cultivate donors to bolster the endowment, assertively lobby government for added support, and actively seek new sources of revenue. In this quest for revenues, administrators and trustees are becoming increasingly entrepreneurial with the assets and operations of the university. Course content becomes intellectual property, student consumer behavior becomes ?pouring rights,? ?branding? becomes an institutional goal, research discoveries become patent and licensing revenues, and ideas become companies.

Of course, all this is happening while trustees and administrators continue to salivate over the skyrocketing market values of for-profit education companies. As I write this, the University of Phoenix Online?s stock is trading at $33.90 per share, up from its 52-week low of $14.87. For the last fiscal year, the company?s profits were up 82 percent, to $32 million. Phoenix Online?s parent company, The Apollo Group, reported earnings up 28.6 percent for the latest quarter, and the best performer on the market, Career Education Corporation, has seen its stock rise 257 percent since 1999. Overall,

The Chronicle of Higher Education?s
for-profit education index has significantly outpaced the S&P 500 over the past two years. Clearly there is a market for what for-profit subsidiaries provide. Because of this, NYUonline is not the death of an experiment but a testament to a trend.

Am I predicting the end of traditional higher education with the demise of NYUonline? No. Yet after NYUonline, it seems clear that the academy will never be the same. NYUonline showed that even in the academy, you

make money, lose money and move on. Universities are quite familiar with the first two, but have never been able to move on very easily. NYUonline demonstrated clearly how that can be done. It is a lesson to which we had better pay close attention.

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