

Iris Molotsky Award for Excellence in Coverage of Higher Education

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Entry Form

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Name and Address of Organization:

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1. Applicants are asked to provide a short statement explaining the background of the story and its significance from a national perspective. Qualities to be judged include analytical, interpretive, and investigative skills as well as convincing writing.

2. Entries that include unnamed sources must be accompanied by a statement from the supervising editor explaining why the story was written in this manner.

3. Entries and the form may be submitted electronically in .pdf format to rburns@aaup.org. These will be e-mail to the judges. If sent by mail, five copies of the form and entry should be mailed to Robin Burns, AAUP, 1133 Nineteenth St., NW, Suite 200, Washington, D.C. 20036. Please do not simply send urls to the articles as these tend to change.

February 5, 2015

Dear Judges,

The scene is a common one: Telemarketers cram into a stuffy room making one cold call after another as their boss urges them to push deep discounts to close the sale. But, as *Bloomberg Markets* magazine reports, this crew isn't pitching life insurance or mobile phone contracts. It's in Rio de Janeiro hawking university degrees from Laureate Education Inc., America's biggest for-profit college chain, with 800,000 students worldwide.

"Education Empire" (February 2014) takes readers behind the scenes to show how Laureate employs tactics banned in the U.S. to lure students in developing countries struggling to give young people access to higher education. Reporters Michael Smith and Nina Kimes spent four months unearthing internal government and corporate documents and interviewing students, professors, regulators and executives to uncover the downside of for-profit education: Laureate's campuses are plagued by overcrowded classrooms, low academic standards and debt-saddled attendees. Meantime, Laureate, a private company that doesn't publicly disclose its financial results, more than tripled its revenue to \$4 billion since 2007, the writers find.

Smith and Kimes show how Laureate operates under the radar in Chile and Turkey, where for-profit education is illegal. In these countries, the company acquires seats on the boards of colleges and then sells online courses and other services to those schools. In Brazil, the writers discover and reveal the details of a government investigation into how Laureate's business practices hurt the quality of education. They report that Laureate hired former President Bill Clinton as an honorary chancellor to speak about the virtue of private universities in solving the developing world's education deficits.

After the story was published, students struck at Laureate's flagship Andres Bello University in Chile demanding an end to tactics the company has used to skirt the ban on profits. The government stripped the accreditation of Laureate's Universidad de las Americas, Chile's second-largest college, because of questions over education quality. This year, President Michele Bachelet called for a revamped system that sharply limits the ability for university owners like Laureate to use loopholes to profit.

Thank you for your consideration.

Sincerely,



Ronald Henkoff
Executive Editor
Bloomberg Markets



Universidade Salvador
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GERMANY



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Universidad Europea de Canarias
SPAIN



Glion Institute of Higher Education
SWITZERLAND



Stamford International University
THAILAND

EDUCATION

BY **MINA KIMES** AND **MICHAEL SMITH**



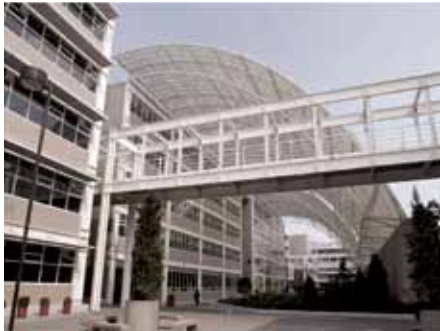
Universidad Latina de Costa Rica
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Istanbul Bilgi University
TURKEY



Kendall College
U.S.

For-profit university company Laureate has attracted 800,000 students—and controversy—from Brazil to Turkey. Its backers include Henry Kravis, George Soros, Steve Cohen and Paul Allen.

CON EMPIRE

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Inside a building on a narrow Rio de Janeiro street, nine telemarketers sit in small cubicles, talking frenetically into headsets as scripts scroll across their computer screens. On an October morning, these salespeople are urging high school seniors to attend Centro Universitario IBMR, a for-profit university. Their supervisor, Rafael Morine, paces the room, straining to be heard above the clatter of an air conditioner. “Remember, today we are offering 30 percent discounts,” he tells a young woman.

Before the day ends, he says, his team will make almost 1,300 calls. The call center sits on the top floor of the nine-story building, above classrooms. Some telemarketers are students at IBMR, working during the day

and taking classes at night. “They know their school well,” says Morine, 28. “And that helps us sell.”

Fliers taped to the walls promise bonuses to salespeople who convince at least 250 students to take the entrance exam for IBMR. One poster advertises the university’s owner, which is located almost 5,000 miles away in Baltimore: “Be part of Laureate Network, the biggest university network in the world.”

Internationally, salespeople like these have helped Laureate Education Inc. become a for-profit higher education juggernaut. Laureate, which was spawned from tutoring chain Sylvan Learning Systems Inc. in 2004, now

owns 75 schools in 30 countries. It has 800,000 students, up from 243,000 seven years ago, making it America’s largest for-profit college company by enrollment. Since going private in 2007, Laureate’s annual revenue has more than tripled to \$4 billion.

Though Laureate isn’t well-known in the U.S., it employs one of the country’s most recognizable figures: former President Bill Clinton. In 2010, the company hired Clinton to serve as its honorary chancellor. In this paid position, Clinton has trekked to Laureate’s campuses in countries such as Malaysia, Peru and Spain, making more than a dozen appearances on its behalf.

Laureate is backed by several of the biggest names in finance, including Henry Kravis, George Soros, Steve Cohen and Paul Allen. When Laureate’s founder and chief executive officer, Doug Becker, convinced these investors’ firms to take his company private in a deal worth \$3.8 billion, Kravis’s firm, Kohlberg Kravis Roberts & Co., took a \$487.5 million stake. By 2010, according to a KKR memo to investors, its investment had increased in value to \$710.8 million.

Laureate has thrived by exporting many of the practices that for-profit colleges adopted in the U.S., such as offering career-oriented courses and spending heavily on marketing. Such strategies helped build what was a booming industry until 2010, when

recruiting abuses and mounting student debt spurred a regulatory crackdown by President Barack Obama’s administration. As a result, the Bloomberg U.S. For-Profit Education Index has fallen 54 percent since its 2010 peak. Enrollment at Apollo Education Group Inc.’s University of Phoenix has declined 44 percent to 269,000, according to regulatory filings.

Laureate’s supporters say the company performs



Counterclockwise from top left: **Henry Kravis, Paul Allen, Steve Cohen** and **George Soros** are major investors in Laureate.

OPENER: PHOTOS COURTESY OF LAUREATE; COUNTERCLOCKWISE: SCOTT ELLIS/BLOOMBERG; RAIN TALAI/BLOOMBERG; SCOTT ELLIS/BLOOMBERG; AKOS STILLER/BLOOMBERG

an important service by expanding access to education in emerging markets. In January 2013, the World Bank's investment arm, the International Finance Corp., invested \$150 million in Laureate. "Many universities, after Laureate has invested, have been able to put their houses in order, apply financial discipline and really grow," says Atul Mehta, a director at Washington-based IFC.

That growth may come at a cost. While some of Laureate's colleges rank high in private surveys, including Universidad Andres Bello in Santiago and Les Roches International School of Hotel Management in Bluche, Switzerland, others have drawn criticism from teachers, students and government officials. They say Laureate boosts revenue at struggling colleges by turbocharging enrollment, often without a parallel increase in academic investment. Since Laureate took over IBMR in 2010, its quality ranking among small colleges in Brazil has dropped to No. 132 from No. 41, according to the government's National Institute of Studies and Educational Researches.

In April, the Rio State Legislature's Investigative Commission on Private Universities issued a report criticizing for-profit colleges for firing professors. It singled out Laureate's takeover of IBMR. "They have turned education into a commodity that focuses more on profit than knowledge," says Robson Leite, the Rio state legislator who led the probe. Laureate counters that several of its schools in Brazil have improved in government rankings since 2009.

Laureate has stirred controversy throughout Latin America, where it derives two-thirds of its revenue. In October, Chile's National Accreditation

Commission voted to strip accreditation from one of the company's schools, Santiago-based Universidad de Las Americas, or UDLA. In its decision, the commission wrote that, since 2010, UDLA's academic standards have suffered as it has added almost 10,000 students while reducing the number of full- and half-time teachers to 399 from

problem in academic operations," the group wrote.

Some UDLA students say its reputation has declined. "I meet people all the time who transfer here when they flunk out elsewhere," says Arturo Bisono, 25, an agronomy major. "This has become the place you go when no one else will accept you."

Laureate says the number of teachers at UDLA has grown since 2009. It has appealed the withdrawal of accreditation; if the appeal fails, new students will be unable to get government loans.

Laureate's fiercest defender is its 47-year-old CEO, Becker, an entrepreneur who started his first business as a



Laureate CEO **Doug Becker**, above, pays former President **Bill Clinton** to serve as honorary chancellor. Clinton spoke in May 2012 at Laureate's Mexico City campus.

408. Graduation rates were as low as 15 percent in some majors. "The unsatisfactory results revealed in this evaluation process show a serious

'THEY HAVE TURNED EDUCATION INTO A COMMODITY THAT FOCUSES MORE ON PROFIT THAN KNOWLEDGE,' SAYS A RIO STATE LEGISLATOR WHO LED A PROBE.

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teenager. He dismisses the complaints from government officials in Brazil and Chile. IBMR was almost bankrupt when Laureate bought it, he says. “The choice was to be highly ranked or have a viable scale,” Becker says. “I feel we have done the right thing.” He says the Chilean commission misunderstood Laureate’s nontraditional approach to education.

Though Becker didn’t attend college, he describes himself as deeply passionate about education. “You can be a serious educator with high standards and still think of the student as your customer,” he says, sitting down for breakfast in September at a Manhattan hotel.

Becker’s peers in the education industry paint him as a tireless promoter, skilled at pitching Laureate to investors and persuading universities to sell to him. “He’s a hustler, for sure,” says Michael Moe, the CEO of Woodside, California-based GSV Capital Corp., an investment fund that specializes in education. “Basically, he saw this gaping hole in the market and drove a truck through it.”

When Becker talks about Laureate, he sounds like he’s discussing a non-profit, not a private equity-backed business. “We really started with a goal of bringing increased access to higher education to countries that aren’t as well served as the U.S.,” he says.

As Laureate has pursued growth in developing countries, it has capitalized on demographic trends. More people in emerging markets are joining the middle class, but there aren’t enough colleges to meet the soaring demand. In Latin America, for example, higher education has long been dominated by state-run schools and Catholic universities. Most of these schools are inexpensive or free but have limited space.

The supply shortfall has driven governments to embrace private operators. In Brazil, where just 17.4 percent of 18- to 24-year-olds attend college, President Dilma Rousseff has increased the number of government-backed student loans sevenfold, and for-profit companies have flourished.

“I think education is the industry of the future,” says Paulo Guedes, chairman of Rio-based Bozano Investimentos. In the past three years, Guedes says, his 360 million reais (\$155 million) investment in Brazilian education firms has tripled.

In August, Laureate, which owns 11 Brazilian institutions, agreed to buy university chain Faculdades Metropolitanas Unidas for 1 billion reais, inciting protests from local teacher and student unions.

One country that has long welcomed private higher education is

circumvented the ban, it says, by acquiring seats on the boards of colleges, and then selling services such as building management and online courses to those schools. The company used the same tactics to establish a presence in Turkey, where for-profit colleges are also banned. Since taking control of Istanbul Bilgi University, Laureate has boosted its enrollment by 44 percent, to more than 12,000 students and raised its tuition by more than 50 percent to about 30,000 liras (\$14,000). A round of staff cuts in 2011 prompted



Phillippe Linhares, an IBMR student, says he thinks he flunked the entrance exam and the school still accepted him.

Chile, where just 23 percent of college students attend public institutions, according to the Paris-based Organization for Economic Cooperation and Development. In 2011 and 2012, hundreds of thousands of Chilean students staged protests, demanding free college education and clashing with riot police armed with tear gas. President Sebastian Pinera responded by raising taxes to fund student loans. Michelle Bachelet won a landslide victory in December to succeed Pinera on promises of free college education for the poor and tighter regulation of tuition and profit at private schools.

For-profit education is technically illegal in Chile. Laureate has legally

protests from faculty holdovers, who unsuccessfully tried to form a union.

Becker says he started Laureate because traditional colleges weren’t serving their customers. “I found that most universities were inward looking and focused on the needs of the staff and faculty, and not so much as focused on the needs of the students,” he says.

Though Becker’s glasses and dark suit make him look like a banker, he speaks in a gentle tone, like a kindergarten teacher. His only hobbies, he

says, are spending time with his two young children and chairing non-profits, like the International Youth Foundation. A Baltimore native, Becker started his first business when he was in high school, while working at a ComputerLand store with his friend Christopher Hoehn-Saric. The duo conceived of a swipe card that could store patients' medical records. They sold the idea to Blue Cross Blue Shield of Maryland for an undisclosed amount in 1985. Becker was 19.

After spending their earnings on Porsches, Becker and Hoehn-Saric started a small investment firm, Sterling Partners. In the early 1990s, they took a stake in tutoring chain Sylvan Learning Systems, then owned by Kinder-Care Learning Centers Inc., and took it public. By 1999, Sylvan was booking more than \$300 million a year in revenue, and its stock value had risen nearly 500 percent.

Around that time, Becker traveled to Spain to research the education market and found his next business venture. He bought Universidad Europea de Madrid, a small, indebted private school, for \$26 million. By 2004, Sylvan had taken over 17 more schools in Europe and Latin



In **Chile**, left, students clashed with police in a September protest over college costs. In **Turkey**, below, Laureate students sit in a campus courtyard.



America. Becker spun off Sylvan's tutoring business and renamed the company Laureate Education.

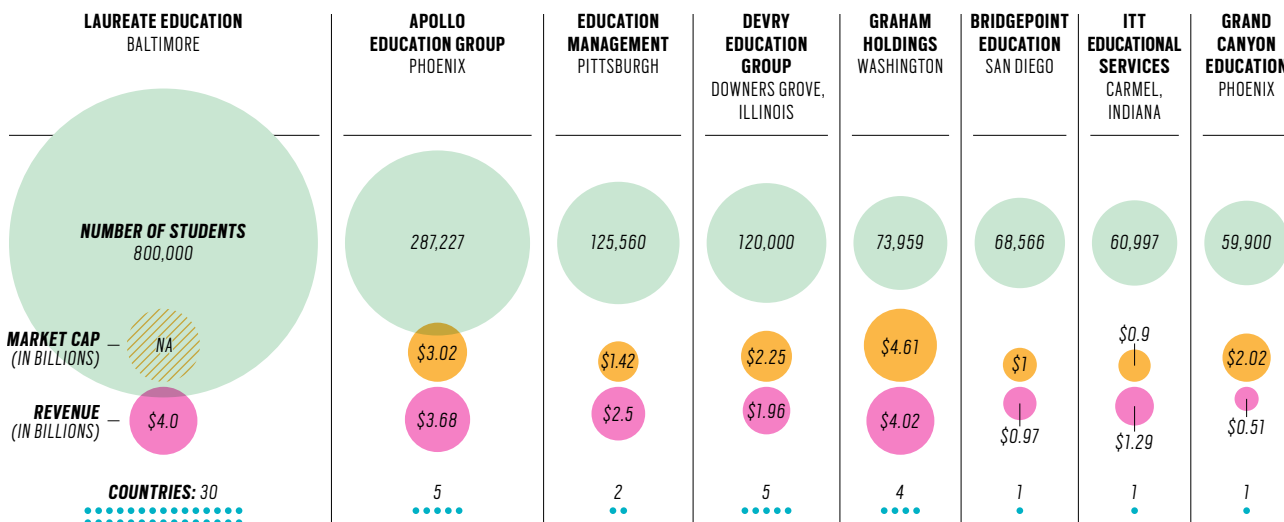
Though Laureate operates mainly overseas, it runs five schools in the U.S., including Minneapolis-based Walden University, which grants

online graduate degrees in nursing and education. The company struck a deal in March with Thunderbird School of Global Management, a business school in Glendale, Arizona. While Thunderbird will remain a nonprofit, some alumni argued that the deal would taint the school's reputation, and five board members resigned. "When they have control of these schools, their focus is on generating cash," says former board member Merle Hinrich, the chairman of a Hong Kong export services company.

Becker says those critics are misinformed about Laureate. He points out that Walden has avoided many of

THE JUGGERNAUT

In the past decade, Laureate has become the largest U.S.-based for-profit college company. With campuses worldwide, it has more than twice as many students as any competitor.



Privately held Laureate provided its data. The other companies are publicly traded. Sources: Bloomberg, company filings

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the pitfalls that befell other U.S. for-profits. In 2012, a report by U.S. Senator Tom Harkin, an Iowa Democrat, concluded that Walden students were more likely to pay back student loans than students at other colleges, including most nonprofit schools. “What does that tell you?” Becker asks. “It tells you that just being big for the sake of profit isn’t what drives us.”

Becker took Laureate private in 2007, he says, because he wanted to pursue a long-term strategy. Along with New York-based private-equity firm KKR, Laureate’s investors include Soros Fund Management LLC, Allen’s Vulcan Capital and Cohen’s SAC Capital Advisors LP, the hedge fund that agreed in November to pay \$1.2 billion to settle allegations of insider trading with the U.S. Department of Justice. Soros, the hedge-fund manager with a net worth of \$23 billion, established a graduate school, Central European University, in his native Hungary. Representatives of SAC, Soros and Vulcan declined to comment.

Brian Carroll, a KKR partner, praises Laureate’s approach. “The company focuses on the value proposition to the student and ensuring that the students are well positioned to find a job after leaving a Laureate university,” he says. In 2012, Laureate commissioned a study of eight of its schools and concluded that at five, its students were more likely to find jobs than their peers at other local schools. Most governments don’t collect data on job placement.

Laureate considered going public in 2012 and then decided against it, apparently because of regulatory issues in Chile, says Trace Urdan, an analyst at Wells Fargo & Co. who covers the education sector. “I expect they’ll be ready to come back and try,” he says. Becker declines to comment on whether the company will pursue an initial public offering.

Urdan says Laureate has mastered the art of acquiring small, indebted schools and making them bigger and

profitable. According to a 2012 Laureate bond memorandum, the company spends more than \$200 million a year on advertising, including television commercials, online campaigns and billboards. “The first thing they do is bring in the marketing machine,” Urdan says. “Then over a few years, they turn their attention to the operating side of things and make costs more efficient.”

Laureate showed how fast it can transform a small college at Rio’s IBMR. IBMR was a family-run college founded in 1974 by Herminio da Silveira, an orthodontist who loved to teach. When Laureate bought it in 2010, the school had just 1,500 students and offered seven health-related majors, including physical therapy and psychology.

Since then, Laureate has boosted enrollment to about 4,500. The company converted a defunct high school into an IBMR campus. It added majors targeting fast-growing job markets

in tourism, sports and health services. IBMR renovated classrooms and built anatomy and biology laboratories with computerized cadaver mannequins and Nikon microscopes, and mock-ups of a hotel room and restaurant for hospitality management students.

Laureate has also revamped the school’s sales operation. At IBMR’s telemarketing center, which didn’t exist before the company arrived, the school pays recruiters based on the number of students they sign up, a tactic that the U.S. Congress restricted in 1992 to stem misleading marketing gimmicks.

IBMR’s growth stems in part from its low admissions standards. Students who score as poorly as 20 percent on the entrance exam can get in, according to the school. “It’s not about the student that comes in, but the quality of the student that goes out,” says Marcelo Cardoso, Laureate’s vice president for business development in South America.

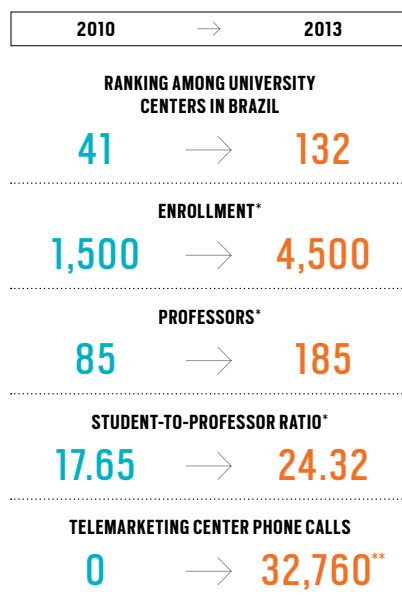
Phillipe Linhares, a junior, says he shouldn’t have qualified for admission because he spent the night before the entrance exam with a relative in the hospital and didn’t sleep or study. “I knew I had done horribly on the test,” says Linhares, 24. “But the salespeople called me three times saying I’d done great and asking when I would come down to enroll.” He says the admissions office wouldn’t give him his score.

The college attracts students by offering them discounts on tuition. Larissa Da Silva says she enrolled because an admissions officer promised her a 30 percent discount on IBMR’s five-year undergraduate psychology program. She was stunned, she says, when the deal evaporated two years later and her monthly tuition costs jumped to 791 reais. “I feel completely deceived,” says Silva, 22. Laureate says IBMR sometimes grants temporary discounts, which are explained in the students’ contracts.

While Laureate has invested millions in IBMR’s facilities, some students

BEFORE AND AFTER

Since Laureate bought IBMR in 2010, enrollment has tripled, while the number of students per teacher has risen 38 percent.



*Approximate figures. **In October (IBMR did not disclose additional numbers). Sources: IBMR, National Institute of Studies and Educational Researches



In **Sao Paulo**, students learn at a Laureate restaurant school at Universidade Anhembí Morumbi, top. They get training in **medical fields**, above.

argue that it has neglected other aspects of education. When Manoela Magalhaes, 33, enrolled in her first philosophy class at the school, she was surprised to learn the class had been converted into an online program with no teacher. “It’s a joke,” Magalhaes says, logging on to look at a website with a blurry illustration of Democritus and a three-line summary of his work. IBMR says it makes staffers available to help students with online courses.

Laureate spokesman Matthew Yale says IBMR has improved academic standards by hiring more professors with graduate degrees and adding teaching hours.

Still, teachers and students say some programs have deteriorated. The

college cut six high-ranking professors in December, including its chancellor. Sandra Baptista, the former assistant head of the psychology department, says she was let go after 16 years at IBMR. She says Laureate slashed the number of hours required to pass a five-year program by 20 percent and crammed students into her classes. “It was so bad, there weren’t enough desks for all of the students to take their finals,” she says.

Educators across Latin America say Laureate employs too many part-time

teachers. At its Universidad del Valle de Mexico, which has dozens of campuses and more than 100,000 students, just 5 percent of the teachers worked full time as of 2011, according to government data. At Laureate’s Universidad Tecnológica de Mexico system, which has 51,000 students, that number was 0.3 percent.

Since 2005, the number of full-time teachers at Universidad Europea de Madrid, the college Becker bought in 1999, has declined to 22 percent from 52 percent, according to government data. Laureate says UEM is “one of the most prestigious universities in Spain.” Spanish newspaper *El Mundo* places UEM in the bottom third of 47 colleges.

Becker says part-time professors aren’t necessarily inferior. “I don’t see why we have to accept as gospel this particular tenet, that full-time professors equal quality,” he says.

Laureate has bolstered its image with the help of former political leaders such as: Condoleezza Rice, U.S. secretary of state; Al Gore, U.S. vice president; and Tony Blair, prime minister of the U.K. They have made appearances at Laureate schools. The company’s biggest coup was hiring Clinton. The former president declined to comment on his role, and Laureate wouldn’t disclose how much he’s paid. Becker says Clinton joined Laureate because he believed it has a strong social mission.

Laureate has installed several people from Clinton’s administration in key executive and board positions, including Richard Riley, the former secretary of education; Joseph Duffey, the former head of the information agency; and Henry Cisneros, Clinton’s secretary of housing and urban development.

Pictures of Clinton line a walkway at Laureate’s Bilgi University in Istanbul. Photos of him also hang outside the rector’s office, along with images of Becker and Turkey’s prime minister, Recep Tayyip Erdogan. In 2010, Laureate’s UEM gave an honorary degree to Erdogan. During the summer of



Larissa Da Silva, an IBMR student, says she enrolled because of a 30 percent discount that the school retracted two years later.

2013, hundreds of thousands of Turks protested Erdogan's development of an urban park and his suppression of political dissent.

In recent years, Erdogan's government has allowed dozens of private universities to spring up, says Yuksel Kavak, a professor of education at Hacettepe University in Ankara. "Turkey is in the process of changing, especially in higher education," he says. The government is currently debating whether to legalize for-profit education.

Bilgi's main campus, built around an old power plant, is nestled in a blue-collar neighborhood in Istanbul. Students clutching books and cigarettes scurry across the grassy courtyard, which is ringed by modern buildings, several of which were built after Laureate began managing the university.

When Laureate struck a deal with Bilgi in 2006, the college was in deep debt. The company soon clashed with its founder, telecommunications entrepreneur Oguz Ozerden, over whether to shift Bilgi's focus from the humanities to vocational areas, such as health sciences. Ozerden resigned, and Laureate installed a new administration.

"Bilgi was my university, and now I

feel like an outsider," says Ali Nesin, a professor in the school's mathematics department. A 2011 review by a group of foreign professors from the European University Association, a trade group, unearthed tensions. "The team felt this to be a malaise which, if it were to deepen, would become seriously dysfunctional," the group wrote.

In 2012, Bilgi closed its modern art museum to use the space for classrooms, leaving only the first floor for exhibitions. The school stirred further controversy in 2013, when it auctioned off its collection of several modern

works by Turkish artists for about \$7 million.

Some Bilgi professors praise Laureate's remake of their school. "There's constant innovation and constant thinking about how to be appropriate to the Turkish market and how to be international," says Asu Aksoy, an associate professor in the arts and cultural management department.

Bilgi's chairman, Rifat Saricaoglu, says Laureate has improved the school by adding departments such as engineering and architecture. On an October afternoon, Saricaoglu, a former professional basketball player, sits down for tea as he discusses his vision for Bilgi. He says tensions between administration and faculty have subsided. "What we have promised, we have delivered," he says.

Saricaoglu, who heads the trade group for private universities, has urged the government to allow Bilgi to open more campuses. If that happens, he says, the school's enrollment could more than double to 30,000 students by 2015.

Such rapid growth has already occurred at many Laureate schools, alienating professors and government officials. At the same time, it has resonated with investors. Saricaoglu says the company's growth in Turkey will prove valuable when it goes public. "If you want to go to Wall Street one day, you need to have a good story," he says.

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Bloomberg Tips

ANALYZING LAUREATE

To dig into Laureate's borrowing, type **LAUR US <Equity> DDIS <Go>** on the Bloomberg Professional service for the Debt Distribution function. For details of the company's \$1.7 billion term loan that matures in 2018, click on the red bar above 2018. Type **6 <Go>** and type **DES <Go>** for a description of the loan. To analyze the borrowing, type **YAS <Go>** for the Yield and Spread Analysis function. For details of Laureate's buyout, type **LAUR US <Equity> MADL <Go>** for the Merger & Acquisition Deal List function. In the list of deals, click on the acquisition announced on Jan. 29, 2007. **JON ASMUNDSSON**