WHEN IS EXTERNAL LEGITIMACY LESS IMPORTANT? THE CASE OF U.S. ONLINE HIGHER EDUCATION INDUSTRY

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ABSTRACT

Neo-Institutional Theory emphasizes the need for institutional legitimacy as it is considered crucial for securing resources that ensures organizational survival and growth especially in smaller and younger firms. We propose that three important factors facilitated, more than external legitimacy, the acquisition of mission-critical resources in the online higher education industry.

KEYWORDS: Institutional theory, external legitimacy; online higher education industry; business model

INTRODUCTION

Neo-Institutional Theory (NIT) has become one of the most widely used organizational theories in the last three decades. With its explicit assumption of an open system perspective to organizations and strong emphasis on the role of the institutional environment, NIT emphasizes on the important need for conforming to institutional rules and practices that lead to external legitimacy (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Haunschild & Minor, 1997). Accordingly, the concept of external legitimacy is at the core of the theory (Singh, Tucker and House, 1986; Suchman, 1995; Suddaby & Greenwood, 2005). In their study on organizational legitimacy and the liability of newness, Singh and colleagues (1986) concluded that for new firms, external legitimacy is the primary issue that is related to resource acquisition and survival. They compared external legitimacy (which significantly depressed organizational death rates) to internal organizational changes (which were unrelated to organizational death rates). In their study of different modes of inter-organizational imitation, Haunschild and Miner (1997) investigated the effect of outcome salience and uncertainty on the different modes of imitation.

We suggest that there are boundary conditions to Singh et al.’s (1986) empirical conclusions on the relative importance of external legitimacy and internal coordination. More specifically, the paper suggests that there are a few scenarios when external legitimacy is not the most important challenge to overcome for new firms. These new firms could, instead, focus on internal coordination activities or “getting their act together” and streamlining their operations, in order to obtain resources and thereby survive. Accordingly, this paper articulates the theoretical
boundaries under which external legitimacy plays a less important role in the quest for resources and ultimately survival.

In order to explore such theoretical boundaries on the role of external legitimacy, we examine the U.S. online higher education industry (comprising mainly major online University and colleges) as a research background. This industry has been rapidly growing over the last ten years at an astonishing rate and is also predicted to grow over the next few years, contributing to the economy in a major way.

In the context of the online higher education industry, we investigate the following research question: *Under what conditions is external legitimacy less necessary for firms?* The study contributes to the extant literature in the Neo-institutional theory (NIT) (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) which suggests that external legitimacy is one of the main issues to overcome for a new entrant in an industry. We specifically focus on regulatory bodies, such as independent accreditation agencies (e.g., AACSB), as important social entities for the source of external legitimacy. Drawing from two theoretical perspectives – NIT and Population Ecology (Hannan & Freeman, 1977, 1983; Hannan & Caroll, 1992) we propose that there are some special industries that have managed to develop an innovative business model, and target a specialized target market, in which the above theoretical predictions may not hold.

In the next few sections, we first briefly discuss the key theoretical arguments and empirical findings in the institutional and population ecology literatures. We then draw from these two theoretical perspective to the research context – U.S. online higher education industry, and suggest that model would be different for this industry under its current lifecycle stage. Next, we introduce our proposed theoretical model and the corresponding propositions applicable for the current lifecycle of the industry. Finally, we conclude with a discussion of research implications and future research directions.

**LITERATURE REVIEW**

Neo-Institutional Theory (NIT) argues that the structure of organizations mainly reflect the direct and indirect influences of the institutional environment instead of the rational requirement of their core technologies (Meyer and Rowan, 1977; DiMaggio & Powell, 1983; Tolbert & Zucker, 1983). According to NIT, organizations tend to conform to the larger environment by adopting institutionalized procedures and practices in order to secure external legitimacy (DiMaggio & Powell, 1983). Such adherence to institutional rules and practices is maintained by organizations regardless of the adverse efficiency implications. Two major assumptions of NIT can generally be identified: (1) Organizations exist as part of the larger social system and that gaining external legitimacy is critical for their survival; (2) a clear distinction could be made between the formal structure of an organization and its actual day-to-day work activities (i.e. Loose-coupling). The rational formal (bureaucratic) structure has been identified as the most efficient mechanism for coordinating and controlling tasks under structural contingency theory (Thompson, 1967; Donaldson, 2001). The rational formal structure assumes that “coordination and control of activities are critical dimensions on which modern organizations have succeeded” (Meyer and Rowan, 1977, p. 342). The proponents of NIT strongly disagree with such assertion. According
to them (Meyer and Rowan, 1977; DiMaggio and Powell, 1983), the underlying assumption under the rational formal structure is flawed and that the organization’s formal structure is loosely coupled with the actual daily activities and routines. They believe that the role of external institutional forces has been neglected and that legitimacy is taken for granted by the structural contingency theory.

Neo-Institutional Theory emphasized the following key points: (1) Organizations conform to established institutional norms of the industry—what is referred to as "institutional isomorphism"—in order to get legitimacy by other external stakeholders and by the society at large. (2) Gaining external legitimacy helps organizations gain the much-needed resources for their primary activities of manufacturing products or generating services and for expanding and consolidating their businesses and thereby ensuring financial performance. (3) There are three established sources of isomorphic pressures that organizations react to: (a) coercive pressure, wherein due to regulations and laws organizations are forced to act in certain ways or it could be due to the balance of power in favor of the other organizations in the industry that forces them to conform (b) mimetic pressure, wherein organizations try to mimic the organizations that are already well-established and performing well, in order to cope with the uncertain current and future scenarios (c) normative pressure, wherein organizations act in certain ways due to the professionalization over time, arising from the same set of rules and ways of doing business being propagated by the senior managers and others having similar education. (4) Only the industry leaders have the leeway of not conforming to established industry norms and can choose to be different and yet not affect their legitimacy and resource acquisition abilities at times, should they decide to do so.

**External legitimacy and organizational survival**

External legitimacy has been defined in the organization studies literature in several ways. Legitimacy has been defined, for example, as "a status conferred by social actors" (Ashforth & Gibbs, 1990; Pfeffer & Salancik, 1978; Meyer & Scott, 1983; Baum & Oliver, 1991) and as an endorsement by social actors that "...the organization's means and ends as valid, reasonable and rational" (Deephouse, 1996, p. 1025). Similarly, Scott (1995) defined legitimacy as "not a commodity to be possessed or exchanged, but a condition reflecting cultural alignment, normative support, or consonance with relevant rules and laws" (p.45). Suchman (1995) has defined legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs and definitions" (p. 574). Suchman (1995) conceptualized legitimacy as both strategic and institutional in nature and proposed pragmatic, moral and cognitive as main forms of legitimacy.

With regards to the source of legitimacy, the organization studies literature points to certain groups in the larger group of social actors that have disproportionate influence in the way legitimacy is conferred to an entity. Specifically, institutional scholars have suggested that peer institutions, regulators, media and the public as critical sources of external legitimacy (Galaskiewicz, 1985; Baum & Oliver, 1991; Pollock & Rindova, 2003).

In this study, we adopt earlier conceptualizations of legitimacy in the literature as a social endorsement and approval. In particular we focus on regulatory entities as important social
entities for the source of external legitimacy. We specifically focus on this group of social actors because of our research context—U.S. online higher education industry. In the education sector, governmental supervisory entities and independent accreditation agencies such as the AACSB are powerful social actors that confer a much desired external legitimacy (McKee, Mills & Weatherbee, 2005). To the extent that organizational legitimacy is a strategically managed source of competitive advantage, as argued by Suchman (1995), achieving accreditation could be a source of external legitimacy.

We define firm’s resource acquisition as a process of getting required resources that would help the firm to start its business (Starr & MacMillan, 1990) and argue in line with the predictions of NIT that it is the primary need for most new entrant firms in an industry. They need to be able to acquire the required resources, which could include one or more of traditional forms—land, labor and capital. Since we are primarily concerned with new entrant firms in an industry that are mostly small in the beginning, we chose a definition based on small-business literature from the field of Entrepreneurship. We define a firm’s survival as its ability to survive (and not die within) the first five years after inception (Phillips & Kirchhoff, 1989).

**Conceptualization of external legitimacy in the Population Ecology theory**

Population ecology theory attempts to answer the fundamental question: *Why are there so many kinds of organizations?* More specifically, this theory studies the distribution of organizations across different environments (Hannan and Freeman, 1977, p. 936). According to Baum and Shipilov (2006), organizational ecologists are mainly concerned with the process in which social, economic and political conditions influence “the relative abundance and diversity of organizations and attempt to account for their changing composition over time”. Hannan and Freeman (1977) proposed and developed a population ecology perspective on the organization-environment relations as an alternative to the prevalent adaptation perspective, thereby challenging the basic premise of the Structural Contingency Theory (Donaldson, 2001) and Strategic Choice Theory (Child, 1972).

According to population ecology scholars, changes in organizational populations are the result of four processes: variation, selection, retention and competition (Baum and Shipilov, 2006). Variations in organizations may include different technical and management competencies and innovations developed intentionally or unintentionally by organizational members (McKelvey, 1994). The authors argue that the strength of inertial pressures on organizational structure suggests that the application of population ecology models would depend on competition and selection in the population of organizations. Perhaps the most influential conceptual development in the population ecology literature is the concept of structural inertia. According to Hannan and Freeman (1977), structural inertia represents a significant obstacle in the quest for adaptive change. They argued that since organizations have both internal and external constraints, they are essentially inert and therefore are unable to change and adapt to the environment. As a result, they treated structural inertia as an antecedent to the natural selection process. However, in their 1984 paper, Hannan and Freeman treated structural inertia differently by carefully characterizing it as a consequence to the natural selection process. Hannan and Freeman (1984) defined structural inertia as the difference between the rate of reorganization and the speed of change in
the environment. As such, an organization is still considered inert as long as it is changing at a slower rate than the environment.

A substantial part of population ecology theory seeks to examine various factors affecting organizational demography. As such, much of scholarly work in the field has focused on studying organizational density as a dependent variable. Organizational density refers to “the number of organizations a population contains” (Hannan and Carroll, 1992). A great deal of subsequent theoretical development and empirical studies were built on examining specific organizational populations across time. For instance, Hannan and Carroll (1992) identified seven major organizational populations including newspaper publishers, labor unions, breweries, banks and life insurance companies. According to Hannan and Carroll (1992), there are three major explanations for the evolution of organizational density: (1) regularities in patterns of change in essential resources, (2) limits on the longevity of organizational forms (i.e. historical and social specific technologies), (3) sociological processes of legitimacy and competition. The third reason is extensively discussed in the literature. Based on the concepts of legitimacy and competition, population ecology scholars attempted to explain the variation in founding rates and mortality rates as a function of organizational density. Accordingly, proponents of the density-dependence theory argue that legitimacy of an organizational population increases with its density at a decreasing rate and that competition within organizational populations increases with density at an increasing rate. Initial growth in density will trigger processes of legitimacy that elevate founding rates and lower mortality rates which will result in high density. Hence, there is an inverted u-shaped relationship between population density and organizational founding rate (Hannan and Carroll, 1992). Density-dependence researchers also discuss the term “density delay” which essentially refers to the founding of organizations in the midst of high density and high competition environments. Such organizations experience a “liability of resource scarcity” and “tight niche packing” and are more prone to death (Hannan and Carroll, 1992).

The U.S. online higher education industry

We focus on an industry - online higher education industry - that has managed to develop and implement an innovative business model and the industry can therefore stand out from all the other industries, and defy the predictions of NIT. Online courses are defined as credit-granting courses or education training delivered primarily via the internet to students at remote locations, including their homes. An online course may include a requirement that students and teachers meet once or periodically in a physical setting for lectures, labs, or exams, so long as the time spent in the physical setting does not exceed 25 percent of the total course time (U.S.News, 2010).

Over the past decade, online learning has become an increasingly popular option among students. Yet most people still regard fully online courses with some ambivalence, perhaps due to the mixed results in extant literature (Jaggars & Bailey, 2010). On one hand, research suggests that students who complete online courses learn as much as those in face-to-face instruction, earn equivalent grades, and are equally satisfied (e.g., see Jahng, Krug, & Zhang, 2007; Phipps & Merisotis, 1999; Sitzmann, Kraiger, Stewart, & Wisher, 2006; Zhao, Lei, Yan, Lai, & Tan, 2005). On the other hand, online students are less likely to complete their courses (Beaty-Guenter, 2003; Carr, 2000; Moore, Bartkovich, Fetzner, & Ison, 2003). Skeptics of online
learning raise concerns about the quality of online coursework. Some note that rather than developing approaches to teaching that would take advantage of the capabilities of computer-mediated distance education, instructors in many cases simply transfer their in-class pedagogy to an online format (see Cox, 2005). Others suggest that student-teacher and student-student interactions are often limited (Bambara, Harbour, Davies, & Athey, 2009). These practices may contribute to low online course completion rates. Institutions have particular concern about online course performance among underprepared or traditionally underserved students, who are already at risk for course withdrawal and failure.

Advocates of online learning, in contrast, argue that technology-enhanced education can lead to superior learning outcomes, and that higher online dropout rates are due not to the medium per se but rather to the characteristics of students who choose online courses (see, e.g., Howell, Laws, & Lindsay, 2004). Advocates are also particularly optimistic about the potential of fully online coursework to promote greater access to college by reducing the cost and time of commuting and, in the case of asynchronous approaches, by allowing students to study on a schedule that is optimal for them. Indeed, this goal of improved access is one of the top drivers of institutional decision-making regarding increases in distance education offerings (Parsad & Lewis, 2008).

Recently, proponents of online education were buoyed by a meta-analysis commissioned by the U.S. Department of Education (2009) which concluded that, among the studies considered, student learning outcomes in hybrid-online and fully online courses were equal to or better than those in traditional face-to-face courses. This conclusion included the caveat, however, that the positive effect for online learning outcomes was much stronger when contrasting hybrid-online to face-to-face courses than when contrasting fully online to face-to-face courses. In addition, the positive effect was much stronger when the hybrid-online course incorporated additional materials or time on task which was not included in the face-to-face course. Ignoring these subtler implications, popular media discussions of the findings (e.g., Lohr, 2009; Lamb, 2009; Stern, 2009) focused on the report’s seemingly clear-cut generalization that “on average, students in online learning conditions performed better than those receiving face-to-face instruction” (U.S. Department of Education, Office of Planning, Evaluation, and Policy Development, 2009).

We define *online higher education industry* as an industry that comprises of stand-alone colleges and universities which do not offer the traditional degrees with teaching in the classroom format, but offer their degrees primarily online or over the internet. Some of these colleges and universities have a few physical classrooms and enrolled students may be required to take a few exams or courses at the physical locations as well. Enrollment at online programs jumped from 229,363 to 2,139,714 - an 832 percent increase - from 2001 to 2009 according to higher education consultancy *Eduventures* (Burnsed, 2010).

The number of college students enrolled in at least one online course has increased for the ninth straight year, according to the Babson Survey Research Group's annual survey of more than 2,500 colleges and universities-including both non-profit and for-profit institutions. The study, "Going the Distance: Online Education in the United States, 2011" (SloanConsortium, 2011), reports that more than 6.1 million students took at least one online class during fall 2010 - a 10.1 percent increase over the year before (Lytle, 2011). An *online class* is defined in this survey as a
course where more than 80 percent of all content is delivered online, and there are typically no face-to-face meetings with instructors.

While the growth is substantial, it is the smallest increase since Fall 2006 when enrollment in online courses increased 9.7 percent. In comparison, during Fall 2009, online education saw an increase of nearly a million students taking at least one online course - or 21.1 percent growth over the year before, according to the report, formerly known as the Sloan Survey of Online Learning. The report acknowledges this dip in growth rate and speculates that the rapid increase of online enrollment may ultimately be slowing. "The slower rate of growth in the number of students taking at least one online course as compared to previous years may be the first sign that the upward rise in online enrollments is approaching a plateau," the report surmises. However, the growth of online education far exceeds the growth of higher education overall: Total enrollment in higher education increased by nearly 120,000 students during fall 2010, a mere 0.6 percent increase over the year before. Thirty one percent of all students participated in an online class during the semester - up from 9.6 percent in Fall 2002, when the survey was first administered (Lytle, 2011). Table 1 below presents the top online and hybrid universities in the US.

**Table 1**

Top online and hybrid universities† in the U.S.

<table>
<thead>
<tr>
<th>#</th>
<th>Overall Rank*</th>
<th>University / College</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Online-only universities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>9</td>
<td>Jones International University</td>
</tr>
<tr>
<td>2.</td>
<td>10</td>
<td>Walden University</td>
</tr>
<tr>
<td>3.</td>
<td>25</td>
<td>American Public University</td>
</tr>
<tr>
<td>4.</td>
<td>29</td>
<td>Northcentral University</td>
</tr>
<tr>
<td>5.</td>
<td>30</td>
<td>Capella University</td>
</tr>
<tr>
<td>6.</td>
<td>40</td>
<td>Grantham University</td>
</tr>
<tr>
<td>7.</td>
<td>50</td>
<td>Western Governors University</td>
</tr>
<tr>
<td>8.</td>
<td>57</td>
<td>Aspen University</td>
</tr>
<tr>
<td>9.</td>
<td>65</td>
<td>California Intercontinental University</td>
</tr>
<tr>
<td><strong>Hybrid universities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>1</td>
<td>National University</td>
</tr>
<tr>
<td>2.</td>
<td>2</td>
<td>Southern New Hampshire University</td>
</tr>
<tr>
<td>3.</td>
<td>3</td>
<td>Golden Gate University</td>
</tr>
<tr>
<td>4.</td>
<td>4</td>
<td>Regent University</td>
</tr>
<tr>
<td>5.</td>
<td>5</td>
<td>Colorado State University</td>
</tr>
<tr>
<td>6.</td>
<td>6</td>
<td>Saint Leo University</td>
</tr>
<tr>
<td>7.</td>
<td>7</td>
<td>Colorado Technical University</td>
</tr>
</tbody>
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In this paper, we investigate what makes the online higher education industry different from the traditional face-to-face (F2F) higher education industry and why it is so successful in being able to draw its clientele. The business model is the first such factor that we discuss in depth.

THEORETICAL FRAMEWORK & PROPOSITIONS

Figure 1 below presents our proposed theoretical model on the factors that drive external resource acquisition in the online higher education industry. In the following section, we will discuss in detail each of the three proposed alternative drivers of external resource acquisition that ultimately lead to organizational survival and growth. In order to better explain the proposed alternative route to resource acquisition, we present a comparative analysis of the traditional and the online higher education business model and modes of operation in Table 2 below. In doing so, we seek to highlight the idiosyncratic nature of the online higher education industry and why the established NIT argument on legitimacy does not necessarily explain the emergence and success of U.S. online higher education institutions.

Innovative business model

A business model depicts the design of transaction content, structure, and governance so as to create value through the exploitation of business opportunities (Amit & Zott, 2001). Amit and Zott (2001) proposed that a firm’s business model is an important locus of innovation and a crucial source of value creation for the firm and its suppliers, partners, and customers. McGrath (2010) identifies core business model components as the “unit of business” – the product/service that actually appears on the invoice, and its “key metrics” - the efficiency/effectiveness with which resources are deployed to create process/operational advantages. She elaborates how the variety of conceivable business units has expanded to include advertising, “freemium” (McGrath, 2010); barter and other non-sale models, and notes how key metrics may vary too. In this paper we identify ten important discrete dimensions of the business model employed by the online higher education industry: the ownership and objectives of the firms and compare them among the online, traditional F2F teaching, and the hybrid universities. Table 2 presents the comparison below:
Table 2

Dimensions of an innovative business model used in online higher education industry

<table>
<thead>
<tr>
<th>#</th>
<th>Dimensions</th>
<th>Online universities</th>
<th>Traditional universities (F2F teaching)</th>
<th>Hybrid universities³</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ownership &amp; objectives</td>
<td>• Owned by private business groups</td>
<td>• Many are owned by government; few are private</td>
<td>• Could be owned by either private business groups or by government</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Objective: For-profit</td>
<td>• Objectives: Not-for-profit &amp; For-profit; religious; military; trade-specific</td>
<td>• Objective: Mostly Not-for-profit</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>• Most of them are extension of traditional and reputed F2F schools into online</td>
</tr>
<tr>
<td>2</td>
<td>Method of operation</td>
<td>• Online classes &amp; exams</td>
<td>• Classroom interaction, physical presence</td>
<td>• Mix of both online and traditional classroom sessions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Some require participation in few classroom sessions</td>
<td>• May need participation in online classes</td>
<td>• Exams could be conducted online or in classroom settings</td>
</tr>
<tr>
<td>3</td>
<td>Location &amp; operating area</td>
<td>• Mostly located in big cities &amp; metropolitan areas</td>
<td>• Located across the length &amp; breadth of the country but serve local students</td>
<td>• Located across the length &amp; breadth of the country but not only serve local students but students living not-so-close to the cities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Enrolled students could be located anywhere in the world</td>
<td>• Serve international students also; they need to be located in town during study</td>
<td>• Also serve international students, who are likely to be taking other traditional F2F courses as well from the same university</td>
</tr>
<tr>
<td>4</td>
<td>Admission criteria</td>
<td>• Open enrollment: high-school diploma, GED, or its equivalent</td>
<td>• Most need high GPA, competitive exam test scores, language test scores</td>
<td>• Most schools need high to average GPA, competitive exam test scores, language test scores</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Students can join any time of the year</td>
<td>• Admissions in Fall, Spring or Summer</td>
<td>• Admissions in Fall, Spring or Summer since these courses are conducted by reputed F2F universities, who do not relax the admission criteria much</td>
</tr>
<tr>
<td>5</td>
<td>Course offerings</td>
<td>• Mostly Certificate,</td>
<td>• Full-time/part-time courses</td>
<td>• Both full-time and part-time course</td>
</tr>
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</table>

95409
<table>
<thead>
<tr>
<th>#</th>
<th>Dimensions</th>
<th>Online universities</th>
<th>Traditional universities (F2F teaching)</th>
<th>Hybrid universities³</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Associate’s, Bachelor’s degree courses</td>
<td>• Available at all levels</td>
<td>Available at mostly Bachelor’s and master’s levels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Have high demand from practitioners</td>
<td>• Various academic streams like art &amp; humanities, science, engineering, business, math &amp; medicine</td>
<td>Various academic streams like humanities, science, engineering, business, math</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Few Master’s &amp; Doctoral degree courses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Fees &amp; Expenses *</td>
<td>• Almost half of traditional education (approx 4–yr online costs $65,000) *</td>
<td>• Almost double of online (median 4 –yr private college costs $150,000) *</td>
<td>Costs are in between the two extremes</td>
</tr>
<tr>
<td>7</td>
<td>Supporting technology infrastructure</td>
<td>• Use technical courseware software that provides 24*7 access, e.g. streaming audio &amp; video, push technology &amp; channels, NetMeeting, Web whiteboarding</td>
<td>• Most courses use common online tools like WebCT (Blackboard) &amp; Tegrity for video</td>
<td>They make use of all technical advantages of online only universities - use all courseware software that provides 24*7 access</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Additionally emails &amp; chat, but usage may vary</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Faculty staffing</td>
<td>• Very few full-time faculty on rolls</td>
<td>• Number of dedicated full-time faculty for each course/subject/research area</td>
<td>They make use of all advantages of F2F traditional universities – have number of dedicated full time faculty for each course/subject/research area and may have faculty teaching online courses only</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Managed by part-time faculty with many industry certifications &amp; lot of work experience</td>
<td>• Few adjunct &amp; visiting faculty as well</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Assessment of students by faculty</td>
<td>• Most courses have all exams online</td>
<td>• Courses follow traditional semester system: mid-term &amp; final exam</td>
<td>Courses follow traditional semester system: mid-term &amp; final exam</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Have number of exams every week</td>
<td>• Some courses have quizzes &amp; papers</td>
<td>Some courses have quizzes &amp; papers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Students are constantly evaluated &amp; told how they are faring</td>
<td>• Feedback to students is limited</td>
<td>Feedback to students is limited to some degree but more than the traditional F2F settings</td>
</tr>
<tr>
<td>10</td>
<td>Student evaluations</td>
<td>• Students evaluate every</td>
<td>• Students are too lazy, unconcerned or</td>
<td>Students evaluate their education more</td>
</tr>
</tbody>
</table>

95410
<table>
<thead>
<tr>
<th>#</th>
<th>Dimensions</th>
<th>Online universities</th>
<th>Traditional universities (F2F teaching)</th>
<th>Hybrid universities⁵</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>afraid to indicate their true evaluation</td>
<td>carefully than in traditional F2F schools</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Course improvement is not prompt: professors do not know what the students want</td>
<td>● Students evaluate the flexibility of schedules seriously</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>● Students give honest feedback</td>
<td>● Students give honest feedback</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>● Course improvement is prompt since not much administrative overheads are required for changing the course structure</td>
</tr>
<tr>
<td></td>
<td></td>
<td>aspect of their education very carefully</td>
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<td>● Students evaluate the flexibility of schedules seriously</td>
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<td>● Students give honest feedback</td>
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**Notes** ⁷ As per USA Today article published, in 2009 (Stern, 2009)

⁴ Cost of a four-year college degree at Kaplan, in 2009

⁵ Average costs at out-of-state rates at a private college in 2009. Average fees per year for a 4-year college are $7,020 at in-state rates and $18,548 at out-of-state rates, at public universities in 2011 (CUNY, 2011; TheCollegeBoard, 2011)

⁶ Hybrid universities offer both traditional F2F teaching as well as online education.

Considering the differences on all dimensions, we argue that online higher education industry has been able to establish a clearly identifiable innovative business model that specifically caters to their clientele exceptionally well. It is our basic premise that the innovative business model of the online higher education industry, along with its emphasis on specialized target market are largely responsible for having a high demand for online courses in these universities. We propose that the online higher education industry is significantly different from the traditional face-to-face college/university education. The early entrants in the university (e.g., University of Phoenix) have a clear first-mover advantage which has given it an enviable lead and it is thus able to perform well, even without the traditional requirements of external legitimacy, as is predicted by the traditional NIT. Our proposed theoretical model is presented in Figure 1 below.
Figure 1

A model of institutional resource acquisition for U.S. online higher education industry
(a) currently (b) in the future

(a) Innovative Business Model
- Ownership
- Method of operation
- Location
- Admission criteria
- Course offerings
- Fees & Expenses
- Technology platform
- Faculty staffing
- Assessments
- Student evaluations

Specialized Target Market

First-mover Status

Degree of Resource Acquisition

Firm Growth and Survival

(b) External Legitimacy

Degree of Resource Acquisition

Firm Growth and Survival

We argue that the success of the online higher education industry could be partly traced to its innovative business model that has evolved over time. More specifically, we propose that the online higher education industry is able to succeed because of its highly innovative business model, which affects its ability to get resources and is also able to draw its clientele. Therefore, we propose that:
Proposition 1 (P1): The development of an innovative business model is positively related to the degree of resource acquisition in the online higher education industry, which is currently in its growth phase.

Specialized target market

Another major contributor to the success of the online industry is the specialized target market whose demands can be met perfectly with online education. The majority of customers of online education are people who have full-time jobs and cannot take break from work to study full-time classes. They have a desire to learn and enrich their own skills and are mostly technology-savvy young people, who are generally very flexible with their schedules over the evenings & weekends. Most of them have the money required for studies but some of them also borrow from the Federal and States and are willing to spend money for a flexible education, primarily with the aim of getting promotions in their existing jobs. In comparison, for the traditional face-to-face education industry, the customers belong to various age groups; some may have minimal work experience, some may have full-time or part-time or even enroll in distance education. Most students agree to adjust their schedules to class’ timings only during the week (they do not want to attend classes over the weekend) and ultimately the traditional students would use education to get new/better jobs. Technology is not necessarily a key factor in the traditional education delivery or even in assimilation of the learning material. Thus our second proposition highlights the role of the specialized target market in the online higher education industry:

Proposition 2 (P2): The exploitation of a specialized target market is positively related to the degree of resource acquisition in the online higher education industry, which is currently in its growth phase.

First-mover status

In Economics, Marketing and Strategy literatures, the advantages arising out of a first-mover status have been demonstrated to arise from three primary sources (Kerin, Varadarajan, & Peterson, 1992; Lieberman & Montgomery, 1988; Miller, Gartner, & Wilson, 1989). The first of the three is technological leadership. A firm can gain enjoy technological advantage if it can develops or acquire a breakthrough technological support system. A learning curve would provide sustainable cost advantage for the early entrant if learning can be kept proprietary and the firm can maintain leadership in market share. The second is due to the ability to preempt the inputs. If the first-mover firm has superior information, it may be able to purchase assets at market prices below those that will prevail later in the evolution of the market. First-mover can establish positions in geographic or product space such that latecomers find it unprofitable to occupy the interstices (Makadok, 1998). Entry is repelled through the threat of price warfare, which is more intense when firms are positioned more closely. Incumbent commitment is provided through sunken investment cost. Preemptive investment in plant and equipment, the enlarged capacity of the incumbent serves as a commitment to maintain greater output following entry, with price cuts threatened to make entrants unprofitable. When scale economies are large, first-mover advantages are typically enhanced. Finally, increasing the switching costs is the third source of advantage. Late entrants must invest extra resources to attract customers away from the first-mover firm. Since they make their choice under uncertainty, buyers may rationally stick
with the first brand they encounter that performs the job satisfactorily (Gomez & Maicas, 2011). For individual customers benefits of finding a superior brand are seldom great enough to justify the additional search costs that must be incurred. It can pay off for corporate buyers since they purchase in large amounts. If the pioneer is able to achieve significant consumer trial, it can define the attributes that are perceived as important within a product category (Makadok, 1998; Gomez & Maicas, 2011).

Based on the above extant literature streams, we define first-mover advantage in terms of the ability of pioneering firms to earn positive economic profits (profits in excess of the cost of capital) (Lieberman & Montgomery, 1988). Drawing from the advantages of a first-mover established in the strategy and marketing literature, we propose that being a first-mover within the online higher education industry would give the firm a better opportunity to access critical resources. It would be exemplified with the case of University of Phoenix, which was one of the early movers to begin offering online-only education but has now shifted to a hybrid form. Thus, we propose that:

**Proposition 3 (P3):** First-mover status is positively related to the degree of resource acquisition in the online higher education industry, which is currently in its growth phase.

Drawing upon the arguments of population ecology and density dependence (Carroll & Hannan, 1989), we suggest that the since the online higher education industry is currently in its rapid-growth lifecycle stage, and due to the innovative business model employed, most players are able to get away without the need for external legitimacy now. With time, due to entry of more competitors, especially those from online schools of established and reputed traditional schools, the industry would reach maturity phase, when the established traditional model of external legitimacy would again become the most important problem for new entrants to the industry. Even existing players would be forced to opt for independent certifications in order to have legitimacy. Therefore we propose that:

**Proposition 4 (P4):** Once the online higher education industry reaches its maturity phase in the future, due to increased competition from hybrid universities external legitimacy would be positively related to the degree of resource acquisition.

The paper challenges the existing tenets of the established institutional paradigm by arguing that in certain industries (like the online higher education industry) that have managed to develop an innovative business model which caters fully to their clientele’s needs, and under their current rapid-growth lifecycle stage, external legitimacy is not the most important problem for most new entrants, who can easily enter and begin their business. The paper also suggests that with time, however, the advantage of the first-movers in this industry will disappear and due to increasing competition, as predicted by the density dependence model in the population ecology paradigm, the traditional model will apply and existing players and new entrants would have to focus on external legitimacy, in order to acquire the resources and survive and grow.
DISCUSSION AND CONCLUSION

The popular business press routinely paints a gloomy picture of the online education industry in the US, although the industry continues to grow by leaps and bounds. It is widely acknowledged that there are major advantages of having an online education – the primary reason being the cost advantage (Stern, 2009). Other major advantages include high level of flexibility in working/reading schedules with online education, and the all-encompassing nature of online higher education industry (unlike the hyper exclusivity of the Ivy league schools, where vast majority of the population would not qualify, even if they wanted to study). Although many pursue online education because of its convenience and flexibility, there are a number of often-cited criticisms against the for-profit online higher education industry. First, tuition at for-profit universities is approximately 5-6 times more expensive than that of community colleges, and as much as twice as expensive as that of an in-state public university. Second, if debt-burdened students are allowed to default on federally guaranteed student loans, taxpayers wind up picking up the tab. As per the Department of Education's recently released data on student loan repayment rates at colleges and universities in the U.S. in 2009, repayment rates were 36% at for-profit institutions. Third, there is still a major criticism on its value in the "real world". Although students put in the time and money to complete their studies, many companies in the real world do not see a degree from an online university as equivalent to a degree from a traditional institution. Finally, a controversial topic regarding for-profit education is the admissions process - each admitted student is viewed as a "revenue stream" at for-profit universities (Stern, 2009).

From a research perspective, the extant literature on NIT has elaborately investigated how organizations react on their own to isomorphic pressures and strive to obtain external legitimacy, which has been demonstrated to help firms obtain various types of resources including land, labor and capital that are needed for a firm to survive and grow. Literature has also elaborately investigated when and how these isomorphic pressures force organizations to react (Haunschild & Miner, 1997; Lounsbury, 2001; Pollock & Rindova, 2003; Sherer & Lee, 2002; Singh et al., 1986; Suddaby & Greenwood, 2005; Tolbert & Zucker, 1983). This paper takes a first conceptual step to explore the boundary conditions for the key arguments of NIT, arguing that the above predictions of external legitimacy may not be the most important problem for a new industry entrant. Using the online higher education industry as an example, the paper suggests that although the basic predictions of NIT would apply in the long run, they do not currently apply. It suggests that there are boundary conditions of industry type and lifecycle stage, which are additional factors that affect the relationships that have been established in the NIT predictions. Specifically, we proposed that, first, the online higher education industry has employed a radical and innovative business model that serves the needs of its clientele very well and consequently became a robust source of critical resources. Second, the industry is currently in its stage of rapid-growth which has offered a number of advantages. Third, using the density dependence predictions from the population ecology paradigm, the paper posits that the proposed different model applicable currently for this industry is transitory and soon the traditional model will again apply, once the industry’s lifecycle stage reaches maturity. Hence external accreditation agencies such as the AACSB certification of the degree processes for traditional face-to-face colleges/universities, is likely to become important in the future. We’ve also argued that there are boundary conditions in the predictions of NIT and external legitimacy may not
necessarily be the major issue for new entrants, depending upon the peculiarity of the industry and its lifecycle stage, thereby contributing to the institutional theory literature.

Neo-Institutional Theory emphasizes the important need for institutional legitimacy as it is considered crucial for securing resources that ensures organizational survival and growth especially in smaller and younger firms. In this paper, we explored boundary conditions of the theory using the case of U.S. online higher education industry as the research background. Specifically, we proposed that three important factors-the presence of a specialized target market, innovative business model and first mover advantage- facilitated, more than external legitimacy, the acquisition of mission-critical resources in the online higher education industry.
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