The Economics of Distance Education: Boxing Match or Productive Dialogue?

By Russell Poulin and Terri Taylor Straut

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In Short

- There is a gap in understanding between legislators, governors and other leaders and those who actually manage the distance learning operations on our campuses.
- According to the majority of respondents in the WICHE Cooperative Study of Educational Technologies (WCET) study of distance education administrators, distance education courses currently have a higher total price.
- Governors and legislators faced with competing budget pressures in many states and concerns about affordability, believe that distance education is a low-cost solution to these challenges.
- Experts with experience in course design argue that distance courses do not need to cost more if they are redesigned for efficiency and effectiveness.
- WCET is trying to get people holding different views to engage in an authentic dialogue about this topic.
THE DISCONNECT IS WIDE AND THE SIDES ARE ENTRENCHED

A massive disconnect exists between policy makers and education technology professionals regarding distance education finances. If not addressed, this difference in viewpoints could be damaging to institutions which may continue to lose the support of lawmakers and may miss out on ways to be more innovative.

Many distance education professionals believe that it costs more to produce online courses and, therefore, students should pay a higher price to fund those costs. They are also quick to suggest that quality comes at a premium.

Governors and legislators have become increasingly impatient with this argument. They see savings realized by the introduction of technology in nearly every other industry and expect the same in distance education. With budget pressures increasing, they are seeking ways to control appropriations and be good stewards of the public’s money.

These views are nearly the polar opposite of each other. To make matters worse, the two sides are not talking. When they are in the same room, entrenched positions dominate. Dialogue is often replaced with restating of old bromides without coming to a better understanding of each other’s positions. The result has been governors and legislators taking matters into their own hands in some states; action without reflection often ends poorly. See the sidebar for a “cautionary tale” of poor outcomes when politics mixed with MOOCs.

As part of interviews that we conducted on this topic, Carol Twigg, Executive Director of the National Center for Academic Transformation, reminded us: “The simple answer to this question about cost and price is that a distance education course can cost anything you want it to cost, from $1,000 to $1 million.” She is correct, and that truth highlights the illogic behind the rigid stances adopted by both sides.

The current tussle resembles a boxing match. Instead, we need to be engaged in meaningful dialogue. Absent dialogue, policymakers could find themselves in expensive dead-ends, and institutions could be left in the cold. With understanding coming from discourse, the resulting innovative

A CAUTIONARY TALE

It was a heady time. The New York Times declared 2012 “the year of the MOOC,” as Massive Open Online Courses were discussed and often praised in countless higher education articles and conference sessions.

Announced with great fanfare and apparent urging from California’s Governor Jerry Brown, San Jose State University partnered with MOOC purveyor Udacity to offer courses to high school, community college, military, and veteran students in “gateway” courses. Anyone with any experience in educating the target populations could have told them it would be a disaster.

It was a disaster. Students suffered. Preliminary findings suggested that students in the online Udacity courses did not achieve academic success at the same rate as the on-campus students. The pilot was paused after just six months and was a well-publicized embarrassment.

Meanwhile, California’s Mt. San Jacinto College rethought the MOOC concept and made it work for the same target population. The San Jacinto Community College success is still barely known. As a result, the California Governor’s office is working more closely with the three public systems. For a success story, review the work of the California Community Colleges’ Online Education Initiative.
solutions might help manage the cost of creating and teaching distance education courses and the price students pay for them. We are at a crossroads where the absence of mutual understanding of the pressures each side faces may force us to throw in the towel.

**IN THIS CORNER: THE DISTANCE EDUCATION PROFESSIONALS**

Earlier this year, a U.S. Department of Education staffer asked a room full of educational technology professionals what one message she should relay to policymakers. An obviously frustrated participant offered, “Just make them understand that quality online courses cost more than face-to-face courses!”

WCET (WICHE Cooperative for Educational Technology) took a more systematic approach to gauging the opinions of distance education professionals about the economics of their craft. We conducted an in-depth survey in 2016 to gather current information about the cost and price of offering distance courses. The resulting report (Poulin & Straut, 2017) presents detailed information about the economic factors surrounding distance courses as viewed by the 197 survey respondents who are on the front lines in creating them. Interviews were also conducted with leaders who have researched the issue of cost and price, most of whom have experience with models that have been cheaper.

We wish to highlight that the survey results report the opinions of those who responded. Care must be taken in projecting the results to the entire universe of colleges and universities. Most of the respondents disagreed with policymakers, as they are experiencing higher costs to deliver courses. But not all respondents agreed with that assessment nor do experts who have studied alternatives.

**Relevant Definitions**

Since terms are often used loosely and interchangeably, we need to clear be about the definitions used in the survey, and we will continue to reference in this article:

- **"Price"** - This is the amount of money that is charged to a student for instruction. The components are tuition and fees. In the questions, we were clear as to which "price" component (tuition, fees, or total price) was being queried.

- **"Cost"** - This is the amount of money that is spent by the institution to create, offer, and support instruction.

- **"Distance Education"** - When thinking of “distance education,” we favor the Babson Survey Research Group/Online Learning Consortium definition of 80% or more of the course being taught at a distance.

**Distance Students Tend to Pay More**
About three-quarters (75.1%) of institutions who completed the study indicated that tuition was the same for distance and on-campus students. Tuition levels are often set by governing boards, the legislature, or the central institution administration, so there is little leeway for distance education units or individual colleges to change the amounts charged. A similar survey (WCET, 2011) found that 63.5% of respondents indicated that tuition was the same. However, sometimes institutions create distance programs through contractual agreements with specific industries that result in higher tuition for a customized program.

While tuition tends to remain the same, the “Total Price” paid by students is a different story. More than half (54.2%) of the survey respondents reported that distance students pay more than on-campus students when tuition and fees are included. Many institutions have “distance education” or “technology” fees to support their online courses. Institutional personnel often have greater ability to adjust fees than to adjust tuition.

While many institutions report charging students more in Total Price for distance education courses, this is not always the case. About one-in-five (19.0%) respondents reported charging less than their face-to-face counterparts.

Distance Courses Tend to Cost More to Create, Offer, and Support

The WCET survey asked about the relative cost of twenty-one components in four categories in the life cycle of a course: preparing the course, teaching the course, assessing students, and supporting faculty and students. Respondents were asked whether each individual component costs more, costs about the same, or costs less when
comparing a distance course to its face-to-face counterpart. For each component, a majority of the responses picked one of those three categories:

- For twelve (57.1%) of the components a majority of respondents thought the cost is the same, and
- For nine (42.9%) of the components a majority of the respondents thought that distance education costs more.
- There was not a single category for which a majority of respondents thought distance education costs less than face-to-face.

![Cost Comparison of Face-to-Face and Distance Courses](image)

The categories in which respondents thought distance education costs more included: faculty development, technologies, design course specifications, instructional design, creation of learning materials, student identity verification, administration/proctoring assessments, accessibility, and accreditation/state authorization. It is notable that none of the categories were believed to cost less by a majority of the survey respondents.

**Why Did They Say Distance Education Costs More?**

Survey respondents supported the claim of higher costs for distance education courses by asserting that many services are unique to distance education. This quote is representative of many that shared this opinion:

“We have more operations around supporting online students and more people involved. For example, an online advisor is far more engaged with each student than an on-ground advisor. At scale, we require more personnel and more technology, which raises the cost overall.”
The following table is a simplified version of what we heard from respondents in comparing costs of the two modes of course delivery. Costs in the classroom (which can be a minor marginal cost) are replaced by several staff-intensive support functions:

<table>
<thead>
<tr>
<th>Traditional Course</th>
<th>Distance Ed Course</th>
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<tbody>
<tr>
<td>Faculty</td>
<td>Faculty</td>
</tr>
<tr>
<td>Technology</td>
<td>More Technology and Software</td>
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<tr>
<td>Student Support</td>
<td>Student Support at a Distance</td>
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<tr>
<td>Institutional Overhead</td>
<td>Institutional Overhead</td>
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<tr>
<td>Classroom</td>
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<tr>
<td>Technical Support</td>
<td>More Hours of Technical Support</td>
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<td>Faculty Development</td>
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<td>Instructional Design</td>
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<td>Proctoring</td>
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<td>Interstate Compliance</td>
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While both traditional and distance courses have faculty, technologies, student support services, institutional overhead, and technical support, classrooms are the only real cost component that is not needed for distance courses. Distance education courses need increased amounts of some services: more technology and software, student services enabled to serve students at a distance, and additional technical support as students work at all hours. There are also some services that are not needed for most face-to-face courses and come at a cost: faculty training and instructional design assists faculty in excelling in this new mode, distance students need proctoring sites or special software to assure they do not cheat, and there are added costs to meeting approval requirements to serve students in other states.

**IN THE OTHER CORNER: GOVERNORS AND LEGISLATORS**

Given competing budget pressures in many states and the increasing concern about the affordability of higher education, it is easy to understand why governors and legislators are eager to find any solution to ease their fiscal woes. The results of this survey were recently presented to three groups with significant representation of legislators. The results of those conversations provide a stark contrast to the survey results.

At the National Council of State Legislators meeting, the group of legislators and legislative staff in attendance were asked to offer their opinions on the costs of distance education. In a room of more than 150 attendees, NOT ONE thought distance education costs more to create, offer, and support. About a quarter thought it should cost the same. The remainder chose the “it costs less” option. Two legislators said, “it depends.” Kudos to these two independent thinkers.

At a recent meeting of the WICHE Legislative Advisory Committee, the results were almost exactly the same. Although it was a much smaller group comprised only of legislators, no one thought distance education should cost more. The overwhelming
belief was that distance education costs less. When a subsequent speaker agreed with that assessment, one legislator joyfully chimed in: “See, I was right!” A polite discussion ensued even as we reminded them of our recommendation for more discussion and mutual understanding.

Finally, at a session at the Western Interstate Commission for Higher Education’s (WICHE) Commission meeting, legislators, higher education leaders, and citizen appointees from the western states raised similar concerns about costs. The first prompt to the group was, “Why does distance education cost more?” Many commissioners looked so perplexed by the assertion that distance courses cost more that the presenter took a step back to persuade the commissioners that distance education does cost more, and many were still surprised, even unconvinced. These leaders want to decrease the cost of education for the higher education students in their states, and they believe technology can help. When our state leaders have a strong opinion about distance education tuition and fees, they are in a position to take action on their beliefs.

**Actions by Governors and Legislators**

State leaders experience growing frustration with the stalemate between their fiscal desires and pushback from institutional personnel. As a result, governors and legislators are increasingly taking matters into their own hands. Most readers will remember Texas Governor Rick Perry’s initiative to create a $10,000 Bachelor’s degree (Baskin, 2015).

As part of the WCET survey report (Poulin, Straut, 2017), Russ Adkins, an independent higher education consultant residing in Florida, highlighted several recent actions taken by Florida’s governor and legislature in relation to fiscal issues, including:

- The creation of a new education entity, the University of Florida Online.
- Not one, but two, reports on the costs to create, offer, and support distance education courses at the state’s public colleges.
- A threat from Governor Rick Scott to disallow distance education fees.
- Governor Scott’s “Finish in Four, Save More” challenge issued in May 2016.

In 2016, the state of Wyoming capped the state appropriation for distance education courses at 80% of what the same face-to-face class receives. They initially proposed 50% but raised the amount in the end. In talking to colleagues from Wyoming community colleges shortly after it passed, they were at a loss to pinpoint how the number was derived. They also were strongly considering cutting back on their distance education offerings. This will be interesting to track.

**FOR A MORE NEUTRAL VIEW: WHAT DO THE “EXPERTS” SAY ABOUT PRICE AND COST?**

As an addendum to the WCET survey, we requested brief interviews with a group of professionals who have diverse perspectives and experiences with the economics of both higher education and distance education. Some have direct experience
managing post-secondary distance education operations. Some have managed research projects that address the issues of cost and price. Several respondents are entrepreneurs whose organizations have challenged traditional pricing models as part of their business plans.

Burck Smith, CEO and Founder of StraighterLine, argued strongly that his colleagues inside traditional institutions are misguided. He didn’t mince words when he said: “They are just flat out wrong.” He asserted that many institutions have strong incentives not to track real costs and pass the savings along to their students. These distance education courses are often very profitable, and institutions make a lot of money by offering them at premium prices. He further contended that in the twenty years since online courses have become pervasive, all the related costs have decreased (Learning Management Systems, bandwidth, computers, memory, and greater use of adjunct faculty).

There was also a significant minority of respondents to the WCET survey who believed that distance and face-to-face costs are more and more on par with each other, as reflected in this quote from a survey participant:

“Because so many of the tools (i.e. LMS) which were originally purchased to support distance education efforts are utilized throughout the institution, many costs are no longer just a distance education cost. For example, faculty training. We aren’t just training distance education faculty, we are training all faculty in the institution. While we’ve expanded tutoring services because of distance education, it is not just distance education students that take advantage of the services. Whatever we do has benefits across the entire college.”

METHODS FOR CONTROLLING COST AND PRICE

With all this complexity, how do governors and legislators who openly question the cost and price of distance education expect institutional personnel to respond? This is difficult for those personnel who are caught in a higher education economics ethos that shuns open examination of cost and price. Yet they are receiving increasing pressure to respond to a “controlling cost” mission that was not assigned to them in the first place.

Unbundling Traditional Faculty Roles

Several interviewees agreed that the cost of delivering a course can be reduced by using a team approach to “unbundle” the faculty roles. Traditionally, faculty are responsible for the course from beginning to end including course development, teaching, and assessment.

Carol Twigg, President and CEO of the National Center for Academic Transformation (theNCAT.org) shared her belief that legislators and other leaders “instinctively think that if you don’t have the cost of a campus it should be easier to reduce costs. But the primary cost of any course is the cost of the faculty. Distance education courses should not be held to different quality or cost standards. Our successes at theNCAT.org use differential roles and include an overall re-design of the course.”
Faculty and staff resources can be utilized in new and more efficient ways. The NCHEMS Competency-based Education Model, which has been previously discussed in this magazine (Johnstone & Jones, 2016) examines the many disparate roles that faculty often play in course design, development, and delivery. Describing these roles allows institutional leaders to gain a stronger understanding of their costs and alternative resources to complete these tasks.

But as our interviewees suggested, this work requires redesigning both courses and faculty roles. As Rob Robinson, from Civitas Learning and previously with the University of Texas system said, “Centralization is the most powerful thing an institution can do to control price because it also controls cost.” He also cited the natural tension between the faculty’s desire for independence in developing course content and the institution’s desire for consistency and efficiency.

Unbundling Course Design & Development

Vernon Smith, currently Senior Vice President and Provost at American Public University, has experience working at several institutions with a focus on distance learning. When interviewed for the report, he said:

“You have to unbundle the whole process of course design, development, and teaching. If you unbundle courses, there are different ways of saving costs. There is potential for cost savings in the design and production of a course, depending on whether you have faculty build their own courses, collaborate with the institution’s center for teaching and learning, or use outsourced resources to build the course. There is also the potential for cost savings in the labor used to teach the course (full-time or adjunct faculty).”

He also added that you need to consider costs that are unique to distance courses, including student and faculty technology and its support, and regulatory compliance necessary to offer distance education courses.

Developing Master Courses

The use of master courses throughout an institution or system offers the promise of decreased per-student cost in course development and increased consistency (Magda, Poulin, & Clinefelter, 2015). WCET has defined a master course as one where the institution develops the materials, structure, and assessments for the course. Faculty may add resources or other supplemental materials but cannot change the essential elements of the course.

Pam Northrup, Chief Executive Officer of the Innovation Institute at the University of West Florida, also made the case for the concept of master courses and sharing resources across campuses. The Innovation Institute’s Complete Florida
initiative delivers courses and programs to Floridians who have not completed a degree by offering online adaptive and accelerated options from 15 institutions of higher education across the state. These institutions share courses and collaborate on program delivery, including Competency Based Education (CBE) and accelerated degree programs. As she shared in our interview, “A single institution cannot provide all of these options. You have to be willing to share to drive down the costs.”

Other Promising Models for Controlling Cost and Price

In addition to the ideas cited above some other paths to cost efficiencies and savings include:

- Collaboration – institutions can partner to share courses offered, technologies, and academic/student support services.
- Open Educational Resources (OER) – openly sourced materials created and updated by faculty can be used to lower textbook prices and instructional costs. Open textbooks save money for students, not institutions. This requires a start-up investment that can pay dividends in the future.
- Blended learning – replacing some face-to-face time with distance experiences has reduced the need for classroom space while maintaining course outcomes.
- Competency-Based Education (CBE) – students may save considerable time and money by focusing on learning the skills and knowledge sets that they do not already possess. Although there are considerable start-up costs to this model, long-term favorable cost and price results are possible.
- Adaptive learning uses computers to guide and assess student progress. Human assistance for the student is added, as needed.

WHAT ARE BARRIERS TO CONTROLLING THE COST AND PRICE OF DISTANCE EDUCATION?

What is stopping institutions from adopting these measures? One legislator essentially threw up his arms and said, “Higher education doesn’t change.” It is true that higher education’s history and traditions run deep, but we would like to offer a more nuanced view of some of the barriers.

Mission

When the University of Colorado launched CU Online, its virtual campus with online courses in 1997, the stated mission was “To Provide a Quality Education at Your Fingertips” (Straut, 1997). The brochure went on to say, “CU Online offers core curriculum and elective courses on a wide variety of topics. These are the same high-quality courses that are taught on the CU Denver campus.” The focus was on improving access to courses by offering them online.
When did the mission change from improving access to providing cheaper courses? Did anyone tell the administrators responsible for managing these initiatives? When higher education personnel are given clear goals, they are usually very innovative in reaching them.

**Leadership**

Often the changes needed are out of the hands of the distance education professionals. It may be difficult if certain barriers (e.g., restrictive faculty agreements, institutional administrative rules, and lack of leadership to get administrative units to support distance students) stand in the way of implementing innovations.

At the WICHE Legislative Advisory Committee meeting, Dennis Jones, President Emeritus of the National Center for Higher Education Management Systems, said that the goal for many distance education programs was making money. The institutions are using revenue from online courses to backfill budgets that are suffering due to cuts in appropriations and reductions in on-campus student enrollment. Examining the U.S. Department of Education’s Integrated Postsecondary Education Data System (IPEDS) enrollment data, we have noted a loss of about a million on-campus students throughout the U.S. since 2012 (Seaman, Allen). While this is perhaps a more cynical view of the motives than what we have witnessed, it is easy to understand the fiscal motivation, as opposed to cost saving, that might be involved in distance education.

**People**

Almost two decades ago, Dennis Jones worked with WCET to create the Technology Costing Methodology. One of the biggest findings from that work was that the staff costs to create, deliver, and support courses were the biggest factor in the cost of technology-mediated courses. It is often erroneously thought that the biggest costs of creating any type of course are technology, software, and buildings. Echoing Bill Clinton’s famous refrain about the main issue facing the country in his successful 1992 presidential run, Dennis Jones said, “It’s the people, stupid.” The main cost factors are how many people you employ, how you use their time, and how much they cost.

This brings us back to leadership. If distance education is tied only to traditional ways of engaging faculty and support staff, then costs will remain high. Without leadership with the courage to change faculty and staff roles, true savings will be impossible.

**Quality**

The ‘iron triangle’ of cost, quality, and access suggests that improvements can be made on one or two of these factors only at the expense of the third. Usually quality is the one that suffers. One institutional survey respondent was despondent because budget cuts had left the institution without the support services to offer quality distance courses.
The experts we interviewed sought to dispel what they saw as the myth of the iron triangle. Quality should not be sacrificed on the economic altar. Additionally, quality should not be limited to merely replicating activities conducted in traditional courses.

Institutional personnel are truly concerned about the quality question. Many political “answers” have emerged from trying to transfer experience from other enterprises onto the higher education sector. Those solutions may or may not work in the new environment. Outcomes research is needed to assure institutional personnel and students that innovations directly address quality concerns.

**WHAT’S THE INCENTIVE TO CHANGE?**

The historic mission of distance education has been improved access. Access was often accomplished by incremental innovations to existing teaching techniques with a layer of technology, usually provided by a Learning Management System (LMS). Few distance education offerings attempted to redesign the fundamental enterprise.

As we look toward the future and aspire toward effective, efficient, well-designed and well-delivered distance education programs and courses, we encourage those responsible for the management of these programs to engage in a conscious, comprehensive planning process. Such a process would include setting clear and achievable goals and sharing them with all stakeholders, including the governor and legislature. This process will improve understanding of the complexity involved and encourage groups with oversight to be partners in the process of improvement.

We would likewise encourage the governors and legislators involved in setting distance education policy and pricing in their states to work with their colleagues in higher education institutions rather than taking actions that are perceived as being directive. We propose that the role of governments and oversight bodies should be to provide incentives for positive change. As our colleague Dennis Jones said in his interview, “Leaders should not tell institutions HOW to do it, give them a realistic goal and assess their progress, but do not tell them how to do it.”

The incentive for legislators and governors is to cut the budgets so that they can move the money to other priorities or provide tax cuts. Institutions need their own incentive to be part of the solution. Institutions must benefit from any financial savings or they will resist change.

**HOW DO WE ENGAGE IN DIALOGUE?**
The WCET team keeps coming back to this question: how do we get the people who hold these wildly different versions of reality together to share information and seek solutions that better serve students? It’s not easy.

Since the report was released, we have hosted a webcast, actively sought venues in which we could engage legislators and legislative staff, held sessions at the WCET Annual Meeting, and have sought other means for alerting people to the findings—-including this article. We are committed to contributing to an authentic dialogue that will assist our members in hosting similar discussions with the stakeholders in their institutional communities and states.

What we have learned thus far is that governors and legislators are eager to discuss the cost issue, and institutional personnel are motivated to join them. Still, both sides are still entrenched in their own perspectives, without the knowledge or experiences of the other group.

Carol Twigg summarized the problem during our 2016 interview, "This applies to on-campus and online: the day someone holds higher education accountable for the cost of higher education, then institutions will have to be innovative and start looking at ways to reduce cost. They don't do it now because they don't have to do it.”

A combination of Twigg’s accountability ‘big stick’ and Jones’ suggested flexibility may be the answer. The strong action of some governors and legislators to unilaterally address the issues of the cost and price of distance education in their states indicates the serious nature of the issue. Further strong action may be necessary.

Meanwhile, public institutions have the most to lose. Institutions and systems should actively reach out to governors and legislators, and institutional personnel should learn about the goals and pressures on governors and legislators. Meanwhile, lawmakers should learn about the elements required to host successful distance courses and programs. As long as we continue to treat each other as faceless opponents in a long-distance boxing match, we all lose. Real change comes when we find win-win and not zero-sum solutions.

RESOURCES:


