For-Profit Subsidiaries of Nonprofit Universities: A Challenge to Governance and Culture?

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Abstract

This article aims to add data to the controversy over the creation of for-profit subsidiaries in nonprofit universities by considering the culture and governance of two of these companies in light of the academy's traditions and values. Contrary to accepted wisdom, the author recommends that for-profit subsidiaries of nonprofit universities be integrated into the governance and culture of their parent institutions, rather than insulated from them.

Higher education is going to the market. The availability of private capital for post-secondary education and the success of for-profit colleges and universities have motivated nonprofit universities to explore the viability of for-profit subsidiaries. These for-profit companies are considered more nimble, entrepreneurial, and adaptable than their comparatively staid nonprofit parents. Not surprisingly, in governing these new entities, speed in decision-making and a strategic market orientation—qualities that are often foreign to the traditional academy—are considered the *sine qua non* for success.

Since December 1998, several major universities—from Columbia and Duke to UCLA and the University of Nebraska—have established for-profit subsidiaries, all with the express purpose of marketing and delivering online distance education. Along with the goal of reaping the financial rewards online education could provide, universities created for-profit subsidiaries to maintain or expand enrollments, to benefit from the use of technology, to expand and bolster their "brand names," and to operate outside of their parent institution's governance structures and processes.

However, these subsidiaries have not been created without controversy. Some have charged that for-profit subsidiaries leave faculty "out of the [governance] loop" and bypass in the decision-making process. Opponents argue that the speed and manner in which these companies have been created are antithetical to the tradition and culture of shared governance, and worry that top-down, corporate style management is regrettably replacing traditional models of shared governance. As one professor commented, for-profit subsidiaries "put the standard rules of academic governance on [their] head."

This article addresses the concern over the creation of these new higher education entities by considering two questions: (1) What are the governance structures and processes of the for-profit subsidiary and why were they designed that way? and (2) How do the governance structures and processes of a for-profit subsidiary reflect or diverge from the culture and values of its nonprofit parent institution?

A Question of Values

The financial commitment to create a for-profit distance education subsidiary is substantial; New York University invested nearly $25 million and Columbia upwards of $30 million in their ventures. Yet, there is more at stake in the creation of for-profit subsidiaries than just economic success or return on investment. These subsidiary companies, created to market and deliver online education to both student and corporate audiences, are to many the embodiment of destructive trends at work. These trends—marked by increasing connections to business and a growing proclivity for market behavior—have some "fearful that the university's true educational mission is being compromised." Others assert the growing need to "make sure that the university does not betray its educational values and objectives," or worry that market-oriented activities will eventually "change the social role of higher education institutions" for the worse.

On the other side of the debate, as market forces increase, many scholars and leaders argue that the academy must adapt to new "market-driven" realities—responding to supply and demand pressures and pursuing opportunities for economic gain. Some assert that technology and new ways of delivering education could increase the number of students served as well as protect at-risk programs by improving the university's financial condition. In a challenge to higher education leaders, Klor de Alva, then president of the University of Phoenix, exhorted them to "rethink the rules that govern higher education today" and stressed that "many of the risk-averse, traditional rules of higher education are beginning to appear not merely quaint but irrelevant or even downright absurd." Similarly, Munitz predicted, "Those institutions...that exercise the ingenuity and courage to break down traditional patterns and boundaries, will design and ultimately control our future." Summarizing faculty concerns, one commentator asked, "Will a marginal professor's central role in a commercial venture influence a decision to grant him tenure?"

Ultimately, the controversy is about values. Richard Posner argued that commercialization is causing colleges and universities to "lose their souls." Similarly, condemning the current trajectory of higher education, James Perley, chair of the American Association of University Professors, asserted that such practices would "destroy the tradition of higher education as a community of scholars." Another opined, "Private money is spreading through universities like a stain—infecting independent institutions with commercial values."

The controversy is centered on the academy's way of life, beliefs and values, the language that is used, the way decisions are made and who makes them, what is taught, and how faculty do their work and are rewarded for it—in short, on organizational culture and governance. Thus, for many, the debate is not only about how colleges and universities will operate, but also the nature and essence of the academy. It is not just about how business will be done, but whether the reason and purpose for getting things done will be business.

Culture and Governance

Organizational culture has been defined in varying ways: "a core set of assumptions, understandings, and implicit rules that govern day-to-day behavior in the workplace" and "a set of commonly held attitudes, values, and beliefs that guide the behavior of an organization's members." In higher education, organizational culture has been referred to as "the shared values, beliefs, and ideologies which are unique to a campus."

Culture is a powerful regulating and governing force in organizations, providing a template for acceptable organizational policies, procedures, and structures, and laying the groundwork for governance. Culture defines for organizational participants "what to pay attention to, what things mean, how to react emotionally to what is going on, and what actions to take in various kinds of situations." Because culture is at the center of how work is done and decisions are made, it shapes and defines the boundaries for acceptable governance processes and structures and imposes sanctions when these boundaries are violated.

Schein (1992) characterized culture on three levels: artifacts, or "visible organizational structures and processes"; espoused values, or "strategies, goals, and philosophies of the organization"; and basic assumptions, or "unconscious beliefs, perceptions, and feelings." Artifacts are easy to observe but often difficult to decipher and make up the everyday trappings of the organization, including architecture, the layout of physical space, job titles and descriptions, technology, products of the organization, myths and stories, and even attire. Espoused values are discussed and even debated by organizational participants, but when these values are internalized, they can become basic assumptions. These assumptions then "are so taken for granted that someone who does not hold them is viewed as crazy and automatically dismissed." Basic assumptions are "neither confronted nor debated" and are largely resistant to change; behavior out of line with these assumptions is unthinkable.

Birnbaum contended that governance is the answer to the question, "Who's in charge here?" Similarly, Chait defined governance as "the distribution of legitimate authority for the purposes of making decisions and taking actions." Academic governance is characterized by diffuse authority and decentralized decision-making; is typically "shared" by faculty, administrators, and trustees; and is considered one of the "core values" of the academy. The ideal shared governance arrangement is one of "interdependence" and "joint action" between the board, the president, and the faculty. Highlighting the "inescapable interdependence" these groups share, shared governance calls for each governing constituency to "have a voice" in determining budgets, priorities, strategic plans, and future expenditures.

In academic governance, participation is fluid, inactivity often prevails, and interest group behavior and conflict often dominate discourse among governing bodies. These characteristics, particularly prominent in prestigious research universities and liberal arts colleges, can produce a governance system that has been called "cumbersome," where decisions are "rarely made by either bureaucratic fiat or simple consensus."

Differences and Calls for Change

It is in basic assumptions and values—the heart of culture—that the corporation and the academy most differ. Higher education espouses the values of professional autonomy and academic freedom. Beneath the espoused value of academic freedom reside several basic assumptions: the unfettered pursuit of "truth"; the discovery of knowledge for its own sake, for social good, and for public benefit; the sharing, rather than hoarding, of knowledge, and, particularly among faculty, the notion that the institution is a "community of scholars who work together to govern the institution." Thus, shared governance is a basic assumption and central tenet of the academy.

Conversely, basic assumptions in for-profit organizations include capitalism, the pursuit of profit, the discovery of knowledge for competitive advantage, and the patenting and hoarding of knowledge for commercial purposes. Additionally, the for-profit sector prizes market-oriented decision-making, efficient operations, cost reduction, and accountability for results. In contrast to governance by a community of scholars, for-profit corporations are typically governed by a clear hierarchy. Colleges are ideally collegial in nature, whereas corporations are managerial.

Despite these differences, many proclaim that universities should be run more like businesses and argue that nonprofit colleges and universities should shift their governance practices from the traditional shared governance of the academy, which some term "unworkable," to the more hierarchical and market-oriented practices of the corporate world. In response to these calls for reform, advocates of shared governance contend that "intellectual life…is different from business life" and that important benefits to the academic community and perhaps even the fundamental mission of higher education will be lost.

This proposed shift in governance, which impacts the traditional values and mission of the nonprofit university, is at the heart of the controversy over the creation and governance of for-profit subsidiaries in nonprofit higher education.

Governance in Action: Two Cases

Because one can only attempt a finite number of tasks within a paper, here I present two brief case studies, drawn from a larger sample of institutions, which represent contrasting examples of the governance of for-profit subsidiaries. The cases focus on each company's creation, its culture, and its governance structures and processes. Data for these cases were collected through in-depth interviews and content analysis of internal and external documents. I interviewed key participants in the governance of both the university and the subsidiary, including those who were involved in the decision to create the for-profit subsidiary, those who were centrally involved in the company's operation and governance, and where available, the most influential critics of the new organization. Institutional documents, such as board meeting minutes, administrative memoranda, presentation material, and organizational policies, along with campus and national newspaper articles, and other external documents, were used to triangulate the interview data and corroborate accounts. In both cases, the institutions and case participants are disguised.

In analyzing the data, I employed several qualitative analytic strategies: (1) developing coding strategies; (2) writing regular memos to myself; (3) developing a stand-alone case study for each organization; and (4) using a multi-case comparison and cross-case analysis. To increase the trustworthiness of my study, pursuant to Maxwell and Patton, I remained aware of and looked for discrepant evidence and rival explanations that would contradict my analysis and challenge emerging conclusions.

D-Learning, Inc.

Distinguished University created D-Learning as a legally separate for-profit subsidiary in October 1998 after Distinguished's dean of continuing education championed the idea to the University's central administration and board. Following a series of meetings between the board and senior administration to vet this proposal, the board of trustees approved an initial investment of $21.5 million in D-Learning, which would run through 2001. Because the new venture's funding was seen as an investment of the University's endowment, the decision did not receive faculty discussion or comment, beyond discussions with the deans of Distinguished's schools.

In January 2000, the company offered its first online courses. In that same month, D-Learning hired John Smith as president and chief executive officer (CEO). Smith, a veteran media publisher and e-commerce executive commented that this was "an incredible opportunity, to work with one of the world's leading and most respected universities in order to develop the highest quality web-enabled e-learning solutions."

Three months later, Smith hired "six seasoned professionals" as his management team. He characterized the appointment of these managers as "mission critical" to establishing D-Learning as an industry leader. Along with Smith, these managers replaced several Distinguished University administrators who had run D-Learning during its first year of operation. Though some of the new management team had experience in educational institutions—one was a certified teacher, another taught high school, and another obtained a masters degree in special education—they were business executives with expertise in finance, marketing, publishing, and technology. In addition, four of the six new D-Learning managers had served as either president or CEO of a company before coming to D-Learning.

This new management team immediately shifted the company's strategy away from providing online credit-bearing courses, which they termed the "retail market," to delivering non-credit bearing educational material to corporations. This change in strategy was meant to position the company to enter the more lucrative corporate training market. Dan Rowan, D-Learning's vice president of finance, remarked:

> *The original business plan was really just creating distance-learning programs for the university. Once we came in, we showed that the big market was the $11 billion corporate training market. The retail market is fine, but we are going to let the schools do that.*

From the beginning, Distinguished University administrators saw the company's mission as creating and delivering "accessible, convenient opportunities for continuous learning." Shedding further light on D-Learning's mission, a marketing statement proclaimed, "Like your company, D-Learning is a for-profit business, comprised of a top management team committed to meeting your strategic e-Learning goals."

D-Learning's headquarters were located in an off-campus office building. After two years of operation, D-Learning, Inc. was closed when Distinguished University's board of trustees decided against reinvesting in the company.

Reasons for creating a for-profit company

D-Learning was created as a for-profit company for several reasons: the hope of financial return and access to needed capital, the desire to be free from the university's governance structure, and as a strategy to attract Distinguished faculty and thus retain intellectual property within the University. When asked the rationale behind the creation of D-Learning, one Distinguished administrator frankly commented, "We need money." Another administrator cited the potential the company had to "bolster the endowment" through a public offering of stock. John Foster, a D-Learning board member, commented:

> *It was clear that if the university was to play in (the online learning) sandbox at all, we had to at least get in. If we stood on the sidelines there were no possibilities. And if we got in and invested some amount of money, and...if we came up with a strategy and a company that happened to hit...we were all going to be better off.*

Getting outside of Distinguished University's governance structure was an important reason for creating the for-profit. A D-Learning vice president noted that the trustees made an early judgment that delivering online education "could more effectively be done outside the structure of the university" and that this may have been a larger motivation to create a for-profit subsidiary than even the company's need for capital and the potential financial returns it promised. Bob Wells, Distinguished's provost, believed that being outside of the University's governance structure provided "a greater opportunity for effective execution of the (company's) mission," effectively allowing D-Learning managers to create and implement business strategy without the "entanglements" of the University's governance system:

We wanted this to be controlled by us, but have a degree of independence so it had fluidity, speed, policy options, and a separation from the historic protocols of the place—so that it could make its own way.

Standing outside Distinguished University's governance structure also provided benefits to corporations and customers eager to contract with D-Learning. A D-Learning vice president asserted:

The last thing corporations wanted to deal with when it came to providing training and education for their employees, was universities. They would say, "They're bureaucratic, they're slow, they think they know more than we do, and they're arrogant. They don't want to do it our way and won't teach our culture, and that is what makes us different." So in that sense, structurally, a business or for-profit entity was essential. So we created a business friendly user interface by giving them a company that deals like a business, that has the look and feel of a business, and that they can talk to like a business. And then on the other side of that interface, we face the university and we deal with all the bureaucracy and the sensitivities and the peccadilloes.

As a separate entity, the company was positioned to attract the interest of Distinguished's faculty who could provide content from across the thirteen schools of the University. D-Learning's for-profit nature also allowed it to offer equity in the company to attract top faculty to be a part of the company's work. Besides attracting faculty, the company was also positioned to deter the University's faculty from signing contracts to provide course content to other online education providers. Protection of intellectual property was a key consideration in creating D-Learning. Wells remarked:

We didn't want our faculty to just take all this (content)—which is ours, our community's—and just do whatever they wanted with it, with some ne'er do well, fast paced, commercial, anti-intellectual, take us to the cleaners, for-profit thing.

While potentially deterring individual faculty from entering into agreements with other companies, Wells also wanted to provide a vehicle to promote and further the interests of faculty who were eager to experiment with online teaching and learning.

We were trying to encourage and empower and run with faculty interest, which was all over the place in this e-stuff, and create a modality to disinterest them from signing up with all these other places. We just wanted them to work with our own.

A Distinguished University administrator concurred: "We created a for-profit at (Distinguished) so that we (could) take advantage of the university's intellectual capital, but maintain control over that capital."

Decision-Making

Decision-making at D-Learning reflected the backgrounds of its management team. As former corporate executives, they had a corporate model of governance ingrained in their work styles, and accordingly, these corporate managers changed the tenor of decision-making in the company from its founding when it was operated by academic administrators. According to a University administrator who had helped manage D-Learning in its first year of operation, "all major decisions" were made "in consultation with William Brown (chairman of the D-Learning board), Wells, and the University's president."

Conversely, Smith commented on the company's current management, "We've got a good deal of autonomy. We make all decisions—hiring, salary, space—most everything. We are on our own; we do everything." Foster concurred:

> *In terms of the actual business strategy and the pursuit of that...the board has tried to not put any fences around it. It's John and his people. He has to have room to get a group of people deeply invested in a concept, and make it happen. And I think the university has been committed to allowing him to do that.*

The shift in decision-making was illustrated by the company's relationship with a software firm that helped build the technology platform, which formed the basis of D-Learning's first course offerings. The relationship with the software firm had been established during D-Learning's first year. After working for a time with the company and its products, Smith and the other new executives were not satisfied. At that point, Smith and two vice presidents made the decision to end the relationship with the technology company and instead build D-Learning's internal capabilities. The D-Learning board was informed but not consulted. A D-Learning vice president commented on the board's role:

> *They pretty well let us do what we needed to do. The board, for the most part, has not gotten in the way very much.*

Though decisions are now made almost exclusively by D-Learning executives, rather than in collaboration with other parties, as was the case in the company's infancy, all decisions are still driven by "the corporate education market." From the outset, when the management team altered D-Learning's business plan from delivering courses to students to selling training and education to corporations, the consumer-driven nature of the company's actions have been readily apparent.

The nature of the product that D-Learning delivered also evolved as the needs of the market emerged. Whereas it began by planning to sell full-length courses to corporations that were not much different from traditional college courses offered for credit over the Internet by many universities, D-Learning since disaggregated these courses and produced smaller instructional modules.

Accordingly, the company continued to adapt its operations and make decisions in order to satisfy consumer demand.

Reporting Relationships

Along with its executive team, D-Learning was governed by a seven-member board of directors, which included three trustees—all very accomplished business executives—and four key university administrators. D-Learning's chief executive reported directly to one of these trustees, and had only an indirect reporting relationship to the university. No faculty members were on the company's board of directors. The university's president was not on the board of directors in order to safely distance him from the company in case of an adverse reaction by the university's faculty to the company's operations.

Smith spent a great deal of effort keeping D-Learning's board of directors apprised of the company's operations and was directly accountable to the D-Learning board, and in particular to its chair. He asserted that the constant updating has paid off both with the D-Learning board and with Distinguished's administration:

> *I think they have a comfort level that they are not going to wake up two months from now and wonder what we are doing. We are really updating them on all ends—I am doing it on the legal side, Smith is doing it both with the President and the Chairman of the Board, which has links to all the groups at Distinguished University.*

However, even with these communications, the University required that its legal counsel review any contract D-Learning executed with an external party, even though the company had its own legal team. D-Learning managers at first viewed the requirement as "cumbersome," but then just began informing clients that any contract would first be reviewed by the University. However, concern over the company's affiliations seemed to run even deeper. Part of the updates provided to the board detailed "what we are doing and who we are dealing with in contracts." According to Smith, the board chair would then take this information to the University's board of trustees, particularly to the executive and finance committee of the board, of which he was a part, to keep them abreast of D-Learning's activities.

Even though Smith and his staff control monthly budgets, salaries, personnel decisions, and other operational aspects of the company, the University retains control of the entirety of its investment in D-Learning, providing an important accountability lever for the University. Rowan admitted that this level of financial accountability was comfortable for D-Learning, especially as a new company:

> *It is neat that we are in a start-up situation, but we don't have the pressure of capital. Distinguished is going to make this successful.*

Role of Faculty in Governance

Faculty members were not involved in the governance of D-Learning. In fact, D-Learning's management team was restricted by the university's central administration from directly contacting the university's faculty to participate in course production, and was instead required to access faculty after first speaking with and receiving approval and direction from the appropriate dean. Because prior to D-Learning's founding the university's central administration had provided no explanation of the company's purpose, scope, and operation, each dean was wary about what participating or not participating with the company meant for them politically in the university. Many were also skeptical about the company's management and its operations. The prohibition from contacting the university's faculty directly left D-Learning's management in a constant marketing position with the deans, continually working to establish their own and the company's legitimacy and trustworthiness, with little help from Distinguished University's central administration.

There were no faculty review bodies that oversee the quality or content of D-Learning's work and professors did not have final review or veto power over the non-credit bearing material produced by the company. Though Smith stated that faculty reviewed material throughout the production process, faculty played only limited roles during the editing process and final production of online content and had no veto power or ultimate review rights over the quality of the material D-Learning produced.

When discussing the faculty's role in reviewing the quality of the educational material produced by D-Learning, Foster remarked:

> *It doesn't have to be up to snuff for the faculty member, it has to be up to snuff for the company and whomever they're trying to sell it to. So, quality is consumer driven.*

Short concurred that if a customer wanted the online content D-Learning was producing, but the material was still waiting for a professor to review, D-Learning would deliver the material to the customer and just not "brand" it with the University's name, but instead use D-Learning as the source. Thus, the customer served as the final judge of quality.

EC Online

Entrepreneurial College formed EC Online in August 2000. Thomas Jones, dean of Entrepreneurial's School of Business and School of Executive Education, was named the company's chief executive officer. Touted as an appropriate response to the "expanded market" that distance-learning technology had created, the move was heralded as an example of Entrepreneurial College's commitment to entrepreneurship.

In 1999, prior to the company's creation, it became increasingly clear to both trustees and administrators of Entrepreneurial College that the competition was heating up in the distance-learning environment. The growth of institutions like the University of Phoenix and Jones International University did not pose a serious threat to the College, but the announcement of the creation of a Global MBA, and later a Cross-Continent MBA by Duke University's Fuqua School of Business, made College administrators increasingly anxious. When business schools at the University of Florida and the University of North Carolina announced distance-learning initiatives, this uneasiness intensified. Jones noted: "We started to take notice. Here was a group of top 20 schools all getting into this game and we decided we better look at it very carefully."

With angst building, Entrepreneurial's vice president for academic affairs formed a committee to explore the opportunities and challenges posed by distance learning. This group consisted of Jones, two faculty members, the college's chief financial officer, and an outside consultant. The committee was charged to do "some strategic thinking" about how the College should respond in the new competitive environment, and to then present its recommendations to the College's board of trustees at an upcoming retreat. Jones recounted that several trustees were aggressively pushing the committee and College administrators on the online education issue. One trustee in particular, Jack Bunting, the former chief executive of a major business software firm, "was pushing very, very hard that we needed to be in (the distance-learning) space." Following the presentation, the trustees gave the president the mandate to prepare a plan for entering online education by the next board meeting.

To meet this mandate, the committee prepared a proposal to create a separate for-profit entity to deliver distance education. The entity would have two main focuses: first, defensive, to protect Entrepreneurial's evening MBA program, and second, offensive, to create new corporate related degree and non-degree programs.

In March 2000, President Leo Scott approached the board for approval to move ahead with the creation of EC Online, but did not ask for a formal board vote, even though a majority of the board reportedly supported the move. He did not feel a vote was necessary because he planned to use $2.5 million of discretionary money to fund the venture. With the tacit approval of the board's executive committee, EC Online was created, without formal discussion or approval by the faculty.

Soon after his appointment as chief executive officer, Jones began recruiting his management team. Rather than hiring managers from the business world, Jones brought "Entrepreneurial College people" on board. He hired a chief technology officer who was a Babson graduate. Jones noted that this person "knows curriculum," "knows how to teach," and, perhaps most importantly, "knows Entrepreneurial." Jones's chief operating officer for the company was also an Entrepreneurial MBA and an associate professor of finance at the College who had worked extensively in executive education. Even in his new position as EC Online CEO, Jones retained his post as the College's dean of executive education, although he did resign as dean of the school of business.

The company was headquartered on Entrepreneurial's campus. EC Online, though hurt economically by the downturn in the national economy (beginning in 2000), continued operations and projected that it would remain a viable company for the long-term future.

Reasons for Creating the Subsidiary

When asked about the creation of EC Online, Jones mentioned the distance-learning initiatives of competitor universities and the pressure that their actions created for Entrepreneurial to "(get) into this game." This seemed to be a driving factor. The committee formed to research the possibilities for distance-learning was specifically charged to "understand the environment," to know the "players" entering the MBA distance-learning market, and to think strategically about the opportunities and challenges that the Internet posed for Entrepreneurial. These challenges were stated by Martin Riley, the College's academic vice president:

> *We felt at Entrepreneurial that distance learning technology ... was truly a disruptive technology, and that we had to move quicker than educational institutions typically move.*

The need to move quickly in the Internet business provided one rationale for creating a company that was outside the College's normal governance structures and processes. Riley admitted that the subsidiary was created to avoid the "academic process for course approval," which he envisioned as incongruent with the realities of the distance-learning environment. Jones contended that the for-profit organizational form was used to gain freedom from Entrepreneurial's governance, even if this freedom was only "psychological."

> *The for-profit structure definitely created psychological advantages. There was no reason why an entity at Entrepreneurial couldn't move around the governance structure if it was a non-degree program, but the perception was that if you remained as part of Entrepreneurial then you would be caught up in the governance process of working with division chairs and getting approval by a curriculum committee. The reality was that that was not an obstacle but was only a perceived obstacle, but it was an important perceived obstacle.*

This may have been more than a "perceived obstacle" for Jones. A College professor commented: "Tom knows how hard it is to move things through faculty. And he likes to be able to move faster than most faculty would like to move." The for-profit structure enabled EC Online to circumvent major faculty governance processes, particularly the approval of non-credit granting courses and other material that would be delivered by the company, and allowed Jones to have the measure of control he sought. The need for capital was also mentioned as a prominent reason for for-profit status. Characterizing distance learning as an "expensive endeavor," Riley asserted that using for-profit organizational structure was "the only way that we could fund the development of the product."

Senior administrators at Entrepreneurial College mentioned repeatedly the desire to "attract faculty" as a key factor in creating the for-profit entity. The attraction came in the ability of the company to give equity in the company and royalties to Entrepreneurial faculty for their work. Jones stated that the "equity issue loomed large" and gave EC Online the advantage of being able to "give star faculty equity opportunities if we needed to attract them." However, this move to motivate faculty and provide financial opportunities for them also demonstrated respect for faculty autonomy. Riley affirmed, "We set up the for-profit to make people want to work with us, not to try to say you have to."

Finally, EC Online was created to increase the recognition and prestige of the Entrepreneurial name in the marketplace. Jones noted that this was one of Entrepreneurial's main motives:

> *This is brand building. If Entrepreneurial is innovative, we have to be on the cutting edge of some of this stuff. And this is perhaps an offensive move, but it's certainly very defensive, because the model is going to be changing and we need to be here.*

Brand building was also a common refrain voiced by a trustee who called the creation of EC Online "an investment for brand."

Decision-making

Jones, EC Online's CEO, was the driving force behind the company's decisions. Cohen commented, "Jones definitely has the most decision-making power at EC Online; there's no question." Jones had ultimate authority in the company over salaries and other personnel decisions and was also responsible for the company's budget. Scott set Jones's initial salary, but since gave him discretion to use the $2.5 million originally provided by the College.

The market had a large role in decision-making at EC Online. Though the courses that carry academic credit, or are part of a degree program, remained under the oversight of the College's faculty curriculum committee, for non-degree material delivered by EC Online, "the customer (is) the arbiter of quality," according to Jones. Riley commented:

> *You just do what the client wants.... (The faculty) know that we have to move with the market, that the market is the arbitrator of what sells and what doesn't sell, and that if the market is demanding integrated education, we have to deliver that. If they are demanding online education, that's what we have to deliver.*

Contrary to academic norms, where faculty often have the right to choose what courses they will teach, EC Online followed a market-driven philosophy. In fact, when asked how the company would respond to a proposal from a faculty member who thought he had an interesting idea for an online course, Jones responded, "We'd certainly listen, but this is market-driven, so the fact that a faculty member thought it was interesting would have very little bearing."

Even with these market-driven values, at least in the company's early stages, the motivation to make decisions solely to reach the goal of earning a profit seemed only a peripheral concern at best. No one mentioned profit as a guiding motive for the company or a metric for success. Jones quoted Bunting, chairman of the EC Online board and a member of the College's board of trustees:

> *I don't want any discussion about break even here. Entrepreneurial ought to be throwing three million dollars away on experimentation, with the only outcome being they're smarter at the end of the year than they were at the beginning.... This is not about break even.*

For Bunting, it did not seem that showing a profit nor recouping the costs of doing business were crucial outcomes for the company.

Reporting Relationships

EC Online was governed by a board that included two of the college's trustees, the college's president, a current faculty member, the company's legal counsel, its chief operating officer (who was a former faculty member), and Jones, EC Online's chief executive (who also retained his position as dean of executive education). Jones reported directly to the college's president rather than to Bunting. Many of EC Online's top managers were alums of the college and some were even former professors. All had a connection and familiarity with the college prior to their employment.

Accountability for EC Online flowed from the company's board to Jones; however, Jones technically reported to Scott, rather than Bunting. Though Scott is on the board of directors, he is content to take a backseat in the governance of the company, largely deferring to Bunting. Riley commented on Scott's relationship to Bunting:

> *Scott relies heavily on Bunting, because he knows that Bunting can handle the board of trustees. He knows that if he does what Bunting says, he's not going to get in trouble with the board.*

Bunting is a key player in the company, not only by acting as a champion for EC Online's interests with the board of trustees, but also by providing another level of accountability that is not typical of academic governance. According to Riley:

> *Bunting acts just like a venture capitalist. Bunting wants to know what's happening all the time. If Tom makes predictions, he'd better hit those predictions. Bunting wants Tom to move faster and faster, make more decisions.... So I think Tom feels, and rightly so, that Bunting's looking over his shoulder at all times.*

Bunting reports to the executive committee of the College's board of trustees. Below Jones in the hierarchy of the company, the lines of accountability are clear and flow directly to the CEO. Riley defined Jones's role in the company:

> *Basically what has been set up in the company is that Jones is pretty much an entrepreneur, so he gets to run the show. Then if he has questions he consults with Scott or Bunting.*

Role of Faculty

Faculty involvement in the governance structures and processes of EC Online was clearly circumscribed, insofar as non-credit bearing courses were concerned. Commenting on Jones's management style, Cohen stated:

> *Would he like to have (EC Online) without faculty control? Sure. Would he like to have it without any faculty participation? No.*

At EC Online, faculty were allowed to participate in prescribed roles, but had little control over the non-degree-granting activities of the company; however, in the degree-granting programs offered by EC Online, faculty had great influence. This influence flows chiefly through two advisory groups, a design committee and an oversight committee. The former was responsible for overseeing the design of courses and programs as they were developed, while the oversight group was responsible for monitoring quality. The latter had responsibility for issues of faculty workload, the rigor and comparability of courses offered by EC Online, and other faculty issues that may arise. Both of these bodies were sanctioned by, and reported to, the graduate school's curriculum committee. These two oversight groups were not involved in the non-degree material offered by EC Online. In addition to faculty involvement in the company's curriculum, a seat on the company's board was reserved for an Entrepreneurial professor.

In EC Online's early existence, Entrepreneurial College faculty worked to produce online courses and other materials for the company under only handshake agreements. Because a formal set of contracts had not been developed, the relationship between EC Online and these professors was solely based on trust and good faith. Later, employment contracts were formalized, but with or without a contract, Entrepreneurial faculty were engaged in the work of the subsidiary from the outset.

Comparing Governance

Though each subsidiary's CEO had considerable decision-making discretion, they operated differently. Smith, D-Learning's CEO, was at the top of the company's internal hierarchy. Upon joining the company, he assembled his own management team and changed the company's business strategy. He was the ultimate decision-maker on budgetary, strategic, and personnel issues, though he involved other company executives. When a key decision had to be made, he made it. This decision-making process contrasted sharply from that used in the company's first year of operation, when it was managed by academic administrators. During that year, all major decisions were made through consultation and were influenced greatly by the University's central administration.

In contrast, when making decisions, Jones, EC Online's CEO, consulted widely with the company's managers and with College administrators. He often conferred with the College's academic vice president on important issues, a style that he had employed as dean and continued to use as CEO.

Decisions at D-Learning followed the organizational chart and culminated with the CEO, who changed the decision environment in the company from consultative and collegial to centralized and corporate when he and the other top managers joined D-Learning. The subsidiary's managers had complete discretion. The overall attitude, summed up by one executive when speaking of Distinguished University's role in the venture, was "Fund it and get out of the way."

Decisions seemed to be made faster in the subsidiaries than by traditional universities; however, this seemed due in part to the internal authority of the CEO and also to the small size of each company.

At EC Online, the market played a significant role in decision-making. According to the company's CEO, "the customer (is) the arbiter of quality." The College's academic vice president concurred,

> *You just do what the client wants. ... (The faculty) know that we have to move with the market, that the market is the arbitrator of what sells and what doesn't sell, and ... that's what we have to deliver.*

Even with these market-driven values, at least in EC Online's early stages, the motivation to meet a profit goal was a peripheral concern at best. Interestingly, no one mentioned profit as a guiding motive for the company or even as a metric for success.

In contrast, D-Learning's decisions were clearly driven by "the corporate education market." These decisions were focused on capturing market share, building its clientele, and satisfying customers. At the root of these principles was the desire to grow the business and show positive financial returns.

Consistent with the desire to operate independent of the parent institution's governance structure, faculty were largely excluded from substantial participation in governance. Faculty members were not involved in the governance of D-Learning. There were no faculty review bodies to monitor the quality and content of the company's work and professors had only limited review rights over the educational material the company produced.

Faculty involvement in the governance structures and processes of EC Online was limited, yet far greater than at D-Learning. In fact, faculty were quite active in most aspects of the company, a situation that the subsidiary's CEO saw as necessary though not ideal. Because the company offered degree-granting programs, faculty had significant influence. This came chiefly through the two faculty advisory groups. In addition, faculty held seats on the company's board of directors.

Access to faculty was a key indicator of the degree of cultural congruity, or "fit," between parent and subsidiary. With administrators wary of any direct interaction between the subsidiary and faculty, D-Learning was essentially quarantined from its parent's faculty. This reduced the risk of "infection" or "cultural contamination." However, EC Online was allowed to freely interact with faculty and, because of his position as a dean, Jones benefited from considerable faculty trust.

Comparing the Cultures

The cultures of colleges and universities define the limits of appropriate behavior in the organization. Birnbaum (1988) asserted:

> Organizational cultures establish the boundaries within which various behaviors and processes take place. By helping to create shared symbols, myths, and perceptions of reality, they allow participants to make sense of an equivocal world and to establish a consensus on appropriate behavior. (p. 80)

In line with its cultural boundaries, the creation of EC Online was a natural step for Entrepreneurial College. Jones addressed the lack of controversy and opposition he faced:

> Interviewer: Why is it that you haven't had any controversy here?
> Jones: It's a business culture.
> Interviewer: Do people in the arts and sciences and on other parts of the campus know this is happening?
> Jones: Yes.
> Interviewer: Do they even care?
> Jones: They don't care.

Riley also commented on the Entrepreneurial faculty's acceptance of the for-profit subsidiary: "The business faculty by and large say, "We're a business faculty, we have to do this stuff.'" At Entrepreneurial College, entrepreneurialism is seen as a necessary and appropriate part of the institution's existence—even if it doesn't succeed. Risk is expected and understood. These values are incorporated into the College's curriculum and are espoused by both faculty and administrators.

For Distinguished University, the creation of D-Learning also did not create a great degree of controversy with the faculty; however, this may have been chiefly a result of the University's large size, its significant decentralization, and its culture, which all would likely mitigate large-scale protests of actions that do not directly influence all parts of the institution. Masland (1991) noted, "Small organizations tend to have stronger cultures than do large organizations.... Colleges with highly interdependent parts have stronger cultures than those with autonomous parts." Wells characterized Distinguished as more than "a dozen neighborhoods" and as "humongous," "as big as Rhode Island," clearly all aspects of the organization that could mollify a potential controversy.

EC Online symbolically solidified the College's sense of self—"we are entrepreneurial"—and signaled to outside constituencies the institution's willingness to try new things and to practice what it preaches. Riley declared:

> *We are known to be innovative. We're acting entrepreneurially, which is very consistent with our strategy. And we are known for that, so we have to practice it.*

One could conjecture that if Entrepreneurial had not created the subsidiary, its constituents would have questioned why the College had not entered the online education market when so many others had. Inaction by the College, at a time when entrepreneurial activity was proliferating all around them, would have been incongruent with Entrepreneurial's culture and could have potentially caused more problems than creating the subsidiary did.

Thus, the for-profit subsidiary became a "statement of values," and served "to exemplify and reinforce the organization's core values." When asked if creating EC Online was in line with Entrepreneurial's culture, Riley responded:

> *Yes. Well, we feel that we're incredibly entrepreneurial. Not only do we teach entrepreneurship and have a lot of students who come here because they're going to start their own businesses and they're going to be entrepreneurial majors, or they just want to be around entrepreneurs...but we also think that we operate entrepreneurially.*

For Distinguished, the formation of D-Learning seemed to be more about the financial opportunity the for-profit entity afforded the University and not so much about the statement it was making internally or to external constituencies. There seemed to be a concern about having the company too close to the operations and culture of the University, as if D-Learning could contaminate the environment or be rejected by the "host organ." Wells remarked that D-Learning needed a "separation from the historical protocols of the (University) so that it could make its own way with less of the entanglement of the place." Foster commented:

> *In terms of the divergent cultures, yes, I think it is important to keep the company at arm's length, and that is why it is structured the way it is. I mean, from any faculty member's experience on campus here, the existence of this company has meant nothing, other than perhaps some money for content that they've provided to it.*

The for-profit nature and operation of the subsidiary also seemed to cause concern. Foster noted:

> *(D-Learning) has a general tendency to want to be a little more aggressive and quicker to market than a university tends to move. Which is one of the reasons why it's an outside company, out of the bureaucracy. They aren't necessarily as careful with academic terms, like "course" and "faculty member," and that worries regulatory agencies, because they are not an educational institution.*

Just as EC Online bolstered the College's core values, the subsidiary's governance also harmonized with the College's "system of informal rules." This harmony was supported by cultural artifacts observable in governance that indicated a close relationship and minimal separation between EC Online and Entrepreneurial College:

- Jones, a current Entrepreneurial dean, managed the company with several others currently or formerly associated with the College.
- One seat on the company's board was reserved for a professor (currently two professors are on the board).
- Through the design and oversight committees, faculty had a substantial governing role over the content and curriculum of the credit-bearing courses and degree-granting programs the company offered.
- Finally, Jones reported directly to Entrepreneurial's president, rather than to the company's board, and maintained his close connection to the College by remaining dean of executive education.

In contrast to EC Online, cultural artifacts (Schein 1992) at D-Learning indicate that the company's basic assumptions and espoused values may have been at odds with the dominant culture of Distinguished; consequently, D-Learning's governance reflected this cultural disparity.

The company was managed by an executive team with little or no prior connection to the University; this team held significant decision-making authority in the company, altering strategy, pursuing markets, and designing new products, subject only to approval by the company's insider-dominated board of directors.

D-Learning excluded faculty from governance, and only recently considered creating faculty advisory boards, which would give faculty input, but not a meaningful role in governance. Smith reported directly to Brown, an entrepreneurial businessman and non-academic, and was connected to D-Learning only through a "dotted line" relationship to Wells.

The University's president was purposely not on the company's board of directors in order to safely distance him from the company in case of an adverse reaction by Distinguished's faculty to the company's operations.

D-Learning did not offer credit-bearing courses or degree-granting programs in order to circumvent the faculty's traditional control over curriculum.

Discussion

Both for-profit subsidiaries exhibited qualities of a crossbreed between the governance structures and processes of the corporation and those of the nonprofit organization. However, using organizational culture theory, a finer distinction can be made between the companies. EC Online is a purebred, entirely consistent with the culture of Entrepreneurial College, while D-Learning is a hybrid, incorporating elements of both nonprofit and for-profit governance formats, but remaining distinctly separate from its parent institution.

To ensure that faculty trust them and subsequently provide them with course content and intellectual property, D-Learning tried to appear to faculty and to the deans of the thirteen Distinguished schools as sympathetic to their needs and consistent with their educational values, rather than being solely profit-driven. Yet, for D-Learning to be successful, it was critical that its customers, and Distinguished's faculty, saw the company as separate from the University. Hawthorne commented:

> *We created a business-friendly user interface by giving (corporations) a company that deals like a business, that has the look and feel of a business, and that they can talk to like a business.*

Daniel articulated the clear differences between D-Learning and Distinguished:

> *How are we not the University? Let me count the ways: We are not the university in that we don't do credit courses, we don't do scholarship and we don't do scholars—we do workplace learning. We don't lift all boats by providing knowledge to everyone; we are vertical.*

Internally, it was critical to D-Learning's managers that the company operate and feel like a business rather than a university. Rowan remarked:

> *We are managing it...like we would any company. And we are reporting up just like we would to any board on how we are doing.*

Additionally, Smith commented, "We are running in the classic business style and to some degree it has to be run that way."

In explaining the mission of D-Learning, Foster also noted that the company's "fundamental mission, first of all, was not to hurt the parent corporation." (In contrast, Entrepreneurial College expected EC Online to enhance the College's image, regardless of its success.) To protect Distinguished, D-Learning was insulated, both culturally and structurally, from the University and the University from D-Learning.

The D-Learning board of directors was a key vehicle in this insulation. Foster commented:

> *The board of directors has sort of concerned itself with the relationship of the company to the university, in terms of making sure that it is not out of step with the goals of the university, and that the relationship is harmonious.*

It seems in practice that the role of the board has been to sequester D-Learning from the University as much as possible because of its conflicting goals and values. This conflict, and because D-Learning did not mirror Distinguished's dominant culture, ensured that the company was distanced and insulated from the University and also that its governance was different. Foster remarked:

> *In terms of the sort of divergent cultures, yeah, I think it is important to keep the company at arm's length. And that is why it is structured the way it is. I mean, from any faculty member's experience on campus here, the existence of this company has meant nothing, other than perhaps some money for content that they've provided to it.*

In contrast to D-Learning, EC Online, rather than being insulated from Entrepreneurial College, was an extension of its culture. In fact, it seemed to have an almost seamless relationship with the College. EC Online is just what a person familiar with the College expects, a company with the same values and operating style as the College. For-profit companies and entrepreneurial activity are not anathema to Entrepreneurial College—they are at the heart of the institution.

However, perhaps the greatest evidence that EC Online is merely an extension of Entrepreneurial's culture is the fact that Entrepreneurial faculty who are working with the company to produce course material are, according to Riley, "doing it on good faith." Jones commented that, for a time, formal contracts with faculty "had been hand shakes." This relationship between the College's faculty and the subsidiary parallels the collegial governance that the academy values.

Because academic culture is very powerful, the cultural differences between the parent and subsidiary affected each company's governance. The degree of difference culturally was small for EC Online and so it functioned almost like a regular department in the College, with its CEO directing it as he would an academic unit.

In contrast, at Distinguished University, the difference was quite pronounced. There seemed to be concern about having the company too close to the operations and culture of the University, as if D-Learning could contaminate the environment or be rejected by the "host organ." The University's provost remarked that D-Learning needed a "separation from the...(University) so that it could make its own way with less of the entanglement of the place."

In sum, EC Online was more academic in governance because its culture aligned better with its parent's culture than did D-Learning's. In essence, EC Online was a better "fit" with Entrepreneurial College than D-Learning was with Distinguished University.

Conclusion

Congruence between structures and values matters. An organization is acting according to "collectively valued purposes in a proper and adequate manner" when its structures match the values of the prevailing culture. In this sense, "organizations structurally reflect socially constructed reality." Chaffee and Tierney contend that for an institution to reach a state of equilibrium, its structure and values must be congruent. A mismatch can cause "structural and normative contradictions within the culture." This is often the case, as officials try to align their institution's internal structure with external demands or opportunities. Without alignment, tensions result and these "contradicting valences can create serious problems in the long run."

When structures and values are aligned, however, a new organizational structure or, in this case, a subsidiary, "becomes legitimate." With legitimacy, a subsidiary organization can solidify support and improve its chances for survival.

Organizations must have the confidence of their environments, not simply be in rational exchange with them. And those that have this confidence and legitimacy receive all sorts of social resources that provide for success and stability.

Organizations that do not incorporate culturally acceptable elements of structure lack legitimacy and become "more vulnerable to claims that they are...unnecessary," or even potentially dangerous to the parent organization. Thus, the success of for-profit subsidiaries may depend as much on legitimacy derived from congruency between structures and values as on financial and market considerations.

As I have shown in these two cases, the extent to which the for-profit subsidiary and the parent institution were separated from each other reflected a judgment by administrators of the parent institution and managers of the subsidiary as to the danger of contagion or cultural contamination between the subsidiary and parent. The resulting governance structures and processes were a byproduct of this judgment.

Governance is a reflection of culture—organizational values and beliefs are manifest in governance structures. In the case of Distinguished University and D-Learning, there was intra-institutional incongruity, so there was a greater degree of structural separation between parent and subsidiary and more "foreign" governance arrangements in the subsidiary. Without a separation of the subsidiary from the parent institution, both entities seemingly ran the risk that either the traditional academic governance model would be imposed on the subsidiary or that the subsidiary would infect the University. Additionally, it seemed that in order for the subsidiary to flourish, the academic community had to be assured that the company was quarantined adequately and there was no risk of infection. D-Learning thus became a contained experiment that developed a governance structure designed to provide a thicker membrane between the parent and the subsidiary because the host institution viewed the subsidiary as very different from itself.

At Entrepreneurial College, the subsidiary was a close next-of-kin to the parent culturally, so there was no danger of contagion, less need for distance, and subsequently more similarity in governance between the two institutions. The traditional academic culture and processes would not contaminate the new venture and the new venture would hardly harm the College. In fact, the two organizations seemed to enjoy a symbiotic existence.

In sum, the greater the disparity in culture between the parent and the subsidiary, the more separate and distinct governance will be. The different degrees of acceptance of the idea of a for-profit subsidiary at Distinguished University and Entrepreneurial College were reflected in the governance structures and processes of the two subsidiaries. While D-Learning was clearly a governance hybrid, insulated from Distinguished because of the divergent cultures of the two types of organizations, EC Online followed the cultural pedigree of its parent and was merely an extension of the College into the corporate marketplace.

Implications and Future Research

Several lessons for higher education leaders can be drawn from the experiences of these two companies. First, cultural compatibility is an important consideration in the creation and governance of for-profit subsidiaries. As in a business merger or acquisition, as Schein asserts, "An acquisition strategy has to fit the existing culture." A similar statement could be made regarding the for-profit subsidiary of the nonprofit university.

Second, though one of the original aims of those creating these subsidiaries was to circumvent and avoid traditional academic governance, this was never totally achieved and to the degree it was may have been detrimental to the companies, particularly in the case of D-Learning. This casts doubt on the for-profit subsidiary's ability to separate from its parent's academic culture and governance and raises questions about the wisdom in attempting to do so. In essence, because governance and culture are so intertwined, circumventing governance means circumventing culture—or at least attempting to, which can be a very difficult proposition due to the power of culture. Rather, points of contact and interaction should be cultivated and nurtured, particularly between the company and the faculty that supplies its educational product. Without faculty, the carriers of academic culture, these subsidiaries could not survive. Thus, integration, rather than insulation, is the best policy.

Future research should explore two key issues. First, since their creation, several prominent for-profit subsidiaries have been shut down, including D-Learning, which exhibited minimal congruity with its parent's culture and governance. Some commentators have speculated that the failure of these subsidiaries was more a matter of "fit" than finance. What is the relationship between cultural congruity between subsidiary and parent and the economic viability of the subsidiary? What connections between the subsidiary and its parent will increase viability, yet not handcuff the subsidiary in the marketplace?

Second, leadership was a crucial element in the governance of these two subsidiaries. In part, cultural congruity was achieved through leaders that understood academic culture and were accepted and trusted by faculty. The commercialization of higher education institutions begs the larger question of whether individuals with business backgrounds can effectively lead colleges and universities. A business leader may intuitively seem right for a business-like academy, but because of academic culture, this may not be the case. What are the variables that determine the type of leader who will be most effective for a particular institution or situation? How is the career profile of college and university presidents changing as the institutions they lead strive to be more effective in the marketplace?

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