

Education Management Organizations: Growing a For-profit Education Industry with Choice, Competition, and Innovation

By Guilbert C. Hentschke, Scot Oschman, and Lisa Snell

The Political Context of EMOs

Education management organizations (EMOs) are 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 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 and school districts (and, to a lesser degree, charter schools). The future growth of EMOs will be determined in part by the degree to which these complementarities will continue to be valued by an increasing proportion of the 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 large EMOs that focus exclusively on public school operation include Mosaica Education, National Heritage Academies, and Beacon Education Management. 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. By 1999, EMOs were operating about 10 percent of all charter schools.² According to data compiled by the Education Policy Studies Laboratory at Arizona State University, the number of for-profit companies managing public schools in the United States soared 70 percent in 2001. The fourth annual *Profiles of For-Profit Education Management Companies* found that 36 companies now operate 368 schools in 24 states and the District of Columbia.³ Reliable data on the exact number are unavailable, and anecdotal reports of numerous one-school firms operating in some states, such as Michigan, would probably increase these estimates.

EMOs have become part of a long-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 relatively few settings, rejected in a few others, and not yet even considered in many others.

A. Barriers to EMO Growth

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 removes control of financial resources, including staffing authority, from the discretion of local education officials. However, contracting with education management organizations can actually give local school officials more control. The contract spells out the desired performance outcomes for the contractor. In the worst case scenario, the local education administrator can terminate the contract if performance and quality goals are not being met.

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 represents 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.⁴

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 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..⁵

This argument against for-profits ignores the role of incentives in reducing costs and improving services. Although it is true that a desire to profit 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. Public school administrators do not have those 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 corporations would profit by—as well as the innovations produced by competition—are unlikely to be available in the absence of for-profit firms.

B. 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.

On the surface, without considering the context of their origins and growth, EMOs could be considered a radical innovation in public schooling or, per the anti-EMO arguments above, merely 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 trends in education, five stand out.

1. History of Special-education Outsourcing

Public agencies contracting with businesses to provide comprehensive educational services to students is not new. 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 an 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, the schools operated by the Aspen Education Group, at www.aspeneducation.com.)

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 new-found freedom and responsibility.

3. Increasing Reliance on Choice

EMOs represent a choice for public school providers to complement increasing choice for public school consumers. Reliance on choice, or student market behavior, has grown over the last 40 years of public schooling. Traditionally, parents have exercised choice between schools, mainly by deciding where to live. Subsequently, magnet programs and alternative schooling, followed by full intradistrict and interdistrict choice plans, have sprung up during the last 20 years. Based on some estimates, nearly 60 percent of the

distribution of the student population is the result of some form of school-related choice. Collectively, these changes acknowledge both that schools are not equal from the perspective of families and, consequently, that schools need not 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 novel, but the two primary motivations causing school districts to contract for the operation of schools are. 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 the "option" is the "exemplar," which goads improvements in other schools in the district, making it part of an overall reform strategy.

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 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.

Comparative Advantages of EMOs

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

A. Access to Capital for Research and Development (R & D)

Money allows schools to improve 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 to the table in the form of venture capital, be it from the sale of stock, from a venture-capital firm, or, as in the case of Edison schools, from philanthropic individuals such as Gap founders Donald and Doris Fisher.⁶ This money can be used to fund research and development (R & D) for "rich, compelling curriculum systems, powerful professional development, easy to use and renewable technologies, accessible, comprehensive information systems and competitive lobbying systems."⁷

Access to capital comes with its own burdens, however, in the form of pressure from investors for efficiencies. 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 EMO to operate efficiently as a stipulation for receiving funds. These pressures are the market forces that drive efficiencies in capitalist markets and ensure better products.

B. Efficiencies and Effectiveness Resulting from Scale

According to John Chubb, chief education officer for Edison Schools, 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 is not the case with public schools, many of which could benefit from the efficiencies of scale that a large corporation can offer. Chubb argues that 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. 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 enormous resources that could be used to build whatever support systems are necessary to make their schools run better.

C. Incentives to Invest in Research & Development

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. According to John Chubb, public-sector investment in education R & D, although difficult to estimate, is no more than .03 percent of its overall budget, while for-profit firms often spend 100 times that amount in terms of percentage. Most of the little R & D that is done in the public sector is done by academics in universities, rather than those running schools directly. In contrast, Chubb states that R & D is a powerful tool in the private sector for innovation and for maintaining competitive advantage. Without R & D, he argues, public education cannot hope to understand or improve its practices.⁸

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. R & D in the field of for-profit education 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.

As a specific example of corporate R & D efforts in action, Edison Schools' *Fourth Annual Report on School Performance* cites two R & D efforts in which the company is engaged.⁹ The first is to create a model of Edison 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.

The second R & D project mentioned by Edison is that of developing a teachers' college, called, appropriately enough, Edison Teachers College. This school would provide student teachers with practical experience in Edison schools and would feed teachers directly into Edison schools. Edison envisions these

schools offering masters level programs, though the report does not mention whether the programs would offer state credentialing or whether Edison would charge tuition.

Some large school districts, Los Angeles among them, currently offer credentialing programs for teachers in order to help fill open slots. The Los Angeles program, called the District Intern Program, has been around for at least a decade and provides new teachers with an intensive three-week orientation prior to beginning in the classroom. Once the school year starts, the student teachers take classes every week for two years toward earning their Clear Credential. The program does not charge tuition, and while they are taking classes, students in the Los Angeles program teach full time in a Los Angeles school and earn full salary and benefits.

D. Curricular, Instructional, and Programmatic Diversity

Each EMO seeks to create a distinctive "brand" to distinguish itself from other EMOs and highlight the values of its "unique" model to school districts and charter schools. The freedom and incentives of EMOs to structure their instructional program and employee contracts as they see fit is very attractive to parents who are tired of seeing large school districts trying to pound square pegs through round holes. Because EMOs tend to take over the lowest-performing schools, districts and parents may welcome them simply because nothing else they have tried to date has improved the school's performance.

EMOs 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 public schools.¹⁰ 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.

E. 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 can base pay on merit, paying more to teachers with specialized knowledge and opening up more career options to effective teachers.

F. 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.

EMOs claim to do 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 (that is, higher than when they were run by the public school district).¹¹

Henry Levin thinks Edison 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. And one has to question how effective standardized tests are at proving the merit of a school.¹² 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 its students' parents rated Edison with an "A" or a "B," with "A" being the most popular grade.¹³

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: knowledge of the community and the 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 multischool 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 cannot. In return, school districts supply pieces of the puzzle that EMOs cannot, and together, the two can create a system that is more beneficial to students than a system without EMOs.

Conditions Affecting the Future Growth of EMOs

Estimates of the future growth and impact of EMOs in the K–12 educational system can vary tremendously, depending on several assumptions and inferences. The fact that within a decade more than 200 schools (of 80,000-plus public schools) in the United States opted for operation by EMOs can suggest both a lot and a little. Aside from some consolidation (for example, Learn Now into Edison and Advantage Schools into Mosaica), the vast majority of the larger EMOs continue to report annual growth in the number of schools they operate and children they serve.

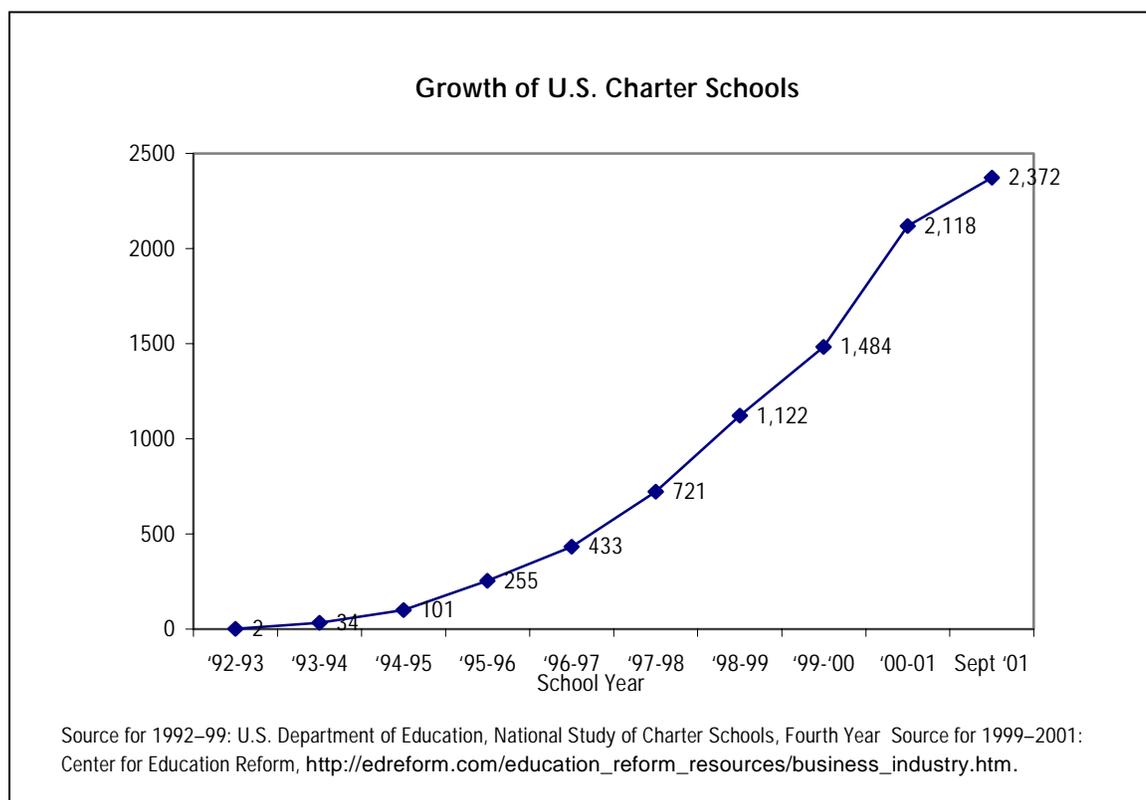
A typical way to frame the question of future growth is to ask where EMOs are today on the classic "S curve" trend line: slow incubation, followed by rapid growth, followed by slowing growth, followed by no growth. Not unlike the classic "bell curve" that appears to describe many different kinds of phenomena, the S curve is often relied on to try to understand past, present, and future growth of phenomena, including schools operated by EMOs. Based on charter school data alone (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.

'92–93	'93–94	'94–95	'95–96	'96–97	'97–98	'98–99	'99–'00	'00–01	Sept. '01
2	34	101	255	433	721	1,122	1,484	2,118	2,372
-	+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.

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.

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? 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.



Best Practices for Contracting with EMOs

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 in school privatization. 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?"¹⁴ The column then goes on to ridicule Edison's executive vice president, Eugene Wade, because Wade was "incredulous" at the Philadelphia school district'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 then 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. The school district estimated that it could save only \$276 million in that same period. The discrepancy between the Edison and district figures represents more of a conflict of visions on how cost savings will be achieved than an actual difference in the 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 privatization in Philadelphia miss the point of privatization. One benefit of privatization should be that Edison would not have to pay \$1,000 for two days of painting. Why hire Edison if you are not going to let them use their own business model? The point of contracting with EMOs is to take advantage of their flexibility, innovation, and economies of scale.

In school privatizations, there is always the danger that serious conflicts of vision will derail the privatization process. The key to successful school-management privatization is to follow research-based best practices for contracting. These include open and competitive bidding, contractor flexibility over inputs, open and full disclosure by the contractor, and a well-designed contract-monitoring system with performance rewards and penalties.

A. Encouragement of Competition

To ensure that the most-qualified companies are involved in the school privatization efforts, the bidding process must be fair. Bidding for services 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 privatization revolve around fair competition issues.

In Philadelphia, for example, the School Reform Commission selected seven different providers (including three public universities), to run 42 schools. While this may not represent pure competitive bidding, it is a positive sign that the commission selected a variety of providers and models to provide distinct educational services to Philadelphia's worst performing schools. Parent groups will run an additional 28 schools.¹⁵

B. Contractor Flexibility

In a successful privatization, 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 gets out of the way. The contractor controls how the work is to be performed.

Rigid rules that strictly define day-to-day operational requirements prevent private competitors from proposing cost-saving innovations or thinking "outside the box." Most successful contracting processes specify performance standards—frequency of service, allowable customer complaint levels, and so on—rather than input standards.

Similarly, while politicians are often tempted to stick contractors with the same kinds of requirements they impose on their own departments, this is ill-advised. These include "buy American" specifications, 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.

One could find an analogous situation in an individual who hires a personal trainer but refuses to do sit-ups, lift weights, run, walk, or diet. How can the contractor do its job with such restrictions?

Thirty years of research demonstrate a very low rate of success in privatization efforts where contractors are unable to make decisions about their employees. A comprehensive World Bank study of 200 privatization contracts found that all but one of the contracts overseeing an unsuccessful privatization effort included limitations on the contractor's freedom and authority over labor. In contrast, all of the successful contracts gave the contractor maximum autonomy over personnel decisions—including the ability to fire personnel and set wages.¹⁶

Education privatization has its own failures exacerbated by government and union interference. The most notorious failures occurred when the Baltimore and Hartford school districts hired Education Alternatives Inc. (EAI) to fix 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. While EAI certainly was not free of guilt, there is no question that interference by the school board and the union played a large role in the failure.

These cases are being used to rally opposition against contracting with EMOs like Edison. Ironically, in order to win contracts, some EMOs may accept contracts that face the same strictures and doom the privatization to failure.

C. Open and Full Disclosure

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, the taxpayers deserve nothing less than open and full disclosure about how the contractors spend tax dollars.

A report in the *Philadelphia Daily News* illustrates how important it is for a contractor to fully disclose its expenditures. The report 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."¹⁷

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

D. Performance Rewards and Penalties

The most important key to successful privatization is an effective contract-monitoring system. School districts and other education agencies should recognize that they are not getting out of the business of education—they are merely 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.

There should be financial penalties associated with repeated serious failure to meet objectives and financial rewards for meeting or exceeding objectives.

Conclusion

EMOs represent an innovative management tool that school administrators can use to raise student achievement. Strong school-management contracts that give EMOs maximum flexibility to implement their business models, coupled with careful contract monitoring and clear performance measures, can result in better outcomes for students. Unlike public schools, if EMOs fail to perform adequately, they can be fired. EMOs must satisfy their customers to survive.

Appendix: Selected 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 that does not include some of the small for-profit schools operating in charter-school states or private schools contracted by school districts to serve at-risk and adjudicated youth. The following list is reprinted, with some revisions, from the center's Web site.¹⁸

Advantage Schools (bought by Mosaica in 2001) serves about 9,000 children in nine charter schools in five states and the District of Columbia. Schools typically open as elementary schools and grow by a grade per year through grade 12.

Telephone: (617) 523-2220 or (888) 292-2344 Web: www.advantage-schools.com

Aspire Public Schools (formerly University Public Schools) serves three schools in California, with an enrollment of 970 pupils, and plans to open three new California schools for the 2001–2002 school year and one in 2002–2003.

Telephone: (650) 637-2060 Web: www.aspirepublicschools.org

Beacon Education Management (formerly Alternative Public Schools) fully manages 25 public charter schools in five states and the District of Columbia and provides limited service management to four other charter schools. The total number of students served is about 7,500.

Telephone: (508) 836-4461 or (800) 789-1258 Web: www.beaconedu.com

Chancellor Academies serves more than 10,000 students in 37 charter schools, with five new schools scheduled to open in fall 2001. The company also operates two independent private day schools.

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 (248) 334-2814 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 or (954) 791-9910..... Web: www.charterschoolsusa.com

Community Education Partners, responding to the Texas Juvenile Justice Alternative Education Program to remove disturbing youths from the classrooms, educates about 1,000 students in Houston and 300 in Dallas.

Telephone: (713) 394-3500..... Web: www.houstonisd.org/events/cep/

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 at-risk Native American population, and some campuses see a 25 to 30 percent annual student turnover because of the high student mobility.

Telephone: (800) 417-9036 or (520) 778-5764..... Web: www.excel.apsc.k12.az.us

Honor Schools, established in September 2000, is a national provider of community-based education for students in grades K–12.

Telephone: (888) 314-4339 or (214) 800-4100..... Web: www.honorschools.com

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 (number not available from all areas)..... Web: www.ieminc.org

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. Enrollment in the school, scheduled to open in September 2001 for grades K–2, is capped at 1,500. The school will grow by three grades each year, to serve K–12 by 2004.

Telephone: (703) 748-4005 or (866) YOUR-K12..... Web: www.K12.com

Learn Now (bought by Edison Schools in 2001) serves about 5,000 students in seven schools.

Telephone: (212) 209-1200 Web: www.LNschoools.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 Web: www.leonagroup.com

Mosaica Education serves more than 5,000 students in 20 charter schools in five states.

Telephone:(415) 491-1305 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: (610) 891-8200 Web: www.nobelllearning.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 four charter schools in Arizona, serving 385 students who need an alternative school setting, with a fifth charter school scheduled to open in fall 2001.

*Telephone: (847) 367-6383 or (800) 833-9235 Web: *Being Developed**

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 is based in New York City.

Telephone: (212) 720-0310 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) 996-0202 Web: www.whitehatmgmt.com

About The Authors

Guilbert C. Hentschke—Dr. Guilbert C. Hentschke is professor of education and management at the University of Southern California'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 of Education and the school business management program. An author of numerous books and articles on school reform and charter schools, he currently teaches graduate courses dealing with markets, regulation, and performance in schooling and serves on several boards of education businesses, including the Aspen Education Group, The National Center on Education and the Economy, the Association of Educational Practitioners and Providers, and WestEd Regional Educational Laboratory. Dr. Hentschke earned his bachelor's degree in history and economics at Princeton University and his masters and doctorate in education at Stanford University. He can be reached at ghentsch@usc.edu.

Scot Oschman—Scot Oschman is a Ph.D. candidate at USC's Rossier School of Education, having recently earned his MBA at USC's Marshall School of Business. In addition to working on technology transfer projects for the Galaxy Institute of Education, Oschman teaches fifth grade students in the Los Angeles Unified School District. He can be reached at IRI95@aol.com.

Endnotes

- ¹ The term EMO has so far been limited to include only for-profit firms that provide whole-school operation, but a number of "first cousins" have emerged as well: non-profit firms that provide whole-school operation 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.
- ² Margaret Hadderman, "Trends and Issues: School Choice," Educational Resources Information Center, Clearinghouse on Educational Management, http://eric.uoregon.edu/trends_issues/choice/index.html, 1999.
- ³ Alex Molnar, Glen Wilson, Melissa Restori, and John Hutchinson, "2001-2002 Profiles of For-profit Education Management Companies," Tempe, Arizona: Arizona State University Education Policy Research Unit, January 17, 2002.
- ⁴ 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.
- ⁵ Ibid.
- ⁶ Peter Schrag, "Edison's Red Ink Schoolhouse," *The Nation*, June 25, 2001, pp. 20–24.
- ⁷ Chris Whittle, "The Emergence of National Schooling Companies" (presentation at Eduventures Forum, University of Southern California, July 26, 2001).
- ⁸ John Chubb, "The Private Can Be Public," *Education Next*, (Spring 2001), <http://www.educationnext.org/2001sp/6chubb.html>.
- ⁹ Edison Schools, *Fourth Annual Report on School Performance*, www.edisonschools.com/design/d23.html, October 1, 2001.
- ¹⁰ Ibid.
- ¹¹ Ibid.
- ¹² Schrag, "Edison's Red Ink Schoolhouse."

-
- ¹³ Edison Schools, *Fourth Annual Report on School Performance*.
- ¹⁴ Jill Porter, "Looks Like Edison Has a Lot to Learn," *Philadelphia Daily News*, November 30, 2001, p. 7.
- ¹⁵ David B. Caruso, "42 Philadelphia Schools Privatized," Associated Press, April 18, 2002.
- ¹⁶ World Bank, *Bureaucrats in Business: The Economics and Politics of Government Ownership* (New York: Oxford Press, 1995) p. 143.
- ¹⁷ Bob Warner, "Vouchers Can Provide Clues as to How Edison Spent \$2.7M in State Funds," *Philadelphia Daily News*, December 14, 2001, p. 6.
- ¹⁸ Center for Education Reform,
http://edreform.com/education_reform_resources/business_industry.htm, December 17, 2001.