INSIDE HIGHER ED

ASU Goes For Profits

ASU is planning a new, for-profit online initiative. Let's discuss.

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Last week (Tues, 19 March 2019) veteran *Chronicle of Higher Education* reporter Goldie Blumenstyk broke a big story about big plans at Arizona State University to launch “a for-profit venture to promote its online program to big employers.” Major funding to support this new initiative will come from a social impact equity fund; ASU will be a minority owner.

ASU was planning to make this big announcement at the upcoming ASU GSV Summit, a venue where ASU has previously announced other new projects and partnerships. To quote the *Chronicle*, “ASU has not formally announced the creation of the as-yet-unnamed company. But after a *Chronicle* reporter learned of the deal, the University’s president, Michael M. Crow, described elements of it in an [exclusive] interview.”

As the *Chronicle* interview with Michael Crow was several weeks before the ASU-GSV Summit, it is possible that ASU officials had less time than initially anticipated to hone some of the messaging about the new online initiative. Still, there is plenty in the *Chronicle* story to fuel my hyperactive inference engine.

Based on the *Chronicle* reporting, there are some things that seem a little odd (or unusual) about ASU's new online venture. And there also some things that seem a little odd (or unusual) about the *Chronicle* reporting.

Let's start with the *Chronicle*. it is not clear from the reporting if the *real* story here is about a new ASU online initiative, or the funding strategy for that initiative. Of the 20 paragraphs in the *Chronicle* article, nine are primarily about the new ASU online program and 10 are primarily about the funding strategy and the people associated with the funding partner.

It is not until the fourth paragraph of the *Chronicle* story that we learn that the new ASU venture, described as a "learning services company" (*say what?*) will "focus on developing partnerships with employers to attract more students to ASU's online programs," similar to ASU's agreements with Starbucks and Uber. Interestingly, ASU also hopes to recruit "other research universities to join the venture."

It's between the first and fourth paragraphs that the story detours to focus on the Rise Fund, which will underwrite the new ASU venture with "low tens of millions." This is an odd detour for story presumably about a major new academic initiative, but one now indirectly linked by the *Chronicle* reporting to the Varsity Blues admissions scandal (click here and here) involving *uber* high income parents who sought to fix text scores or bought admission for their children TO the nation's most selective (and expensive) universities by bribing coaches.

One of the parents arrested as part of the admissions scandal was Rise Fund founder Bill McGlashan, "one of the tech sector's leading proponents of how to invest ethically and for social impact." Following the Varsity Blues revelations, McGlashan "was terminated for cause" from the Fund. ASU

President Michael Crow told the *Chronicle* “we don't know this guy Bill [and} we’re glad that Bill is gone.” (For more about McGlashan, the Rise Fund, and social impact investing please click here and here.)

To be clear: ASU *has not* been linked to the Varsity Blues investigation. So back to the inference engine. Based on the *Chronicle* reporting, were I to review the new ASU online initiative like a bottle of good wine, I might say that it has overtones of Fathom, 2U, and a few long-ago dead dot.edus (for example, UNext),with hint of the corporate university collaborations of some two decades ago. Admittedly, the wine review analogy may be a bit of overreach on my part.

No doubt the ASU announcement will gnaw at the tweeds of many traditional academics. The story line has all the necessary irritants for traditionalists: more online ed and more big corporate money coming into higher education. An added irritant for many may be ASU’s dramatic growth and rising reputation under Michael Crow, who assumed the ASU presidency in July 2002.

But give Michael Crow his props: under his leadership, enrollment at ASU has grown dramatically, including big gains in the number of undergraduate low-income, first generation, and students of color. The percentage of undergrads who complete a bachelor’s degree in four years has risen from 30 percent for fall 2002 freshmen to 54 percent for ASU’s fall 2014 first year students. Research funding increased more than 4x since Crow assumed the ASU presidency 17 years ago. And all this has occurred as the Great State of Arizona has led the nation with the largest decline in inflation adjusted per-student state funding for higher education for the period 2008-2017. (Click here for my 2016 conversation with Michael Crow about presidential leadership.)

Crow’s resume suggests he and his ASU colleagues know the art of the academic deal. So, turning again to the hyperactive inference engine, here’s what is curious about ASU's new online initiative: the brand, program content, and program infrastructure (and probably the program management as well) are all ASU resources – in investment banking terms, all ASU assets. Yet the *Chronicle* reports that ASU will be a minority partner in this new venture. Stated another way, it appears that ASU *will not* have a controlling interest in this new, for-profit initiative.

Ceding control of a new venture to the “money people” violates a cardinal rule of entrepreneurship: ALWAYS. RETAIN. CONTROL. One common corporate and Silicon Valley strategy for doing so is dual share stocks, which allow founders and other insiders to own “super shares” that essentially given them operational (and board) control. Berkshire Hathaway, Ford, Facebook, and Google are examples of established and dot.com companies that have dual share stock structures.

Good will, firm handshakes, and strong assurances at the launch notwithstanding, as a minority partner you are not in control, even if you provided the core assets of the new partnership. So while ASU might take a long view on curriculum development, want to invest in program quality and learner support services, and be patient with profitability, the majority partner ultimately has the final word on these and other issues, including strategy, planning, and other aspects of program operations and management.
The inference engine is also curious about the *Chronicle’s* report, citing ASU President Crow, that the “new services company will be the vehicle for Arizona State and other partners ‘to couple with corporations.’” Well, ASU is already “well coupled.” If ASU seeks to grow corporate partnerships, and wants to “capture an even bigger slice of the market for students whose tuition is paid in whole or in part by their employers,” why then involve other

institutions? ASU already has a large and highly regarded online degree program, currently ranked fourth nationwide by *US News and World Reports.* What's the added value of involving other universities in this new initiative? Adding other university partners would seem to invite unnecessary complexity and management issues.

Finally, the inference engine wonders about social impact investing. Social impact funds proclaim their mission is to "do good *and* do well." By definition Impact Investing "refers to investments "made into companies, organizations, and funds with the intention to generate a measurable, beneficial social or environmental impact alongside a financial return." Some social impact funds prioritize doing good, and are patient about profitability and the exit strategy (i.e., when they sell their stake in the company to reap their profits). Others apparently talk about doing good but, operationally, prioritize profits.

Admittedly, the inference engine is *very* hyperactive. And admittedly, these are all "early days" questions. Hopefully ASU will reveal more about the plans for its new (next!) online initiative next month in San Diego at the ASU-GSV Summit.

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