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Quad 136

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Starbucks and MOOCs: A Natural Experiment



Massive Open Online Courses (MOOCs) have gotten lots of press in recent years. *The New York Times* boldly (and foolishly) declared 2012 “**The Year of the MOOC.**”

A recent *Economist* **cover story** touted the “creative destruction” they will bring.

The only problem with all this hype is that it has not only been slow to come to pass but the MOOC model has seen **significant set-backs**. Student engagement and performance in MOOCs has been very disappointing and some of the early market leaders have moved away from this educational

market. Sebastian Thrun, the Stanford professor who founded Udacity, said in a **recent interview**, ““We were on the front pages of newspapers and magazines, and at the same time, I was realizing, we don’t educate people as others wished, or as I wished. We have a lousy product.”

At the risk of simplifying a complicated model in the even more complicated business of higher education, MOOCs have three major challenges that have not been overcome to date:

1. **The Quality of the Education.** As any educator or even parent knows, it takes more than just a great lecturer to provide an excellent education. The MOOC model, at its most basic, is to get a great (and often famous) professor and a good internet connection and let the educational magic happen. It just does not work that way. While lots of students may sign up, **very few persist in their completion of course**—10% is a common number. Furthermore, those who stay in the classes do not necessarily have successful outcomes. In something of a controlled experiment at San Jose State University, noted above, researchers found that online learners in introductory classes like statistics did less well than those in traditional classrooms. So in terms of educational outcomes, MOOCs have a very long way to go.
2. **The Business Model.** Like the publishing industry before them, online education had struggled to make the economic model work. Lots of courses are available, but getting individuals to pay for them is much harder. One of the early entrants in the market, Udacity, has moved away from online courses for undergraduate in traditional academic disciplines “in favor of more vocational-focused learning.” Even a single internet professor requires technological backup and some compensation. It is not yet clear who will pay those costs.

- 3. The Credential Problem.** The third challenge is getting the marketplace to accept the online credential. Education is, in important ways, about **signaling**—a degree from Yale or Saint John’s University says something about the degree holder—intelligence, persistence, character, etc. It is not yet clear what an online degree signals and therefore employers and grad schools are not yet willing to take a chance on the online credentialed applicant when the traditional applicant has a degree from a known entity. This could change, but the quality of the education has to improve, as noted above, and the relative importance of the non-classroom experience has to be considered. Even if the online classroom could perfectly replicate the residential classroom, there may still be a significant advantage to having a residential experience. Will employers view online and residential education as close substitutes or different “products”?

Starbucks has recently announced a **new employee benefit** that might provide some interesting empirical evidence about the MOOC model. Starbucks has famously offered its employees health insurance for a number of years and now has added an educational plan to its generous benefits package. As they say on their website:

Starbucks believes in the promise and pursuit of the American Dream. This fall, we’re making it possible for thousands of part- and full-time U.S. partners to complete a college degree. In a first of its kind collaboration with Arizona State University, we’re offering partners the opportunity to finish their bachelor’s degree with full tuition reimbursement. Partners may choose from 40 undergraduate degree programs through ASU’s research driven and top-ranked program, delivered online.

So Starbucks has solved challenge #2, as least for ASU, by providing many thousands of paying students to the Sun Devils’ online program. What will be interesting to see is how the quality of the education online compares to that received by other Starbucks employees who pursue or pursued traditional bachelor’s degree, and whether the online credential will become accepted by employers in the market place.

One way to assess the quality will be to follow the career paths of these two different groups of employees. Will online degree recipients advance as fast within the Starbucks organization as those with residential degrees? Will outside organizations hire away online credentialed Starbucks employees as readily as those with traditional educational backgrounds? One anomalous outcome might be the ghettoization of online bachelor’s degree holders within Starbucks. If other firms do not readily accept the online credential, those who earned their degrees from ASU online might find the only organization who “recognizes” their bachelor’s degree is Starbucks. You’d have a fascinating example of job lock not caused by health insurance but by “credential” immobility.

An even more **troubling possibility**, if online educational quality does not turn out to be as high as students and Starbucks hope, is that online degree holders might be locked into working at Starbucks but not even able to move up in that organization because their online degree is perceived as inferior even by the organization that paid for it.

All fascinating stuff for economists and other social scientists who love these kinds of natural experiments and, in this case, educators, students and the public might learn some important things about MOOCs and the future of higher education.

By **Michael Hemesath** | August 11th, 2014 | Categories: **Economics, Higher Education** | **0 Comments**

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Michael Hemesath is the 13th president of Saint John's University. A 1981 SJU graduate, Hemesath is the first layperson appointed to a full presidential term at SJU. You can find him on Twitter [at] [PrezHemesath](#).