policy perspectives

TRENDS & BEST PRACTICES for

Education Management Organizations

by Guilbert C. Hentschke, Scot Oschman, & Lisa Snell

Education management organizations (EMOs) are largely for-profit firms that provide "whole-school operation" services to public school agencies. Since arriving on the public school scene a little more than a decade ago, they have grown despite a wide range of objections within the education profession.

Although nominally performing functions not unlike those of a school district, EMOs are usually structured as for-profit corporate entities, a fact that differentiates their structure and their internal operating performance from school districts. The forces fostering the current growth of EMOs lie less in the distinguishing features of EMOs, per se, than in the complementarities shared between EMOs on the one hand and the school districts and charter schools with whom they typically interact. The future growth of EMOs will be determined in part by the degree to which these complementarities will continue to be valued by a greater and greater proportion of the nation's approximately 15,000 school districts with 80,000-plus schools and the growing number of charter schools.

EMOs contract with school districts and charter-granting bodies to use tax money and venture capital to operate public schools.[1] EMOs range in size from the largest, Edison Schools, which operates more than 130 schools, to firms that operate single (largely charter) schools. Other relatively large EMOs that focus exclusively on public school operation include Mosaica Education, National Heritage Academies, Chancellor Beacon Academies, and Aspire Public Schools. Some EMOs, such as Nobel Learning Communities, own and operate private schools as well.

The growth of EMOs has paralleled the growth of charter schools. Charter schools can be viewed as the largest example of education outsourcing[2] with close to 2,700 individual contracts between charter schools and their government authorizers. Charter schools receive state funds but operate with varying degrees of autonomy from local school districts. According to the Center for Education Reform, there were 2,695 charter schools operating in the 2002–2003 school year, serving 684,495 students in 36 states and Washington DC, with another 84 schools approved to open for the 2003–2004 school year.

According to *Profiles of For-Profit Education Management Companies, Fifth Annual Report, 2002–2003,* more than 74 percent of all privately managed public schools profiled were charter schools. States, such as Arizona and Michigan, with the strongest charter school laws also have the most schools managed by for-profit companies, with those two states alone counting for 48 percent of all profiled EMO-managed schools. EMOs operate between 10 and 14 percent of all charter schools.[3] In 2002–2003, 47 companies operate 417 schools in 24 states and the District of Columbia.[4] Reliable data on the exact number are unavailable, and anecdotal reports of numerous one-school firms

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operating in some states, such as Michigan, would probably increase these estimates.

EMOs have become part of a longer-standing political contest between professional reformers (largely educationists) and radical reformers (largely business leaders and community activists) over what is wrong with public schooling and how to improve it. As a relatively new service option available to local education agencies, EMOs have been adopted so far in few settings, rejected in a few others, and not yet considered in many others.

This paper examines the interplay of EMOs in the context of contemporary American public schooling, and in so doing, seeks to understand their recent emergence and possible future. We begin by examining the forces that work against and for growth of EMOs. Next, we compare EMOs with public schools and school districts first by considering the comparative advantages of EMOs and then by examining the complementarities between EMOs and public schools and school districts. The uncertainties associated with each of these factors are considered jointly in the next section on conditions affecting future growth. In the final section, we outline the principal issues in contracting with EMOs because their value as a provider is determined largely through contractual agreements with public schools and districts. A sampler of EMOs is included at the end of the paper.

Note: Given the proliferation of businesses that provide various combinations of schooling services, EMOs are sometimes referred to as part of a broader group of "education service providers" or "ESPs."

Barriers to EMO Growth

EMOs will only grow as a function of demand in the market for the services they provide. Demand is influenced in part by arguments for and against contracting with EMOs. Arguments against consideration of EMOs tend to take on one or both of two general forms: loss of control over resources and "diversion" of public resources to the profits of business firms. In the first argument, contracting with an EMO usually removes control of financial resources, including staffing authority, from the discretion of local education officials. The credibility of this argument by itself is difficult to sustain publicly because simply retaining control bears little direct relationship to arguments about the present or future quality of educational services for children.

The second and more widely voiced argument against contracting with EMOs is associated with assumptions about the inherent motivation and suspected behavior of profit-seeking businesses. Specifically, this argument presumes that for-profit educational firms, per se, divert resources from services for kids to profits for corporations, especially for investors and senior management. This presumption, reinforced by many education writers, stems from a misunderstanding about the inherent nature of for-profit enterprises.

The general sentiment among these writers is that if for-profit firms are allowed to operate public schools, they will attempt to do so at the lowest possible cost in order to maximize profits and shareholder returns, and therefore will not maximize the educational experience of students. This anti-for-profit perspective presumes that corporations exist solely to make a profit and that in such a pursuit, firms will degrade the services and goods they seek to sell. From this perspective, the money the EMOs call profits on their balance sheets could be and should be funneled directly to classrooms — to educate children, not to enrich corporate officers and shareholders.

Alex Molnar, whose work is representative of this perspective, argues that if for-profit schools are able to educate children better than public schools and still turn a profit, public schools could be expected to observe and replicate their systems, thereby either offering the same quality of education at a lower price (as they would not

be required to earn a profit) or offering a more enriched educational experience for the same cost.[5]

Inasmuch as this is the case, those who eschew for-profits feel that EMOs, in the name of reducing costs, will turn away those students who are most expensive to educate, namely students who receive special educational services and/or who have severe emotional or behavioral problems. They feel that these students, the most difficult and challenging to educate, will become concentrated in schools where the public sector would inevitably be left with fewer resources to educate them, thereby mitigating any sense of competition.[6]

This argument against for-profits misconstrues the role of incentives in reducing costs and improving services. Although it is true that a desire to make profits gives for-profit firms an incentive to spend less on services, that same desire also gives them an incentive to attract and retain customers by providing services better than (or different from) those of their competitors. In the long run, efficiencies through innovation trump cost cutting. Public school administrators do not share the same incentives. Because the people living in their districts are required to pay for the public schools, the cost savings that opponents of for-profit educational firms believe should not go to corporations — or to the innovations produced by competition — are also likely to be unavailable to public officials not in partnership with for-profit firms.

Forces Favoring the Growth of EMOs

Despite these arguments against and perceptions about EMOs shared by many educationists, EMOs have grown steadily — in the sizes of individual firms, in the number of firms, in the number of schools operated by these firms, and in the number of children attending schools operated by these firms. Future growth, however, is not assured nor should it be assumed.

On the surface, without considering the context of their origins and growth, EMOs could be considered an innovation in public schooling or, per the anti-EMO arguments above, a corporate foray into the market of public schooling. Viewed within the context of broader, deeper trends in education, however, the emergence and growth of EMOs is a natural, perhaps even inevitable evolution in the delivery of public schooling. Among these complementary and overlapping supportive trends, five stand out.

1. History of Special-Education Outsourcing

Public agency *contracting with businesses to provide comprehensive educational services to students is not new* and has grown along with the administrative complexity of special education service provision. School districts routinely have contracted with for-profit firms to provide educational services to students with special learning and behavioral needs. Technically different from today's EMOs, these contract relationships are typically based on services for individual students, as distinct from whole-school operation. Although the firm operates the entire school (not unlike an EMO), it typically owns the school and contracts with multiple school districts, which then send their students to the school. (See, for example, growth in the numbers of schools operated and children served by California-based Aspen Education Group or New Jersey-based KIDS 1, Inc.).[7]

2. Growth in Accountability Policies

In the pursuit of increased student performance, emerging *state-level accountability policies* have implicitly opened the door for school districts to consider different kinds of service provision by a wider variety of providers, including EMOs. State officials have begun to realize that it is not logical to specify the precise details of school operation and then, when school districts comply with those rules, also hold them responsible when students do not learn. As a consequence, over the last several decades, school reform policies have de-emphasized compliance with procedures as a means of monitoring public schools, while instead increasing emphasis on outcomes or student learning. School districts are under increasing pressure (via rewards and sanctions) to improve student performance, and they have more freedom to experiment with new and different ways to achieve that end. EMOs are an option available for districts to consider as they confront their newfound freedom and responsibility.

3. Increasing Reliance on Choice

EMOs represent a choice on the provider side to complement *greater reliance on choice* on the consumer side of public schooling. Reliance on choice or student market behavior has grown over the last 40 years of public schooling. Residential choice, of course, has formed the core choice mechanism in U.S. public schooling. Subsequently, magnet programs and alternative schooling, followed by full intra-district and inter-district choice plans, have been developed during the last 20 years. Based on some estimates, nearly 60 percent of the distribution

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of the student population is the result of some form of school-related choice. In fact, a new study by the National Center for Education Statistics found that between 1993 and 1999, the percentage of children attending "assigned" public schools dropped from 80 to 76 percent.[8]

More telling is the percentage of children from poor families attending assigned schools; it fell from 83 to 74 percent. Three percent of the rise of children in "chosen schools" was the result of children in charters and magnets, which increased from 11 to 14 percent. Compared to parents whose kids are in traditional public schools, parents of children in "chosen" public schools are more likely to say they are "very satisfied" with teacher quality, academic standards, order and discipline, and overall school quality. Collectively, these changes acknowledge both that all schools are not equal from the perspective of families and, further, that schools do not all necessarily need to be structured and operated in identical ways.

4. Growth of School Outsourcing

Growing out of the first three trends, school districts are adding contracting of whole-school operation to the array of strategies available to them in *district reform agendas.* Contracting, per se, is not as novel as are the two primary motivations that are causing school districts to contract for the operation of schools. The first is to turn around the performance of the lowest-performing schools in the district (and, in a few cases, in the state). In these instances, EMOs are typically invited in after all other politically feasible remedies to improve a failing school have been exhausted.

The second motivation is to select an EMO to open a new school because it provides a significantly different, high-quality "option" to other existing schools. Beyond the idea of "option" is the idea of "exemplar," which goads improvements in other schools in the district, making it part of an overall reform strategy. For example, in the Philadelphia school outsourcing experiment, the school district quickly adopted Edison-style benchmark labs where second through eighth graders go each month to answer reading, math, and language arts questions geared to the Pennsylvania System of School Assessment, for the district's 21 restructured schools.[9]

5. Charter School Growth

Legislation authorizing *charter schools has indirectly spawned the growth of EMOs.* Just as school districts can now contract with EMOs, so can individual charter schools. The motivations for charter school founders to contract for EMO operation of a school, however, differ from those of school districts. While charter school founders often have a specific educational focus, they sometimes lack the expertise and experience necessary to create a business plan, address all necessary elements in a charter proposal, seek financing, and start a school from scratch. The expertise of an EMO in these areas complements the necessary local community knowledge of the founders.

To the extent that these forces continue to grow, they are likely to "drag along" growth in EMOs. They do not, however, fully explain the inherent value of EMOs to those contracting with them. Those factors, inherent features distinguishing EMOs from school districts and charter schools, are comparative advantages of EMOs.

Comparative Advantages of EMOs

At least six factors usually distinguish EMOs from many school districts and charter schools. These factors are inherent in EMOs as for-profit enterprises seeking contracts with public agencies.

Access to Capital for Research and Development

Money allows schools to change everything they are doing, from curriculum to technology, training, and student assessment. These types of changes do not come without a price tag, and public schools just do not have the funding available to make sweeping changes like this. Presumably, for-profit school management companies can bring money and organization to the table in the form of venture capital, be it from the sale of stock, from senior management, from a venture-capital firm, or, as in the case of Edison Schools, from philanthropic individuals such as Gap founders Donald and Doris Fisher.[10] This money can be used to fund research and development (R&D) of, for example, "rich, compelling curriculum systems, powerful professional development, easy to use and renewable technologies, accessible, comprehensive information systems, and competitive lobbying systems."[11]

Access to capital comes with its own burdens, however, in the form of pressure from investors for efficiencies and growth. For-profit firms do not survive for long if they do not please their customers and their shareholders. An EMO operates under a contract with a school district or another agency, and its contract will not be renewed if it does not fulfill its obligations. Similarly, investors want to see that their money is being used wisely and will require that the EMO operate efficiently as a stipulation for receiving funds. These pressures are the market forces that drive efficiencies in capital markets and ensure better products.

Incentives to Invest in R&D

One of the biggest differences between publicly run schools and for-profit school management companies is the ability and incentive to invest in R&D. Public-sector investment in education R&D, although difficult to estimate, is about .03 percent of its overall budget, while for-profit firms often spend on average 100 times that percentage. Most of the R&D undertaken to improve public schooling is done by academics in universities and other nonprofit and for-profit research firms, rather than those running schools directly. In contrast and in reference to Edison Schools' R&D investment in schooling, "R&D is a powerful tool in the private sector for innovation and for maintaining competitive advantage." Without R&D, public education cannot hope to understand or improve its practices.[12]

Given the opportunity, for-profit firms would invest in R&D in order to integrate all elements that contribute to student achievement, including curriculum, instruction, assessment, professional development, and technology. It could also address areas that have not been looked at in this way before, including management systems, compensation plans, and school organization. In these ways, corporate investment can help advance the implementation of comprehensive school reform, something that public schools have not been able to do successfully.

One example of corporate R&D efforts at Edison Schools[13] is to create a model of e-services for small school districts that would enable those districts to purchase Edison's management systems, information and testing platform, and professional-development platform while maintaining the responsibility for implementing these systems and for the ongoing management of their schools. Presumably, this would allow smaller school districts to share in the economies of scale achieved by a large corporation and to directly benefit from the previous R&D expenditures made by Edison. Edison could recapture this R&D investment through sales to a large number of small districts, a factor that would typically not enter into the R&D calculus of one of those districts, even if it had the requisite free capital.

Efficiencies and Effectiveness Resulting From Scale

Because of their incentives to innovate, private businesses can make more effective use of scale than public schools. In essence, the model of any successful business is to produce quality products and services at reasonable prices or be forced out of business. This pressure is not the same with public schools. Most public districts are either too small or too large — too small to afford the kinds of administrative support they need or so large that they become bogged down by their own bureaucracy. Yet even the largest school districts lack the scale of a large corporation. Were such a corporation to exist within education, it could bring with it resources that could be used to build whatever support systems are necessary to make their schools run better. To date, the largest EMOs (and their market shares) have not grown to a size characteristic of the largest firms in many other industries, so this particular advantage is not as obvious or pronounced.

Curricular, Instructional, and Programmatic Diversity

Each EMO seeks to create a distinctive brand with which it can distinguish itself from other competitors and highlight the values of its unique model to school districts and charter schools. Because each EMO seeks to distinguish itself through relentless focus on its unique brand, the collection of multiple EMOs brings diversity to contractors, such as school districts. (The programmatic offerings of most school districts on the other hand, with pressures to provide everything to everyone, are relatively indistinguishable from one another.) The freedom and incentives of EMOs to provide distinctive instructional programs, employee contracts, and the like, yield collective diversity among EMOs, even though every school run by a particular EMO may be quite similar.

Despite these branding incentives, EMOs generally promise improved test scores, longer school days and years, cleaner schools, a back-to-basics curriculum, an emphasis on technology, and a larger role for parents in their children's education than is typically the case in nearby public schools.[14] These can be strong incentives for parents in areas where schools are typically low-performing. EMOs also offer merit-based employment contracts for teachers and administrators, with the intention of retaining only those teachers and administrators who perform well. The lowest-performing public schools tend to have teachers who are not credentialed, and the turnover rate is generally high. Bringing in motivated teachers who are serious about their work also provides a strong incentive for parents to send their children to EMO-managed schools when they come to believe that these changes are, in fact, taking place.

Internal Control

The senior managers of EMOs have more control over the internal operations of the schools they manage than do senior managers in school districts. Henry Levin, director of the National Center for the Study of Privatization in Education at Columbia University's Teachers College, sees the largest differences between school districts and EMOs in personnel practices, professional development, and managerial practices. In terms of personnel practices, EMOs have wider latitude in hiring, compensation, and deployment of teaching and support staff. They can, for example, hire for fixed terms and renew contracts only for those teachers judged to be effective, something public schools cannot do as freely. They also have the ability to utilize merit-based pay, paying more to teachers with specialized knowledge and opening up more career options to effective teachers.[15]

Incentives to Improve Student Performance

Because of the incentives that EMOs face to satisfy customers (parents and any school district or charter school they contract with), EMOs aggressively pursue performance. In most instances, that involves student academic performance, parental satisfaction, and financial management. Given the current vagaries of state-level standards and achievement tests and disputes over appropriate comparison groups, EMO schools appear on average to be doing as well as or slightly better than non-EMO schools at delivering improvements in student achievement, depending on whose data and interpretations are considered.[16]

EMOs claim to do at least as good as and often a better job than public schools at educating children, as measured by criterion-referenced and norm-referenced tests. Edison Schools claims in its October 2001 *Fourth Annual Report on School Performance* that 84 percent of its schools are performing at higher levels now than when they opened (i.e., higher than when they were run by the public school district).[17] For example, Edison Schools' most recent scores out of New York illustrate this point. Edison schools consistently outperformed, *in terms of gains,* the districts where they are located.

Among Edison's top performing New York schools, Riverhead Charter School fourth graders achieved a 19 percent one-year gain versus a 9 percent gain by the Riverhead School District. Stepping Stone Academy Charter School fourth graders achieved a 12 percent one-year gain, and Charter School for Applied Technologies achieved an 8 percent one-year gain versus unchanged scores in the Buffalo City School District. New Covenant Charter School fourth graders made a 25 percent one-year gain versus a decline of 2 percent by the Albany City School District. Finally, the Charter School of Science & Technology in Rochester posted gains of 21 percent at grade 4 and 16 percent at grade 8 — exceptional considering the declines shown by the Rochester City School District of 4 percent and 1 percent at grades 4 and 8, respectively.[18]

Because of the incentives that EMOs face to satisfy customers, EMOs aggressively pursue performance.

Levin thinks Edison and other EMOs might have a slight advantage over similar public schools in terms of standardized test scores, but he points out that it's still too early to make sweeping comparisons.[19] And one has to question how effective standardized tests are at proving the merit of a school.[20] Even though standardized tests seem to be the latest fad in determining school effectiveness in the past few years, there are certainly other metrics one can examine — for example, parental satisfaction. Edison's annual report claims that 87 percent of their students' parents rated Edison with an "A" or a "B," with "A" being the most popular grade.[21] Comparable data for adjacent schools are unavailable.

EMO Complementarities With School Districts

The comparative advantages generally attributable to EMOs derive from the combination of their structure as for-profit enterprises and their position as service providers in (publicly funded) K–12 education. The comparative advantages upon which they can capitalize, however, should not be construed as providing them with a competitive advantage over school districts or charter schools. Most EMOs depend on school districts and charter schools for their business. Despite claims to the contrary, EMOs function as operating manifestations of the philosophy of the school districts and charter schools they serve, not as their competitors. The comparative advantages of EMOs, discussed above, serve instead as complements to the comparative advantages enjoyed by school districts and charter schools, including, but not limited to, knowledge of the community and its students, public funding, and ultimate control.

School districts and charter schools bring a level of deep knowledge of the children, parents, and other members of a community — their backgrounds, cultures, and aspirations — that EMOs (especially multi-school EMOs) can never hope to fully match. The growing emphasis by state and federal education policymakers on uniformly high curriculum and performance standards will be played out in the idiosyncrasies and particularities of communities and neighborhoods. Because senior officers of school districts and charter schools reflect — indeed, are a part of — these local entities, they are in a position to understand and to reflect local aspirations for schooling.

As agents of the public, school districts and charter schools receive and allocate public financial resources for K–12 schooling. In this capacity, they are the source of funding for EMOs. Ultimately, school districts and charter schools control their relationships with EMOs. They may decide to exercise their rights within the regulatory environment of their state to enter into contractual relationships with EMOs, and they may exercise their rights within the stipulations of those contracts to terminate those relationships. If an EMO is not living up to its promises, it will not survive past the term of its contract, and possibly not even that long if there is sufficient reason to terminate the contract.

The complementarities shared between EMOs and school districts are a key component in determining the long-term viability of EMOs. EMOs do not wish to remove school districts from the equation, but they feel that they can offer certain things that school districts by themselves cannot. In return, school districts supply pieces of the puzzle that EMOs cannot, and together under certain circumstances, the two can bring services on line that are more beneficial to students than a system without EMOs.

Conditions Affecting the Future Growth of EMOs

Neither the forces affecting EMO growth nor their comparative advantages vis-à-vis contractors fully portray the uncertainty surrounding their future. The fact that within a decade more than 400 schools (of

Table 1: Number of U.S. Charter Schools in Operation by Year

School Year	'92–93	'93–94	'94–95	'95–96	'96–97	'97–98	'98–99	'99–'00	'00–01	Sept. '01
Number of Charter Schools	2	34	101	255	433	721	1,122	1,484	2,118	2,372
Percentage Increase	-	+1600%	+197%	+152%	+70%	+67%	+56%	+32%	+43%	+12%

Source for 1992–99: U.S. Department of Education, *National Study of Charter Schools, Fourth Year Report.*
Source for 1999–2001: Center for Education Reform, http://edreform.com/education_reform_resources/business_industry.htm.

80,000-plus public schools) in the United States are operated by EMOs does not, by itself, suggest continued growth at this rate. Aside from some consolidation,[22] the vast majority of the larger EMOs continue to report annual growth in the number of schools they operate and children they serve. Changing conditions can significantly alter these historic growth rates. Consider, for example, one condition favoring growth, No Child Left Behind, and one mitigating growth, declining growth in charter schools.

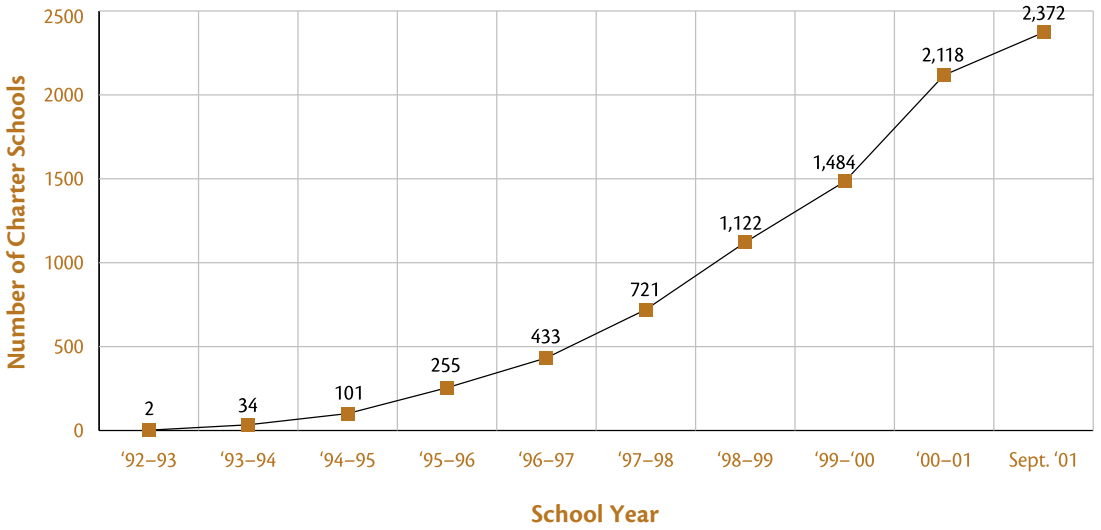
One likely consequence of the federal No Child Left Behind (NCLB) Act is more schools being managed by EMOs. NCLB permits students in failing public schools to transfer to better public schools. However, many school districts with failing schools do not have adequate space to comply with the NCLB transfer requirements. The NCLB Act recognizes reconstitution as a charter school, private management of public schools, and school voucher programs as acceptable options to transferring students to better public schools.

According to the Education Commission of the States, only 12 states are on track to comply with even half of the major federal requirements in NCLB. Only 25 states are ready to offer transfers, which were to have begun last fall in the 48 states with under-performing schools. Only five states — California, Hawaii, Kansas, Montana, and Ohio — have developed policies by which students in "persistently dangerous schools" can transfer to another school.[23] States were required to begin allowing the transfers in fall 2002. There are more than 8,600 failing schools currently listed by the U.S. Department of Education, and this number will likely continue to grow as schools face tougher accountability requirements.[24]

On the downside, declines in the future growth of charter schools would likely slow the growth of EMOs contracting with charter schools (presuming a constant rate of charters outsourcing to EMOs). How likely is this? A typical way to frame the question of future growth is to ask where charter schools are today on the classic "S curve" trend line: slow incubation, followed by rapid growth, followed by slowing growth, and followed by no growth. Not unlike the classic "bell curve" that appears to describe many different kinds of phenomena, the S curve is often relied on to try to understand past, present, and future growth of phenomena, including charter schools. Based on year-over-year changes in numbers of charter schools (see Table 1 and Figure 1), it could be argued that the growth rate of charter schools — and, by inference, EMOs employed by charter schools — may be declining.

As can be seen in Figure 1, the growth curve of charter schools in the United States has been roughly S-shaped, though in terms of percentage growth, charter schools saw a dramatic increase from the first year of their existence. It would appear that the growth has entered the top of the S curve and is beginning to level off somewhat; however, the strengthening of charter school laws in states deemed to have "weak" charter school laws (laws that allow the formation of charter schools but are so restrictive as to discourage them) or the passage of charter school laws in the 14 states that currently lack such laws could have a significant impact on the growth rate.

Figure 1: Growth of U.S. Charter Schools



Source for 1992–99: U.S. Department of Education, *National Study of Charter Schools, Fourth Year Report.*
Source for 1999–2001: Center for Education Reform, http://edreform.com/education_reform_resources/business_industry.htm.

Through continued growth, experience, and sophistication gained in the market, will the comparative advantages of EMOs increase and become more apparent to school districts, charter schools, and the general public? Or are they filling a narrow niche, already nearly full, with little prospect for large-scale future growth? To the extent that EMOs demonstrate and capitalize upon their comparative advantages, they are likely to grow in number of schools and students served, in numbers of EMOs offering services, and in average EMO firm size, all else being equal. That will be evident only to the degree that public-sector schooling providers increasingly see contracting with or granting charters to EMOs as a means to achieve desired goals they could not otherwise achieve.

Issues in Public School Contracting With EMOs

The future viability and growth of EMOs in K–12 education, then, hinges primarily on the ability of EMOs and public education agencies (i.e., districts, charter schools) to function productively together through contractual ties, more easily said than done given the cultural differences between the two types of organizations. A column in the *Philadelphia Daily News* illustrates the cultural clash that is often present between public schools and EMOs and why it is crucial to get the contract "right." The *Daily News* columnist asked, "How realistic can Edison's advice be when a top executive is clueless about something as uncomplicated as the cost of painting a school?"[25]

The column proceeds to ridicule Edison's executive vice president, Eugene Wade, because Wade was "incredulous" at the School District of Philadelphia's claim that painting all schools in the district would cost nearly triple the $51 million the governor had proposed spending over three years. Wade argued that it should not cost more than $500,000 to paint each school. The columnist pointed out that in Philadelphia, the high-school painting contracts are always awarded to the lowest bidder, but "it costs almost $1,000 over the course of two days to pay one union painter." The columnist argues that it "raises the obvious question: what other facts are missing from Edison's plan to fix the public schools?" The implicit assumption in this exchange is that it will cost Edison the same amount to paint the schools in Philadelphia as it will cost the district.

The union and district officials argue that Edison has greatly overstated the money that can be saved on school maintenance and elsewhere. Edison has estimated that the school district could save between $650 million and $700 million over five years, whereas the school district estimated it could save only $276 million in that same period. The discrepancy between the Edison and district figures represents as much a conflict of assumptions about how cost savings will be achieved as an actual difference in potential cost savings. The *Daily News* columnist and school district officials assume that Edison will face the same constraints and costs as the district.

The arguments surrounding the Edison contracting initiative in Philadelphia differ on the assumptions, such as whether or not Edison would have to pay $1,000 for two days of painting. Why would a school district contract with Edison if it were not going to let Edison use its own business model? The point of contracting with EMOs is to take advantage of their flexibility, innovation, and economies of scale. In the political environment of EMO contracting, both parties can sabotage (consciously or not) the goals of a contract: districts by insisting on their existing business models and EMOs by agreeing to the districts' business models.[26]

These problems point to a key to improved school-management contracting, namely, to pursue best practices for contracting to the extent feasible given the (inevitable) political environment. These practices include open and competitive bidding, contractor flexibility over inputs, open and full disclosure by the contractor, and a contract monitoring system with performance rewards and penalties.

Encouragement of Competition in a Politically Protectionist Environment

To ensure that the most qualified companies are involved in the school contracting efforts, the bidding process should be open and competitive whenever possible, and awards should be widely publicized. Furthermore, if the bid is to be negotiated, a formal explanation of why the agency's interests are best served by the manner proposed should be prepared. Most criticisms of contracting revolve around fair-competition issues.

For example, Edison was not the only EMO hoping to play a role in running Philadelphia's schools under a state takeover. Eight other EMOs had proposed plans to run those schools. The state of Pennsylvania should have opened up the original school competition to other firms. For example, the largest provider of management services for private schools, Nobel Learning Communities, would have liked to serve as a consultant in the project.

Nobel, with headquarters just outside Philadelphia, operates 173 schools, and unlike most EMOs, already turns a profit. Nobel's chairman and chief executive officer, Jack Clegg, notes that his company is interested in running 5 to 10 schools in the city. Clegg told the *Inquirer* that his firm also might have liked a shot at serving as a consultant to the Philadelphia district's central office, a role that Governor Schweiker carved out for Edison. "We have never even been asked if we would like to be part of the group to oversee it," Clegg said.[27]

In this context, it is unclear whether Edison or Nobel or both would have had the best advantage in advising the school district. Without a competitive bidding process, the strengths and weaknesses of each company's proposal will not be weighed in a systematic way. While choosing a contractor by some method other than a competitive process does not necessarily mean that the contracting will fail, it opens the process up to criticism.

Contractor Flexibility of Means and Methods

In a successful contractual relationship, the government agency spells out the desired outcomes for the contractor, such as raising student achievement, sets penalties for failure and rewards for success, and then tries to stay out of the way. The contractor controls how the work is to be performed.

Rigid rules that strictly define the form of day-to-day operational requirements prevent private competitors from proposing cost-saving, productivity-enhancing innovations. Most successful contracting processes specify performance standards — frequency of service, allowable customer complaint levels, and so on — rather than input standards, such as mandated class sizes and fixed instructional hours.

Similarly, while politicians are often tempted to stick contractors with the same kinds of constraints they impose on their own departments, this is ill-advised. These include "buy American" requirements, veteran and minority hiring preferences, and stipulations about the "appropriate" level of wages and fringe benefits the contractor must pay its employees. Contractors may even be

required to retain all affected personnel in their existing positions at the same pay level for a certain length of time. If they are to achieve cost savings and productivity gains, private contractors must be given the freedom to operate outside this restrictive framework.

Thirty years of research clearly suggests a low rate of success in contracting efforts where contractors are unable to make decisions about their employees. A World Bank study of 200 contracts found that all but one of the contracts overseeing an unsuccessful effort included limitations on the contractor's freedom and authority over work rules and "standard operating procedures." In contrast, all of the successful contracts gave the contractor maximum autonomy over personnel decisions — including the ability to fire personnel and set wages.[28]

Some of the most well-known failures between school districts and EMOs are traceable to conflicts over business assumptions, such as these. The most notorious failures occurred when the Baltimore (Maryland) and Hartford (Connecticut) school districts hired Education Alternatives Inc. (EAI) to operate their public schools in the early 1990s. From the beginning, EAI clashed with unions over rulings that the company could not lay off or fire any district employees. The conflict became more protracted as EAI fought with the school establishment about every decision it made. The stakes in these battles were largely work rules, and ultimately the contracting relationship failed. Ironically, in order to win contracts, some EMOs may accept contracts with similar strictures and thereby mitigate any chances of improvements over current performance levels.

Open and Full Disclosure of Revenues, Expenditures, and Details of the Business Model

Contractual freedom is not something that happens in a vacuum. While EMOs should seek out contracts that give them the most freedom to operate the schools as they see fit, public agencies on behalf of taxpayers require open and full disclosure about how the contractors spend tax dollars. The incentive for EMOs to fully disclose stems from a desire to avoid the perception that private companies have unfair "secrecy" advantages, as illustrated in a news article on the Edison experience in Philadelphia. The article claims that it is difficult to hold a private company like Edison accountable even when it spends public money, arguing that "a government agency has to keep records of expenditures and make them publicly available, but a private company doesn't — even if it's running public schools with public money."[29]

Edison, for example, has faced accusations of not meeting full-disclosure requirements. Full disclosure by EMOs helps reduce public consternation about contracting with private companies.

Monitoring for Performance — Incentives, Rewards, and Penalties

Because all contracts create incentives that influence the behavior of both public education agencies and EMOs, the elements of the contract — actions, responsibilities, outcomes, rewards, penalties, contract monitoring, procedures for dispute resolution, etc. — go a long way in determining whether a contracting relationship will be successful. In contracting with EMOs, school districts and other education agencies recognize that they are not getting out of the business of education — they are instead shifting their role from provider to contract monitor. Doing so means clearly defining the evaluation criteria up front and sticking to those criteria. There should also be a clear enumeration of the desired objectives and a way to hold the EMO contractually accountable for achieving those objectives, including the prospect of penalties associated with repeated serious failure to meet objectives and rewards for meeting or exceeding objectives.

Conclusion

EMOs represent an innovative management tool that public school administrators can use to improve schooling operations and even to raise student achievement. Like other management tools, they are only as effective as the wielder of the tool and as reflected in the contract. Strong school-management contracts give EMOs maximum flexibility to implement their business models, and if they fail to perform adequately, can be fired. But only if public school administrators become more adept in contracting with EMOs and communities become more familiar with and value the services they provide, will EMOs continue to grow in response.

Education Management Organizations

The Center for Education Reform, which tracks charter schools and other education reform issues, has compiled a list of major private providers that manage public schools. It is a growing list, but does not include many of the small EMOs operating in charter school states, the firms contracted by school districts to serve adjudicated youth and/or youth at risk of academic failure, or firms that provide anything less than total school operation services. The following list of EMOs is drawn from the center's Web site[30] and includes illustrative examples from these additional categories.

America's Choice is a nonprofit organization under the National Center on Education and the Economy that does not run schools, but helps them to implement the America's Choice School Design Program, which is designed to help students prepare to do well on local and national testing as well as to prepare for college.
Telephone: 202.783.3668
Web: www.ncee.org/acsd/index.jsp?setProtocol=true

Aspen Education Group is committed to improving the quality of life for youth and their families. Headquartered in Cerritos, California, Aspen operates 46 programs in nine states. Aspen employs over 1,400 employees nationwide and assisted more than 10,000 clients in 2002.
Telephone: 888.97.ASPEN
Web: www.aspeneducation.com

Aspire Public Schools (formerly University Public Schools) serves seven schools in California, with a total enrollment of 2,120 pupils, and plans to open additional schools in California.
Telephone: 650.637.2060
Web: www.aspirepublicschools.org

Chancellor Beacon Academies, Inc. serves approximately 19,000 students from pre-kindergarten through twelfth grade. It operates schools in Arizona, Florida, Massachusetts, Michigan, Missouri, New York, Pennsylvania, Virginia, and Washington DC.
Telephone: 305.648.5950
Web: www.chancelloracademies.com

Charter School Administrative Services operates eight charter schools in Michigan, enrolling about 4,800 students and several schools in Texas, Missouri, and Florida.
Telephone: 248.569.7787 or 800.425.1415
Web: None

Charter Schools USA currently has 8,500 students in 16 schools in Florida and Texas. An April 2001 "strategic alliance" of Charter Schools USA and Haskell Education Services calls for Haskell to provide design-build, finance, and auxiliary services to schools managed by Charter Schools USA.
Telephone: 954.202.3500
Web: www.charterschoolsusa.com

Community Education Partners, responding to the Texas Juvenile Justice Alternative Education Program to remove disturbing youth from the classrooms, educates about 1,000 students in Houston and 300 in Dallas.
Telephone: 713.394.3500 or 615.366.0566
Web: www.communityeducationpartners.com

Designs for Learning serves six charter schools in Minnesota, with 100 to 300 students in each school.
Telephone: 651.645.0200
Web: www.designlearn.com

Edison Schools serves more than 57,000 students in 45 cities and 113 public schools. Edison counts each academy serving different grade levels as a separate school even if they are housed in the same building and served by the same school office.
Telephone: 212.419.1600
Web: www.edisonschools.com

Excel Education Centers serves six schools in Arizona that enroll about 900 students in grades 6–12, as well as a seventh campus for grades 9–12. The schools mostly serve Arizona's Native American population at risk of academic failure, and some campuses see a 25 to 30 percent annual student turnover because of the high student mobility.
Telephone: 800.417.9036 or 928.778.5764
Web: www.exceleducationcenters.org

ExED is a nonprofit organization founded in 1999 that develops and manages charter schools in lower-income communities.
Telephone: 310.394.1152
Web: www.exed.net

Innovative Education Management is described as a "virtual" school district for the Horizon Instructional Systems charter schools, which specialize in "independent study charters" that support home-schooled and "off-site" students. Some of the Horizon sites offer a comprehensive curriculum. One school is a reentry point for students who dropped out because of drug use or incarceration, and another offers a college preparatory regimen. Innovative Education Management also lists six other schools.
Telephone: 800.979.4436 or 530.295.3566
Web: www.ieminc.org

KIDS 1, Inc. is a private provider of specialized education services for children and youth facing learning, language, and social challenges. Through its day schools and learning centers, KIDS 1 provides special education, alternative education, remediation and tutoring, and transitional services at 11 locations in five states.
Telephone: 732.390.0303
Web: www.kids1inc.com

K12.com is a national provider of online courses for home-schooling families and schools, as well as a manager of online charter schools. Norristown Area School District was the first to sign on with K12 to manage and provide courses for the Pennsylvania Virtual Charter School. In addition to Pennsylvania, schools are now located in Arkansas, California, Colorado, Florida, Idaho, Minnesota, Ohio, and Wisconsin.
Telephone: 703.748.4005 or 888.YOUR.K12
Web: www.K12.com

LearnNow (bought by Edison Schools in 2001) serves about 5,000 students in seven schools.
Address: 521 Fifth Avenue, 15th Floor
New York, NY 10175
Web: www.lnschools.com

The Leona Group manages 33 school sites — 21 in Michigan and 12 in Arizona and Ohio. The schools enroll approximately 11,500 students.
Telephone: 517.333.9030 or 602.953.2933
Web: www.leonagroup.com

Mosaica Education serves more than 5,000 students in 20 charter schools in five states.
Telephone: 415.491.1305 or 212.232.0305
Web: www.mosaicaeducation.com

National Heritage Academies (formerly Educational Development Corporation) operates 27 academies with nearly 11,400 students. The academies typically open with grades K–5 and add a grade each year through eighth grade.
Telephone: 616.575.6800 or 800.699.9235
Web: www.heritageacademies.com

Nobel Learning Communities operates 208 schools in 15 states, serving 27,000 students. Most of the schools are private and include preschools, elementary and middle schools, schools for the learning challenged, corporate-sponsored schools, and specialty high schools. Seven are public charter schools.
Telephone: 484.947.2000
Web: www.nobellearning.com

Ombudsman Educational Services is a private provider of alternative education for public school students who have trouble functioning in conventional schools and are at risk of dropping out or being expelled. It has contracts to operate more than 70 alternative schools in 11 states, serving from 5,000 to 7,000 students. It opened its first charter school in 1996 and now operates five charter schools in Arizona, serving over 400 students who need an alternative school setting.
Telephone: 847.367.6383 or 800.833.9235
Web: www.ombudsman.com

SABIS Educational Systems manages a network consisting of 24 financially and administratively independent public and private schools in 10 countries, including five public charter schools in the United States. About 20,000 students attend these schools, with 4,600 in the United States and 3,700 in public charter schools.
Telephone: 952.918.1850
Web: www.sabis.net

Victory Schools, based in New York City, provides whole-school operations services for charter schools and the school districts of New York City, Baltimore, and Philadelphia.
Telephone: 212.265.1740
Web: www.victoryschools.com

White Hat Management operates seven "community" elementary schools (charter schools are called community schools in Ohio) and five "Life Skills" high schools in Ohio, with an enrollment of about 4,000 students.
Telephone: 330.535.6868 or 800.525.7967
Web: www.whitehatmgmt.com

Endnotes

1 The term EMO has until recently been limited to include only for-profit (publicly traded and privately held) firms that provide whole-school operation, but a number of "first cousins" have recently been included in the term as well: nonprofit firms that provide whole-school operation (e.g., Aspire Public Schools) and firms that provide something less than full operation, emphasizing either the instructional or "back office" functions of schooling, such as America's Choice and Excellent Education Development, respectively. Given the proliferation of businesses that provide various combinations of schooling services, EMOs are sometimes referred to as part of a broader group of "education service providers" or "ESPs."

2 Although charters and EMOs have been described as "privatizing" initiatives, both are more accurately characterized as outsourcing or contracting out initiatives. Ownership has not shifted from public to private hands; merely responsibility for operation.

3 Ten percent per Margaret Hadderman, *Trends and Issues: School Choice,* Educational Resources Information Center, Clearinghouse on Educational Management, 1999, http://eric.uoregon.edu/trends_issues/choice/index.html, and 14 percent per Bryan Hassel, "Friendly Competition," *Education Next,* Winter 2003, pp. 8–15.

4 Alex Molnar, Glen Wilson, and Daniel Allen, *Profiles of For-Profit Education Management Companies, Fifth Annual Report, 2002–2003,* Arizona State University: Commercialization in Education Research Unit, January 2003.

5 Alex Molnar, "Calculating the Benefits and Costs of For-Profit Public Education," *Education Policy Analysis Archives,* Vol. 9, No. 15, April 2001, pp. 1–19.

6 Ibid.

7 Aspen Education Group and KIDS 1, Inc., were created approximately 10 and 15 years ago, respectively. See pages 12 and 13 of this issue of Policy Perspectives for their current scope, Web site addresses, and telephone numbers.

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18 *Edison Schools Post Big Gains on New York State Tests,* Edison News Release, May 27, 2003.

19 Levin, *Thoughts on For-Profit Schools.*

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23 Greg Toppo, "States Strain to Keep Up with *No Child Left Behind,*" *USA Today,* January 29, 2003.

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28 World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership,* New York: Oxford Press, 1995, p. 143.

29 Bob Warner, "Vouchers Can Provide Clues as to How Edison Spent $2.7M in State Funds," *Philadelphia Daily News,* December 14, 2001, p. 6.

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About the Authors

Guilbert C. Hentschke is the Richard T. Cooper and Mary Catherine Cooper Chair in Public School Administration at the University of Southern California's (USC's) Rossier School of Education, where he served as dean from 1998 to 2000. Currently, he directs programs in the business of education, including the Galaxy Institute for Education and the school business management program. An author of numerous books and articles on education reform, charter schools, and the business of education, Hentschke currently teaches undergraduate and graduate courses on the finance and governance of emerging and traditional educational institutions in the United States and abroad.

Hentschke serves on the boards of directors of several education-oriented organizations, including WestEd, the Aspen Education Group, Century/Learning Initiatives for Today (LIFT), Excellent Education Development, The National Center on Education, and the Education Industry Association, where he is the incoming president.

Prior to his tenure at USC, Hentschke served in academic administrative and faculty positions at the University of Rochester, Columbia University, the Chicago Public Schools, and the East Side Union High School District (San Jose, California). He earned his bachelor's degree in history and economics at Princeton University and his master's and doctorate in education and business at Stanford University. He can be reached at ghentsch@usc.edu.

Scot Oschman is a PhD candidate in the Rossier School of Education at the University of Southern California. He has taught in the public school system for six years and has managed international distance learning, online education programs, and course management software implementation for the University of Southern California's Marshall School of Business.

Oschman has contributed to a soon-to-be published book on charter schools, as well as a paper on the relationship between school facilities and student performance presented at the annual meeting of the American Education Finance Association. Oschman holds an MBA from the University of Southern California. Oschman can be reached at soschman@usc.edu.

Lisa Snell is Director of the Education Program at Reason Foundation, where she oversees research on education issues. Her most recent policy studies include *Remedial Education Reform: Private Alternatives to Traditional Title I; Child Welfare Reform and the Role of Privatization; Private Options to Help Students Read;* and *Innovative School Facility Partnerships: Downtown, Airport, and Retail Space.*

Snell frequently comments on education issues on radio and television-media, including recent appearances on the Fox News Channel, ABC's *Wall Street Journal Report,* and numerous regional news programs. Snell has published numerous articles and op-eds on school choice in newspapers, including the *Las Vegas Review Journal, Orange County Register,* and the *Los Angeles Daily News.* She is a frequent contributor of education articles to *Reason* magazine, is a monthly columnist for *Privatization Watch,* and makes regular contributions to Reason's *Annual Privatization Report.*

Before joining Reason, Snell taught public speaking and argumentation courses at California State University, Fullerton. She was also a recipient of the 1994 Charles G. Koch Fellowship and worked on public policy issues for the Institute for Justice and Reason. Snell holds an MA in communication from California State University, Fullerton. Snell can be reached at lisa.snell@reason.org.

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