

## **The Expanding Role of Privatization in Education: Implications for Teacher Education and Development**

**By Alex Molnar & David R. Garcia**

### **Introduction**

The merits of a marketplace model for public education have been among the most prominent themes in education policy discussions over the last two decades. Advocates of market approaches to education reform contend that creating a market in educational services will foster competition among providers and thus spur delivery of better services at the same or lower cost than providing them through traditional public schools. Whether this is the case is debatable. It is clear, how-

ever, that the policy preferences of the past 25 years have increasingly leaned toward privatization. These preferences have been expressed in repeated efforts to promote educational vouchers and by the advocacy of “strong” state charter school laws. Most recently, the reauthorization of the Elementary and Secondary Education Act, popularly known as the “No Child Left Behind” Act (NCLB), has accelerated the three decade-long trend toward private, for-profit activities in public education.

This article provides an overview of privatizing initiatives in K-12 public education and discusses cur-

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rent policies that encourage the expanded involvement of the private sector. Also, we discuss the implications of privatizing activities for aspiring and practicing teachers.

### **The Growth and Scope of Entrepreneurship in Education**

Within K-12 education, privatizing activity falls into two broad categories: overall management or operation of schools, and provision of supplemental educational services. Each is discussed in turn. Among the for-profit firms engaged in the management or operation of K-12 schools, only a small number actually own private schools and charge tuition to students. The bulk of entrepreneurial activity in the management or operation of K-12 education falls under the umbrella of what Wall Street analysts have dubbed the Education Management Organization (EMO) industry. Although the analogy is far from perfect, Wall Street coined the term EMO as an analog to Health Maintenance Organizations (HMOs) (Toch, 1996, p. 46). EMOs are for-profit firms such as Edison Schools and Mosaica, that are hired to manage public district schools or charter schools. Most often, for-profit firms manage charter schools as agents of not-for-profit charter holders.

Initially voucher programs seemed to offer the most significant opportunity for-profit firms to compete for public tax dollars. However, with vouchers getting little political traction, EMO growth has largely been fueled by state charter school legislation. Although charter schools are public schools operated with public funds, they are generally established by organizations independent of school districts and are given considerable freedom in their day-to-day operations in return for meeting contractual performance goals. In theory, charter schools are held accountable by the market because parents are given the right to “vote with their feet” and choose to enroll or withdraw their children from the charter school of their choice. Since state funding formulas are based on student enrollment, charter schools with insufficient enrollment, proponents argue, would be forced to close their doors. In contrast to voucher proposals, charter schools have enjoyed strong, bipartisan support, further contributing to their growth.

At the federal level, the No Child Left Behind (NCLB) legislation favors the expansion of privatizing approaches to education through district to charter school conversions of schools labeled failing and by creating a market for supplemental education services. NCLB requires schools, in return for federal education aid, to conduct standardized testing annually in grades 3 through 8. Schools that fail to demonstrate Adequate Yearly Progress (AYP) face a series of “corrective actions” that escalate in severity if a school continues to under-perform according to NCLB standards. Sanctions for a school that has failed to achieve AYP after five consecutive years include privatizing options such as reopening as a charter school and contracting with an outside organization to manage the school.

### The Growth of Education Management Organizations

For-profit companies typically manage two forms of public schools: district public schools, which EMOs may manage under a contract with a local school district, and charter schools. Charter holders may include academic institutions, nonprofit foundations, and groups of parents, teachers, or both. Charter holders frequently contract with for-profit EMOs to manage charter schools on their behalf. Less often, EMOs hold charters directly (Molnar et al, 2004).

The *Profiles of For-Profit Education Management Organizations (Profiles)*, an annual report that compiles information on for-profit EMOs that manage traditional and/or charter schools, has tracked the growth of EMOs for the past seven years. In 1989-1999, the first year of the report, 13 for-profit companies operated 135 schools in 15 states. In the most recent report (2005-2006), 51 education management organizations managed 521 schools, with a total enrollment of 237,179 students across 29 states and the District of Columbia. Over the past eight years, the number of EMOs has nearly quadrupled. Simultaneously, the number of schools managed by EMOs has nearly quadrupled as well (see Table 1).

Charter schools account for a large and growing majority of EMO contracts: 84% of the privately managed schools covered in the 2005-2006 *Profiles* report are charter schools. Furthermore, EMOs enroll a large percentage of the total charter

Table 1: Number of Companies, Schools, and States Profiled by Year.

School Year	Number of Companies Profiled	Number of Schools Managed by Profiled Companies	Number of States in Which Profiled Companies Operate
1998-99	13	135	15
1999-2000	20	230	21
2000-01	21	285	22
2001-02	36	368	25*
2002-03	54	406	26*
2003-04	51	463	29*
2004-05	59	535	25*
2005-06	51	521	29*

\*Includes the District of Columbia.

Source: Alex Molnar, David Garcia, Carolyn Sullivan, Brendan McEvoy, & Jamie Joanou, *Profiles of For-Profit Education Management Organizations, 2004-2005* (Tempe, AZ: Education Policy Studies Laboratory, Commercialism in Education Research Unit, Arizona State University, 2005).

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school population nationwide. In 2005-2006, the 51 EMOs in the *Profiles* report account for 25% of all students enrolled in charter schools. A closer look at EMO enrollment counts reveals that EMO-managed charter schools represent an even larger share of primary charter school students, 36% of all charter primary school students are enrolled in the EMO-managed charter schools tracked in the *Profiles* report (Molnar et al, 2006). These data suggest that for-profit firms have concentrated their efforts on primary schools. This may be because primary education is less expensive than middle- and high-school education. The implications of EMO enrollment patterns are discussed in more detail later in the article (see Table 2).

“Virtual schools” represent another source of growth in the EMO industry. These schools, sometimes also known as “online charter” or “virtual charter” schools, offer an Internet-based curriculum outside of the conventional brick-and-mortar setting of traditional public and charter schools, and they frequently cater to children who were previously home-schooled. Where legislation has enabled such schools, state education dollars pay for children who enroll in them. The definition of virtual schools is imprecise, and depending on the definition, the number of such schools and number of students enrolled in them varies widely. For example, according to *Newsweek* about 2,400 virtual schools serve 40,000 to 50,000 students (Fording, 2004). The 2005-2006 *Profiles* identifies four companies managing virtual schools (Molnar et al, 2006). The National Association of Charter School Administrators (NACSA) directory lists four “Virtual School Management Organizations,” three of them for-profit firms (National Association of Charter School Authorizers, 2005a, 2005b).

### **No Child Left Behind and Supplementary Education Services**

No Child Left Behind (NCLB) includes a number of provisions encouraging the growth of for-profit education activity, in the form of both district to charter school conversions as well as a variety of supplemental educational services. By

Table 2: U.S. Charter School Enrollment by School Level, 2005-2006.

	Primary	Middle	High	Other*	All School Levels
Number of Students Enrolled in All Charter Schools	310,860	53,338	132,676	185,210	682,050
Percentage of Students Enrolled in Charter Schools Managed by EMOs	46.3%	5.7%	21.1%	14.8%	25.1%

Note: Non-charter schools and virtual charter schools are excluded from these data.

\*According to the Common Core of Data, “other” schools are defined as schools that do not fall within the grade level configurations of primary school, middle school, or high school.

Source: Alex Molnar, David Garcia, Carolyn Sullivan, Brendan McEvoy, & Jamie Joanou, *Profiles of For-Profit Education Management Organizations, 2004-2005* (Tempe, AZ: Education Policy Studies Laboratory, Commercialism in Education Research Unit, Arizona State University, 2005).

one estimate, NCLB has created a \$20 to \$30 billion market for various in-school services provided by private, for-profit contractors (Association of Community Organizations for Reform Now, 2004).

NCLB not only creates a market for private providers, it keeps public schools out of the lines of business it creates. NCLB explicitly forbids schools themselves from providing federally funded tutoring if the school has failed to achieve AYP for two consecutive years (Banchero, 2004). Instead, the schools are required to contract with outside providers for tutoring, effectively creating a federally subsidized market for private tutoring firms. The result has been a spur to a private tutoring industry that by one estimate was projected to generate as much as \$200 million in 2005 (Saulny, 2005). Founded in 1979, Sylvan Learning Centers (now a unit of Educate, Inc. [Educate Inc., undated; Sylvan Learning Center, undated]), for example, provides private tutoring services. Edison Schools reports that in the 2005-2006 school year, it had contracts to serve 330,000 students (Edison Schools, undated). But of those, just 59,700 were actually enrolled in Edison-managed schools; the rest were in some way involved with other Edison services. Thus, while Edison's school-management business is stagnant, the company has grown as a result of diversifying into other educational services (Edison Schools, undated; Molnar et al., 2006). Edison Schools, for example, markets a product line, Tungsten Learning Achievement Management Solutions, that targets schools seeking to raise school test scores. Tungsten's services appear to mainly involve continuing, on-line assessment of students, professional development for teachers, and consulting on "best practices" in education (Wujcik, 2003). Indeed, Edison has expanded well beyond its core school-management business to offer private tutoring; operate summer schools; provide test preparation services and programs; sell curriculum materials; offer in-service training for teachers; and, through Edison Alliance, help schools and districts meet their NCLB AYP targets (Edison Schools, 2004).

The expansion of public educational services to the private sector is not surprising, in light of explicit White House advocacy of privatization as a desired strategy for reorganizing public services (Varian, 2005; White House, 2005). The growth of EMO-managed schools and other privately-managed services has been accompanied by an increase in media and thus public interest in the industry. The annual Arizona State University Commercialism in Education Research Unit report on trends in schoolhouse commercialism has tracked and analyzed trends in schoolhouse commercialism since 1990. The reports document media references to eight categories of schoolhouse commercializing activities. One of the categories is school privatization.<sup>1</sup> The number of media references to school privatization varies considerably from year to year. Despite the year to year variability, the increase in the number of media references to school privatization is remarkable. Between 1990 and June 2005, the annual number of references to school privatization had increased over tenfold, from 47 to 592 (Molnar & Garcia, 2005; Molnar, 1996; Molnar, 1998; Molnar, 1999; Molnar & Morales, 2000; Molnar & Reaves, 2001;

Molnar, 2002; Molnar, 2003).<sup>2</sup> This dramatic increase illustrates that public attention about privatization in public education has extended well beyond public policy think tanks to reach average American citizens.

### **Privatization Activities in Public Education and Implications for Teachers**

The growing emphasis on privatization in education has an impact on teachers. It is therefore important that aspiring and practicing teachers understand the nature, extent, and implications of private sector involvement in public education. Teachers should be aware of how the workings of EMOs, in the pursuit of profit, may influence the school environment and quality of instruction students receive in for-profit schools.

As with any organized profit venture, EMOs operate according to business models. In general, for example, the EMO business model appears to include large schools, standardized curriculum and inexperienced teaching staffs that experienced a high rate of turn over. Also, EMOs are not generally required to provide the same detailed information about budget and other matters as are public schools.

#### ***Business Models***

In general, charter schools are smaller than traditional public schools. According to an analysis of the 2003-2004 Common Core of Data, the national average size of K-8 charter elementary schools (354 students) was considerably smaller than district schools (708 students) and the average enrollment of charter high schools serving grades 9-12 (254 students) was also substantially smaller than district schools (1149 students) (Molnar et al, 2006, Appendix).

In contrast, EMO-managed charter schools are generally larger than other charter schools. The 2005-2006 *Profiles* tracks “large EMOs,” defined as those companies managing 10 or more schools. Among the charter schools managed by large EMOs, 66% have enrollments exceeding the average U.S. charter school enrollment. The majority of students attending charter schools run by eight of the 12 large EMOs are in schools with enrollments that exceed the national average for comparable charter schools (these comparisons exclude virtual charters) (Molnar et al, 2006).

Charter schools run by large EMOs, however, are not only large compared to other schools in the charter school sector. One in five of large EMO-run charter schools have enrollments above the average U.S. district school enrollment. In fact, the majority of students attending charter schools managed by Charter Schools USA and half of the students in charter schools managed by Imagine Schools are attending schools that are larger than the national average for district schools (Molnar et al, 2005). It is not unreasonable to conclude that the larger enrollments of schools managed by large EMOs is the result of a strategic business decision to increase profits by increasing school size, particularly at the primary level, where

the cost of providing education is relatively cheaper than at the middle or high school levels. Cutting costs may be another reason why market oriented charter schools, characterized as profit driven and most likely to enroll more students and take other cost-cutting measures in order to maximize profits, may be “cropping off” service to special education students and English language learners. These students may be excluded from market-oriented charter schools because they face academic challenges that make them harder and more costly to educate (Lacerino-Paquet et al, 2002).

The business models of EMOs also emphasize standardized curriculum across campuses in an effort to differentiate their schools from others through “branding.” Similar to branding in other corporate contexts, the primary motive of such efforts is draw more students by providing an identifiable product. This objective can conflict with aspects of a professional educational environment that quality teachers may find desirable such as greater autonomy and flexibility.

Further, Sharon Nichols, Gene Glass, and David Berliner have observed that at the primary-school level, achievement outcomes are most readily influenced by standardized curriculum using drill-and-practice-oriented instruction (Nichols, Glass & Berliner, forthcoming). Such methods tend to require less training and talent among staff and can produce short-term test improvement regardless of long-term achievement. The resulting combination of cost-savings and the appearance of quick results may render such strategies appealing to EMOs, regardless of whether they produce long-term benefits for students.

Due to the labor intensive nature of providing education, it may be impossible to operate schools as a profitable endeavor for the long term. This uncertainty creates economic tensions for for-profit schools as they search for opportunities to maximize profits through reducing staffing costs. In the most extreme case of opportunistic staffing, the emergence of “virtual” schools challenges the fundamental role of the teacher in providing education.

Approximately 70-80% of school budgets is for personnel: salaries and benefits of teachers and administrators (Picus, 2000; Levin, 2001; Robinson & Protheroe, 1992). Thus the most obvious strategy to seek a profit is to reduce personnel costs. The simplest way to reduce personnel costs is to reduce teacher pay, which is most easily accomplished by hiring teachers with less experience and fewer qualifications or hiring fewer teachers and increasing class size. In fact, Edison founder Christopher Whittle, in his new book *Crash Course: Imagining a Better Future for Public Education*, recommends raising teacher salaries, but cutting the number of teachers in half and have children “working on their own” for half of the time (Whittle, 2005; Ewers, 2005).

By way of example, let’s consider the staffing possibilities for a new for-profit firm that just entered the education field. In order to hold down costs, the firm hires a cadre of young, inexperienced teachers with only the minimal level of academic qualifications. Over time, those teachers will gain experience and, presumably, in



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qualifications (for instance, by obtaining advanced degrees or otherwise undergoing professional development training). Thus, there is a built-in escalation of costs that will, in time, erode profitability.

Such conditions set up a likely scenario in which a for-profit school can profit in the beginning—particularly in comparison with a district school that has a staff of higher-paid, more experienced teachers—but soon lose its advantage as labor costs rise. The only other alternative would be for the for-profit school to accept a high turnover of staff and compensate with a highly standardized curriculum: a model that closely resembles that of for-profit higher-education institutions such as the University of Phoenix. The potential downside of high staff turnover includes low staff morale and jeopardizing the quality of the education program.

Virtual schools may offer another way around the central dilemma that for-profit educational firms face in two ways: by eliminating the costs of school infrastructure, and by using technology to enable an individual teacher to reach many more students. It is unknown, however, whether virtual schools will be able to expand significantly beyond the home school market, and whether they will succeed in diverting significant numbers of students from conventional public schools.

It's not clear, however, whether any of these strategies will succeed in the long term, either in yielding profits for investors or in producing a significant and sustainable gain in educational outcomes. To the extent that EMOs are profitable, they can be expected to spark some degree of suspicion or resentment on the part of the public, particularly if those profits—or non-educational costs such as marketing, advertising, executive salaries, and the like—are perceived as coming at the expense of quality instruction or teacher professionalism.

Taken together, these findings suggest a three-pronged strategy for for-profit school management firms to drive up test scores, win more business, and generate larger profits: increase school size, implement a standardized curriculum focusing on drill and practice, and staff schools such that personnel costs are kept low. It should be noted, however, that the business model of EMOs stands in stark contrast to the visions that animate educational entrepreneurship and that inspired the charter school movement: greater autonomy, heightened flexibility, small schools, individualized curriculum, and community control. Furthermore, this approach also runs counter to parental preferences because parents consider small schools as a positive feature of charter schools (Solomon, 2003).

#### ***Lack of Transparency***

Despite claims that market-oriented policies provide greater accountability, the means by which for-profit schools are held accountable to both external granting agencies and the operation of internal governance structures are not transparent. As a result of incomplete information, teachers should expect little insight into when and why for-profit schools close operation and teachers should anticipate limited guidance on how to affect change within larger EMO governance structures. The



democratic structures that teachers are familiar with in the public school system are not applicable to school governance in for-profit education sector.

The governance structures of for-profit companies are often obscured from public view. Therefore, much of what the public knows about the governance of for-profit firms comes from anecdotal accounts. What we do know is that the governance structures of EMOs can be difficult to navigate. For example, sometimes for-profit companies set up non-profit entities that appear to be little more than fronts for the for-profit firm, as in the case of Planagement and Eagle Academies of Texas. Eagle Academies is a non-profit charter school chain that shares an office with the for-profit management firm Planagement. An article in the *Austin American Statesman* revealed that the two companies are often hard to distinguish, sharing, besides the office, a receptionist, a conference room, and company vehicles. While Eagle reported it retained Planagement to manage its finances, the newspaper reported that Planagement's involvement extended to recommending candidates for Eagle's board, supplying the curriculum, and rotating management between Planagement and Eagle so as to avoid violating a state law that bars charter school administrators from having a "substantial" financial interest in management companies (Embry, 2004). "Unlike public schools, Eagle and many other charter schools don't hold public elections for board positions. Parents who are unhappy with an Eagle school can't run for the board or support a favorite candidate," the article reported (Embry, 2004).

The *Austin American Statesman* article also reported that Eagle spends nearly twice as much as the state average on administration while spending half as much on instruction. This kind of financial management is in direct contrast to the claims of EMO supporters, who believe EMOs can save money on administration while increasing achievement. As Eagle enters the virtual school business and eliminates the overhead involved in traditional brick and mortar, its profit margin further increases (May, 2004). It is for these and other reasons that concern over the propriety of for-profit companies managing charter schools has led three states, Hawaii, Mississippi, and Tennessee, to pass laws banning charter schools from entering into such contracts ("Our view. . .," 2004).

The dearth of available information is a significant policy issue because there is a lack of public accountability for the tax dollars that support for-profit firms. For example, K12 Inc. manages the California Virtual Academies (CVA), a network of virtual public charter schools founded in the summer of 2002 (California Virtual Academies, undated). The state of California pays CVA \$4,700 for each enrolled student. Of that, \$600 per child is paid to K12 as a management fee, and another \$1,800 per child is paid to K12 for curriculum (Digitale, 2004). That leaves \$2,300 per student that apparently stays with CVA, but it is not clear where that money goes or for what it is used. At \$4,700 each for the 1,200 students reportedly enrolled in CVA in 2004, the company, which does not disclose financial data, appears to have grossed \$5.6 million that year.

The general lack of transparency under which virtual schools operate seems

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prone to a lack of accountability and even fraud. For instance, the Ohio state education department reported that a large number of children enrolled in virtual schools in the state were not taking an achievement test mandated by the state. The Ohio state senate responded by passing an amendment to the state budget requiring that children in online schools who fail to take the test two years in a row be expelled and prevented from enrolling in another online school (Oplinger & Willard, 2005). If other states follow Ohio's lead, the result could place a damper on virtual school growth.

### **The Broader Application of Privatization in Education Policy**

Teachers should be mindful that legislators have attempted to introduce market forces into public education as part of a backlash against what they considered entrenched public education bureaucracies. Privatization proponents argue that private companies competing for business in an education market will force the public education bureaucracies to reform or be dismantled. Within this context, standards and accountability policies at both the federal and state level have helped establish an enduring framework for spreading privatization in public education. Contemporary accountability policies may be traced back to the 1980s and the release of *A Nation at Risk* (National Commission on Excellence in Education, 1983). This report helped shift the focus of education reform away from the provision of resources and toward a focus on educational outcomes as measured by test results. In theory, according to advocates, teachers benefit in such a shift in focus because they can organize their teaching to meet clear standards and use test results to improve their performance.

Over the last two and a half decades privatization advocates have in policy discussions succeeded in combining the idea of educational reform through standards and outcomes with the idea of an educational marketplace. As a result education reform policy has shifted the focus of public school improvement away from the public schools themselves and toward an external market in educational services. Thus, the standards and accountability provisions of No Child Left Behind require all states to measure school academic performance using standardized tests and report school performance on a standardized report card for the expressed purpose of informing parents about possible school choices. Indeed, the very notion of keeping score according to a standardized criterion, which in many cases teachers themselves help create through assisting in the development of academic standards and assessments, creates the impression among policy makers and the general public that the "bottom line" in public education is not only measurable but that standardized test scores are the measure.

The acceptance of a test score as the "bottom line" for school quality allows education policy-makers to propose and implement policies that mimic business practices. For example, in Arizona, policy makers initiated a comprehensive standards and accountability plan that measures school performance and then allows individual parents with students in failing schools to apply for an alternative tutoring

program in order to meet academic standards. Furthermore, in order to be approved by the state, education service providers must guarantee in writing a stated level of academic improvement for the pupil with a timeline for improvement. The provider also shall agree to refund money to the state if the guaranteed level of academic improvement is not met (Arizona Revised Statutes). Policy makers are now using the educational “bottom line” argument to begin identifying underperforming teachers (Ryman). Once such teachers are identified, and if history is any indication, then policy makers will likely turn to policies that encourage privatization, including outside public education, for solutions.

### **Closing**

The question of whether for-profit education is economically viable is completely separate from that of whether it is educationally sound. The evidence of its educational value is weak; that of its economic viability remains an open question. It is not clear whether schools—or, more to the point, students—will benefit as a result of adopting business models. There is no clear evidence that the movement of public school districts to become more like businesses improves the quality of education they provide. This also seems to be the case with charter schools and the for-profit companies that manage them. Notwithstanding anecdotal reports of success and charters’ popularity with some parents, the evidence suggests that charter students are not faring better academically than their peers in traditionally run public schools (Bracey, 2005). For example, the just-released RAND evaluation of Edison Schools reported uncertainty about whether Edison Schools’ performance was comparable or superior to matched comparison schools (Rand Corp., 2005; Gill et al, 2005). It is therefore reasonable, at this point, to argue that the continued expansion of the for-profit education management industry in the face of mediocre educational results suggests that there is no clear demonstrated link between a successful education management business model and higher student academic performance.

If previous education policy trends are an indication, the lack of academic achievement evidence will not deter policy makers from continuing to initiate policies that promote privatization in public education. Colleges of education, then, have an obligation to introduce aspiring and veteran teachers to how privatization policies have changed and will continue to change the educational workplace. Teachers must be aware of how the business models of schools managed by for-profit companies impact teacher professionalism particularly in the areas of pedagogy and decision-making. Finally, teachers will be better prepared if they understand how privatization initiatives work and compete with traditional public schools.

### **Notes**

<sup>1</sup> The other seven categories are: *Sponsorship of Programs and Activities; Exclusive Agreements; Incentive Programs; Appropriation of Space; Sponsored Educational Materi-*

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als; *Electronic Marketing*; and *Fundraising*. For details on the methodology of the annual Trends reports, see: Alex Molnar, *Virtually Everywhere: Marketing to Children in America's Schools: The Seventh Annual Report on Trends in Schoolhouse Commercialism, Year 2003-2004*. (Tempe, AZ: Education Policy Studies Laboratory, Arizona State University, 2004). The category covers references to private management of public charter and district schools, private schools that receive publicly funded students through voucher programs, and other related topics. In recent years, the category has been refined to capture references to such topics as private tutoring companies retained by public school districts and paid for with federal education aid under NCLB.

<sup>2</sup> The CERU studies on commercialism in schools use media references, tracked through a variety of databases, as a proxy to measure the growth and scope of such commercialism in general. The focus of these studies is on numbers, and while they offers some assessment of the tenor of media references, they do not provide a systematic assessment of their content.

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