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Education Management Organizations
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INTRODUCTION
This chapter examines one of the fastest growing and increasingly controversial forms of privatization in education—contracting out the management and operation of public schools to private companies called education management organizations (EMOs). The growth and prevalence of EMOs is occurring against the backdrop of a larger movement toward the privatization of education services. Many of these other forms of privatization have been examined in other chapters within this handbook. Proponents of EMOs claim that they will bring a much needed dose of entrepreneurial spirit and a competitive ethos to public education. Opponents worry that outsourcing to EMOs will result in already limited school resources being redirected for service, fees and/or, profits for yet another layer of administration.

Increasingly, over the last 15 years, public schools have contracted with privately owned companies for goods and services such as food for school lunches, buses for transportation, janitorial services, and support services for children with special needs. This form of contracting, guided by strict rules and regulations, has generally been accepted. While unions that represent affected employee groups have raised questions, contracting practices by school boards are not generally seen as relinquishing control or ownership of the school.

Since the early 1990s, contracting to private companies has evolved to contracts for the complete management and operation of public schools, including responsibility for recruiting and admitting students. This latest trend toward full service management companies has been widely debated and contested.

DEFINING AN EDUCATION MANAGEMENT ORGANIZATION
An education management organization is a private organization or company that manages public schools—either district schools or charter schools. A contract is prepared to hand over executive authority to run one or more school in exchange for a commitment to produce measurable outcomes within a given time frame. Ideally, this contract arrangement assumes that an EMO will do a better job with the same or fewer resources.

Groups promoting private management of public schools have sought to use other names or labels for EMOs such as education service providers, perhaps because they wish to avoid the
obvious association with HMOs. Because the term “education management organization” and the acronym “EMO” are most commonly used to describe these private organizations that operate public schools under contract, this name will be used throughout the chapter.

An important distinction should be made between EMOs that have executive authority over a school and partial service contractors (also known as à la carte management companies) that are referred to as “vendor.” Vendors provide specific services for a fee such as accounting, payroll and benefits, transportation, financial and legal advice, personnel recruitment, and special education.

**EMO Management Fees**

The contracts between school boards and EMOs specify the actual services and responsibilities of the EMOs as well as the fees to be paid to them. The fees paid to EMOs vary considerably, depending on the scope and nature of the services provided. Typically, management fees are about 10 to 15 percent of revenues. Some companies establish a per-pupil fee, but these typically still result in a fee that is equivalent to 10 to 15 percent of total revenues. Beyond the actual management fee, EMOs often receive additional funds to pay for administrators and/or instructional staff who work at the school or rent/lease from the facility and equipment when these are owned by the EMO.

Some of the larger full-service EMOs simply guarantee the school board that hired them a positive year-end balance. In this group, National Heritage Academies (NHA) is unique in that it requests all revenues as its gross management fee but promises to reserve 2 percent of the state aid for the board to spend at its discretion (National Heritage Academies, 2005). NHA, in turn, is responsible for paying for all services and education programs specified in the contract, including the facility lease. The company retains all money remaining after paying for the specified services.

Revenues available for operating schools and paying management fees are dependent on the overall state funding formula for charter schools. Although charter school funding is largely non-negotiable, some EMOs have been successful in negotiating higher per pupil funding from states or districts for contract schools. Edison Schools Inc., for example, has negotiated extra revenues before or after signing contracts to manage schools in a number of sites, including Philadelphia and Chester, Pennsylvania, and Dallas.

**Types of Education Management Organizations**

EMOs vary on a number of dimensions, such as whether they have for-profit or nonprofit status, whether they work with charter schools or district schools, or whether they are a large national franchise or single-site operator.

**For-Profit vs. Nonprofit Status** Most EMOs are private, for-profit organizations. The largest and most recognizable for-profit EMOs include the following companies, which are rank ordered by the number of schools they operate: Edison Schools Inc., National Heritage Academies, the Leona Group, White Hat, Mosaïca, and Imagine Schools. All of these companies manage at least 30 schools and typically have substantial financial resources that allow them to help schools leverage loans or purchase facilities. The Education Policy Studies Laboratory at Arizona State University publishes an annual review of the for-profit EMOs (see Molnar, Garcia, Bartlett & O’Neill, 2006).

Although no comparable inventory of nonprofit EMOs is available, it is reasonable to assume that they are fewer in number and that most of them operate only one or two schools each.
In Michigan, for example, three nonprofit EMOs manage a total of four charter schools (Miron & Nelson, 2002). In other parts of the nation, there are three, quite large nonprofit EMOs that are expanding. Aspire Public Schools in California operates more than 15 charter schools, Constellation Community Schools in Ohio operates nearly a dozen charter schools, and Green Dot Public Schools manages ten schools in the Los Angeles area.4

Not included within the definition of an EMO are various community groups, many of which are nonprofits that assist and support many charter schools (Wohlstetter, Malloy, Hentschke, & Smith, 2004). Agreements between charter schools and these community groups differ from the contractual obligations and remuneration associated with the EMO contracts. Further, in a number of states, notably Pennsylvania (Miron, Nelson, & Risley, 2002) and New York (Ascher, Echazarreta, Jacobowitz, McBride, & Troy, 2003), various nonprofit community foundations or organizations have established charter schools as extensions of their community service. In nearly all of these cases, the community organizations do not assume executive or contractual authority to operate the school and thus are not considered EMOs, although they do seek to have extensive representation on governing boards. In many cases community organizations provide back office support for the school.

Charter Schools or Contract Schools EMOs can work with district schools and/or charter schools. Charter schools are a new form of public school—a hybrid that mixes elements of traditional public schools such as universal access and public funding with elements usually associated with private schools such as parental choice and school autonomy (see chapter by Bulkley and Bifulco, this volume, for more information). The traditional public schools operated by EMOs are commonly referred to as contract schools.

The first EMOs predated charter schools; they focused on district schools that they could operate under contract from a district school board. For example, Education Alternative Inc. was under contract to operate schools in Miami; Baltimore; and Hartford, Connecticut, in the early 1990s. Edison Schools Inc. was founded in 1992 just as the charter school idea was taking form. Edison initially planned to set up a system of private schools but soon changed its focus to public schools. Until about 2000, about half of the schools Edison operated were contract schools and half were charter schools. Since 2000 the proportion of charter schools operated by Edison dropped sharply as it increased contractual relationships with contract schools.

There are advantages and disadvantages to operating both charter schools and contract schools. EMOs have greater autonomy in operating charter schools. This is particularly important when it comes to the power to hire and fire teachers and set compensation levels. Working with contract schools, EMOs often must deal with local bargaining units. An important advantage with contract schools is that EMOs can sometimes negotiate higher levels of revenues, while in charter schools the funding is fixed. With charter schools, EMOs are often burdened with securing a facility, while with contract schools, the EMO takes over an existing school including its facility. Finally, while EMOs must devote resources to marketing and recruitment of students in charter schools, this is not required in contract schools, since the schools already have enrolled students.

About 20 percent of all charter schools across the country are operated by for-profit EMOs. Although they were designed to be autonomous and locally run alternatives to rigid school district bureaucracies, charter schools have provided a new entry point for private management companies, many of which run their schools from faraway corporate headquarters.

Among the major problems administrators faced in start-up charter schools were being overwhelmed with paperwork, securing facilities, financial management, and overall lack of resources. These are some of the key areas in which EMOs provide assistance.
Multiple School vs. Single-Site Operator  Most media attention is given to the large EMOs that operate numerous schools in two or more states. Molnar et al. (2006) identified 14 for-profit EMOs that managed 10 or more schools, nine EMOs that managed between four and nine schools, eight EMOs that managed between two and three schools, and 20 EMOs that were single-site operators. The number of single-site operators is likely to be a rather low estimate since decisions by founders or administrators of charter schools to create their own EMOs are not often reported in the media, and not always reported to oversight or regulatory agencies.

While information on the large EMOs is substantial through their annual reports and marketing materials or through reviews prepared by policy analysts (see, Gill, Hamilton, Lockwood, Marsh, Zimmer, Hill, & Pribesh, 2005; Saltman, 2005) or practitioners (Wilson, 2006; Whittle, 2006), little is written on the single-school operators. Arizona and Michigan appear to be the two states where single-site operators have become rather prevalent. In some cases, single-site EMOs have branched out to start a second or third school, but this is the exception. In Michigan alone single-school EMOs are estimated to be operating close to 30 charter schools (Miron & Nelson, 2002).

It is worth looking closely at the single-site EMOs because they provide a mechanism for private ownership of public charter schools. Many private schools that convert to public charter schools create their own EMO to resume or restore ownership and control of the charter school to the original owners of the private school. Also, some of the so-called mom and pop-operated charter schools have sought to create their own family run EMO, which essentially takes over ownership of facilities.

Information regarding the operation and internal working of EMOs is proprietary with few requirements for disclosure, thus limiting academic research on this topic. Although some EMOs disseminate a lot of information about operation and performance, that information is largely marketing material and is not covered in this review. Many EMOs are guarded about sharing information about their companies. In some cases, state agencies and authorizing agents that sponsor the schools are not aware of the existence of EMOs. This chapter focuses on the large EMOs for which the greatest amount of research and information is available.

HISTORY AND GROWTH OF EMOs

The number of EMOs and their share of the education market have expanded rapidly, both in the charter school sector and, increasingly, in struggling school districts. Molnar (2001) cited a number of sources from EMO advocates, practitioners and investment industries that suggested that EMOs hope or expect to be operating as much as 10 percent of all K–12 education by 2010 or 2015. Chris Whittle, founder of Edison Schools Inc., calls for 100 percent of public schools to be privately managed by 2030.

Currently, more than 60 EMOs are operating schools in the United States. This accounts for about 20 percent of the total number of charter schools and about a quarter of all charter school enrollments. In terms of numbers of schools, district school boards have contracted out management of more than 75 traditional public schools to EMOs. Close to 500 charter school boards have contracted out their schools to EMOs, making this the preferred entry point for private EMOs. It is estimated that EMO-operated schools serve close to a quarter million students in the United States. Edison Schools Inc. has remained the largest EMO since its creation in the early 1990s. It currently operates about 80 schools with a student enrollment of approximately 50,000. Figure 27.1 illustrates the growth in the number of schools operated by EMOs in the United States.

The expansion of private, for-profit EMOs operating charter schools has progressed more
quickly in Michigan than anywhere else. There, EMOs operate 75 percent of Michigan’s charter schools, representing more than 80 percent of all charter school students in that state. Although the growth and expansion of EMOs is most obvious in the United States, signs of EMO growth also exist in the United Kingdom (Fitz & Beers, 2003), Canada, and elsewhere.

Factors Explaining the Growth of EMOs

One of the most critical factors behind the growth of EMOs is expectation of profit. While private companies and investors have captured most of the health care sector in the United States, they have for a long time been interested in capturing a piece of the public education sector. EMOs have successfully entered this traditionally public sector and during the late 1990s sparked considerable interest among venture capitalists and private investors. Even though only a handful of EMOs have reported profits thus far, the increasing number of EMOs entering the market in the last decade suggests that many more anticipate there are profits to be had.

The growth of EMOs in the charter school sector appears to be related to several factors including demands from schools and authorizers as well as the creation of new regulations. Charter school founders often face an uphill battle as they seek to find start-up funding, acquire facilities, and develop programs and curricula. It is during the start-up phase that EMOs are most often contracted to operate charter schools. The EMOs bring with them capital to finance facilities and lease them back to the charter school. The EMOs also have ready-to-use curriculum packages and assessment tools.

Some charter schools either have hired or established their own EMOs in order to privatize their instructional staff; many states do not require charter school staff to be employed by the school board. When staff members are employees of the EMO, it is possible to circumvent the state retirement system and arrange less expensive private benefits and retirement plans.

Several Michigan authorizers have required groups applying for charter schools in Michigan to have an EMO in order to have their applications considered. Some authorizers of charter schools prefer to authorize schools that work with management companies, since these schools will have access to capital and managerial expertise and are likely to have fewer compliance-related problems than charter schools with no outside management help.
The growth of EMOs is also linked to political agendas. For example, in Michigan (Miron & Nelson, 2002), Colorado, Maryland, and Pennsylvania (Rhim, 2005), governors or state officials have gotten involved in the process of contracting out charter schools or district schools to EMOs. Elected district school boards can also influence outsourcing the management and operation of struggling district schools to an EMO.

Some states restrict EMO involvement, while most states impose no restrictions on contracting with for-profit EMOs to operate some or all schools. States like Connecticut with a cap on the enrollment size of charter schools discourage EMOs, which often seek larger schools for economies of scale. Regulations requiring EMOs to use state purchasing systems or regulations prohibiting EMOs from collecting service fees until all other debts are paid by the school also provide structural limitations that discourage EMOs.

State and federal accountability provisions provide a key impetus and rationale for contracting out low performing schools or districts to private EMOs. For example, the federal No Child Left Behind Act identifies five options for schools that continually fail to make adequate yearly progress in student achievement: convert to a charter school, replace all staff, contract with a private EMO, allow for a state takeover, or implement another major governance change. EMO management could well be a more attractive option than conversion to a charter school because the district will retain control of the school through its contract.

Below, seven key trends are described that have affected the growth of EMOs in number of companies, as well as the number of schools and students they serve.

- **Charter schools starting their own EMOs.** Increasingly, charter school founders or administrators are creating their own single-site EMO, which is then contracted by the charter school board to operate the school.
- **Expansion from single-site EMO to multiple school EMO.** A few EMOs that operated single schools have expanded their services to other schools or started additional schools. The new schools created by these single site EMOs often provide a range of grades not provided in their original school.
- **Evolution from partial-service to full-service EMOs.** EMOs that initially provided only partial services in the 1990s or allowed schools to select and pay for specific services have been moving toward full-service management agreements.
- **Growth of nonprofit EMOs.** Nonprofit EMOs or Charter Management Organizations (CMOs) are being used to stimulate the growth of charter schools and bring to scale reportedly successful school models.
- **EMOs starting their own charter schools.** EMOs are increasingly involved in starting their own schools rather than waiting for a school to invite them in. In these cases, the EMO decides where it wants to establish and operate a school and then goes in search of a few community members who can serve as a founding group. In Arizona, EMOs are permitted to hold the charter and do not need to depend on a school board to hire them.
- **Expansion into cyber schooling.** Cyber schools have become a large growth area for charter schools (Huerta, Gonzalez, & d’Entremon, 2006). Nearly all cyber charter schools are operated by EMOs, making this a large growth area for private management.
- **Growth in enrollments in existing EMO charter schools.** The average school size for charter schools is increasing each year and much of this increase is due to the expansion within existing EMO-run schools that add additional grades and/or classes.

Beyond efforts to increase their presence in K–12 schools, several large EMOs are diversifying to cover supplemental education services such as tutoring, after school programs, summer
school programs, juvenile services, and technical assistance for accountability. Unlike formal K–12 schools, supplemental services are not as highly regulated and have limited demands for accountability, which makes this sector even more attractive to private EMOs.

One trend that has reduced the number of EMOs has been mergers among the large and medium-sized EMOs. For example, Edison bought LearnNow; Advantage Schools Inc. merged with Mosaica; and JCR & Associates—once a small EMO from Michigan—merged with Beacon Education Management, which later merged with Chancellor to become Chancellor Beacon and, most recently, evolved into Imagine Schools.

Although the number of schools operated by single-site EMOs and nonprofit EMOs are still growing, the number of schools operated by the large for-profit EMOs has been leveling off. Although these for profit EMOs continue to expand to new charter schools and district schools, this growth has been matched or exceeded by the termination or nonrenewal of existing contracts. In some cases contracting districts and charter schools have been disappointed with the performance of their EMO schools. There have also been concerns about costs in excess of district operations for similar schools, as in Dallas and Philadelphia (Gill, Zimmer, Christman, Blanc 2007). Thus, the overall growth of the large for-profit EMOs has been leveling off and decreasing slightly as noted in Figure 27.1.

PERFORMANCE OF EMO SCHOOLS ON STANDARDIZED TESTS

The role of for-profit entities in public education has been characterized as an attempt to harness private interests in the service of public interests (Friedman, 1953; Schultze, 1977).

The body of research on the performance of EMOs is growing. This research, while still limited, does not show that students in EMO-controlled schools perform better than those in traditional public schools with comparable student enrollments.

Edison Schools Inc. Edison has captured considerable media attention since its inception in 1992. In each of its annual performance reports, the company claims that its schools make substantial gains on standardized tests. In its most recent performance review for 2004–05, Edison claimed its students were making “striking academic progress and posting significant gains” (Edison Schools Inc., 2006). Evaluations conducted by districts that contract with Edison or by other researchers have found, however, that gains made in Edison schools are similar to or slightly lower than gains made by comparable groups of students (Dryden, 2004; Gomez & Shay, 2000; Minneapolis Public Schools, 2000; Miron & Applegate, 2000; Nelson & Van Meter, 2003; Shay, 2000). Two of the most rigorous studies from Miami (Shay, 2000) and Dallas (Dryden, 2004) involved quasi-experimental designs in which the students in the Edison schools were matched with a comparison group of similar students in traditional public schools. Edison students were found to show lower academic improvement relative to demographically matched students at other schools. Two comprehensive reviews, which included more schools but less rigorous designs (Miron & Applegate, 2000; Gill, et al., 2005), found mixed or slightly negative results. Edison has been effective at propelling its successful schools into the limelight. Nonetheless, the body of evidence suggests that Edison’s schools—on the whole—are doing similarly or worse than comparison groups of schools or students.

National Heritage Academies (NHA) This company commissioned two studies that examined its student achievement data. Wolfram (2002) examined performance on state assessment tests and found that NHA schools were performing quite well, although no demographic controls
were used and the comparisons were limited to the average results in their state of Michigan. Hess and Leal (2003) analyzed norm-referenced test data collected and processed by NHA. Their findings suggested that NHA students were making gains on the Metropolitan Achievement Test compared to the national norm.

Given the high socioeconomic background status of the students enrolled in NHA schools, the fact that they perform at or above state averages is not surprising. Horn and Miron (2000) found that Michigan NHA charter schools’ results were above state average, but its schools’ gains on the state assessment were typically smaller than those of surrounding districts.

Evidence of Performance in Other Large EMOs Although no independent research or evaluations of Aspire schools exist, the company’s Web site claims improvement on the California state assessment, but no comparable data for similar traditional public schools is included (Aspire Public Schools, 2006). Similarly, Leona Group LLC, reports on its Web site that performance is improving, but no technical reports or even data sources are provided (Leona Group, 2006). Miron and Nelson (2002), however, found that Leona Group, along with Charter School Administrative Services, were the two EMOs with the poorest performance records in Michigan in terms of relative change scores. The Web site for Victory Schools (2006) has a section devoted to general achievement claims. However, no technical reports have been made available except for Philadelphia, where Victory Schools and other EMOs did no better than comparable district schools (Gill, Zimmer, Christman, & Blanc 2007). Other EMOs, such as Mosaica, White Hat, and Constellation Schools, had no available research or technical reports, but their web sites did share success stories. Nelson and Van Meter (2003) completed a review of performance in Mosaica schools and found its performance in 9 out of 11 sites to be noticeably lower than demographically similar districts. Like the other EMOs noted above, there are no published evaluations of student achievement for Imagine Schools and Charter Schools USA. These two EMOs did not even provide evaluation reports that can be assessed for validity.

EMO vs. Non-EMO Charter Schools Two studies compare the performance of EMO-run charter schools with non-EMO charter schools (Loveless, 2003; Miron & Nelson, 2002). Both studies found that EMO-run charter schools had lower absolute results on standardized tests. The Miron and Nelson analysis, which covered Michigan, found that EMO charter schools showed achievement gains that were less than non-EMO schools. The Loveless study, which covered 10 states, indicated that EMO-run charter schools had exceptionally low starting points, but were making larger gains than charter schools without EMOs. Both of these studies were methodologically weak because the states they covered had only school-level data available. They both also relied on measuring performance only by the percentage of students who met a particular level of performance rather than by an analysis of the overall distribution of achievement gains.

Other Reviews of Research Other studies have concluded that there was insufficient evidence to evaluate the effectiveness of EMOs. They include evaluations of student achievement in EMO’s by The Comprehensive School Reform Quality Center at the American Institutes for Research (CSRQ, 2006) and the U.S. General Accounting Office (GAO, 2002). In 2003, the GAO conducted an analysis of a small number of EMO-operated schools in six cities. Results were “mixed,” although a majority of the EMO schools in the study had negative results.

There still is no independent evidence that EMOs are successful in raising student achievement results relative to similar comparison groups. This should not come as a surprise, since earlier research suggested that efforts to outsource school management to private EMOs did not achieve the anticipated results. For example, Ascher, Berne, and Fruchter (1996); and Richards,
Shore, and Sawicky (1996) examined experiments with private management of public schools in the early 1990s. They characterized these experiments as disappointing failures that ended with the termination of management contracts. Similarly, papers presented at a conference sponsored by the National Center for the Study of Privatization in Education (Levin, 2001) expressed caution about the performance claims of EMOs and raised questions about the outcomes of private management in terms of efficiency, equity, and social cohesion.

Although the evidence on student achievement is not promising, evidence from a number of studies and evaluations suggests that EMOs appear to be doing a good job in terms of satisfying customers as measured by satisfaction surveys of parents and teachers and qualitative research (Cookson, Embree, & Fahey, 2000; Gomez & Shay, 2000). However, Miron and Nelson (2002) found that while parents in EMO-run charter schools were more likely to be satisfied with the schools’ facilities than parents in non-EMO charter schools, teachers were less satisfied with working conditions in the EMO-run charter schools.

While data limitations preclude hard and fast conclusions, the existing research on student achievement in privately managed public schools casts doubt on privatization advocates’ claims that introducing the discipline of the bottom line to education will lead to improved effectiveness.

EMO FINANCE: MEANS AND STRATEGIES FOR PROFIT

The fate of EMOs does not lie directly in their ability to perform well but rather in their ability to make profits. Even though only a few EMOs have reported profits thus far, the large number of EMOs that have entered the market suggests that many perceived this to be a profitable sector. Unfortunately, little is actually published on EMO’s business plans or strategies for surviving and succeeding in the marketplace. Because much of this information is proprietary and because these are private entities, it is difficult to gain information about how they work.

Because they are profit motivated, the overall strategy of EMOs should be to seek all possible sources of revenues and find ways to cut or save on expenditures while maintaining or improving quality. A number of profit-making strategies pursued by EMOs are described below. Some of these strategies are self-apparent, and some have been uncovered from fieldwork and interviews with representatives of EMOs or the schools they operate.

Targeting Less Costly to Educate Students

The most obvious way for an EMO to seek profit is to cater to students who are less costly to educate than the typical student on which the funding is based. On the whole, EMO-operated district schools tend to enroll students similar to those in neighboring public schools. The EMO, typically, is asked to assume responsibility for failing district schools that serve largely disadvantaged populations.

Charter schools differ from district contract schools in that they create specific profiles and market themselves to specific families. The process of marketing and recruiting students makes it possible to target students who are less costly to educate. Although charter schools are not allowed to charge fees, they can make it difficult for low-income or single-parent families to enroll by providing limited or no transportation, requiring parents to volunteer at the school, or establishing a complicated application process that requires interviews and parent information meetings. The implementation of strict disciplinary policies that result in suspensions and expulsions of students can further structure enrollment by removing or “counseling out” students experiencing difficulties.
Depending on state and district funding formulas, and depending on details in the individual education plans, students with special educational needs can be substantially more costly to educate. A number of studies have confirmed that charter schools, particularly those operated by EMOs, enroll substantially fewer students with special education needs (Horn & Miron, 2000; Nelson, Drown, Muir, & Van Meter, 2001) than traditional public schools. Furthermore, the special education students they do enroll tend to have mild and easily remediated disabilities such as speech and language difficulties (Miron & Nelson, 2002). Nelson et al. (2001) and Miron and Nelson (2002) found that most EMO-operated schools served elementary students.

Although patterns indicate that most EMOs tend to focus attention on elementary schools and enroll lower proportions of economically disadvantaged and special education students, there certainly are exceptions to this pattern. While it is hard to prove that EMO-operated charter schools are engaging in intentional cream-skimming, enrollment patterns are compatible with a cost-reducing, profit-making approach to education. For example, when EMOs can target and enroll more homogeneous populations of students, it is easier to increase average class size and cut down on paraprofessional staff that supports students who require extra assistance.

**Saving on Costs for Employee Compensation**

Salaries for teachers and staff consume a large proportion of the overall budget for schools, which makes cuts in salaries one of the most attractive means of cutting costs. Based on data from state evaluations, EMO-operated charter schools typically have a pay scale that is 10 to 15 percent lower than those of local districts (Miron & Nelson, 2002; Miron, Nelson, & Risley, 2002). Many EMOs report that they use bonus pay to increase base salaries. Teachers’ salaries in EMO-operated district schools typically follow the pay scale in the local district. Teachers recruited to work in EMO-operated schools tend to be younger and have less formal education and training than teachers in surrounding districts (Miron & Nelson, 2002). Employing less qualified teachers helps concentrate teacher salaries at the lower end of the pay scale. Depending on the state, teachers employed by the EMO might also be exempted from state retirement systems, making it possible to achieve savings by providing less comprehensive retirement and fringe benefits.

Two consequences of hiring large proportions of less-experienced teachers at reduced salaries and benefits below prevailing compensation rates are that EMOs cannot compete for the best teachers, and they can be plagued with attrition that will drive up costs for in-service training. This may partially explain the relatively poor gains in student achievement in schools operated by EMOs.

A number of EMOs have designed their models so that more scripted instruction is used, which means the experience and qualifications of teachers becomes less important. NHA uses what it calls “teacher-centered” instruction. Incoming teachers to NHA receive clear and comprehensive lessons, thus reducing time for planning and developing lessons. In many respects, the success that NHA is having with retaining teachers with substantially lower salaries mirrors what has been seen in small private schools where teachers are willing to work for less money in exchange for orderly and eager-to-learn students.

**Reduction of Services and Support**

EMOs can attempt to increase profits by reducing services and support. Particular areas where services can be cut include transportation, lunch programs, and extracurricular activities. Two of these areas are described here.
**Transportation** In some states, charter schools are not required to provide transportation. In Michigan, for example, state funding for transportation is incorporated into per pupil revenues, even though charter schools are not required to provide it. While some EMO-operated charter schools provide extensive transportation services to increase enrollments, others such as NHA do not provide a formal transportation system. An absence of transportation makes the school less attractive to low-income or single-parent families that may find it difficult to drive their children to and from school each day.

**Hot Lunch Programs** The absence of a hot lunch program not only saves money but also disqualifies schools from the federally sponsored free and reduced lunch program. Therefore, low-income families that wish to take advantage of this program may need to opt for other schools where they can benefit from the subsidized lunch program.

**Negotiating for More**

A high official at Edison Schools claims that public schools have been wasteful and ineffective, spending too much on central administration and not properly focusing instructional resources (Chubb, 2001). Based on such claims, Edison seeks to receive the “whole dollar” when it negotiates with districts to operate schools. It requests the typical per pupil expenditures that reach schools as well as a portion of the central administration costs. Negotiating for the “whole dollar” has resulted in substantially higher revenues for the Edison schools than for surrounding district schools, even though the contract requires the district to provide services such as transportation, school health services, and cleaning and maintenance from general district funds. Districts have become more aware of these practices and have given more scrutiny to their contracts with EMOs.25

Aside from negotiating with districts for additional revenues, a number of EMOs and CMOs have leveraged donations from foundations or corporate sponsors as a condition for managing schools in states where the per pupil revenues are low.26

**Building Equity in Facilities and Equipment**

If handled effectively, purchasing or construction of facilities can be a profit-maker for EMOs. Many of the large EMOs that operate charter schools and nearly all of the single-site EMOs own the school buildings. In turn, the school leases the building from the EMO. By purchasing the privately owned facilities or equipment with public money, EMOs can create equity.27

In many privately operated charter schools, the EMO owns the facilities, equipment, furniture, and even learning materials (Horn & Miron, 2000). The private property holdings of the EMO are completely or partially paid for with federal charter school start-up monies and state and district operational costs. In recent years, charter schools across the country have been making more concerted efforts to secure their “fair share” of capital funds from states. This issue is not easily resolved, however, since state agencies insist that the building be publicly owned by the charter school board so that it can revert to the state in the event of a closure.

**Expanding and Diversifying**

Creating economies of scale is critical for EMOs if they are to succeed in making a profit. School size and concentration of schools are critical in determining overall efficiency. Many of the large EMOs started in a particular region where schools were closely clustered, and they could ben-
EOMs have sought to expand into other service areas, such as cyber schools and the provision of supplemental education services that are less regulated and show growth potential. Some EMOs have packaged and sold or leased their curriculum and accountability systems. Supplemental services such as summer school provide the opportunity for EMOs to use their facilities and human resources during times when many public schools are not productive.

Can EMOs Be Profitable?

The outlook for EMOs is unclear. A number of signs suggest that EMOs are likely to face a more challenging milieu in the years to come. Increasing scrutiny by states agencies, authorizers, and school boards has led to an increasing number of terminated or nonrenewed contracts with EMOs. Given the proprietary nature of the data, it is difficult to obtain precise data on nonrenewals and terminations and the reasons underlying them. However, as one indicator of their magnitude, Edison reported managing more than 130 schools in 2001, but only about 80 in 2006. Even among this smaller number, some newer schools had replaced older ones. In some cases, the EMOs have terminated contracts that are not profitable. District officials and school boards are also becoming more careful in negotiating new contracts, making it less likely that EMOs will receive beneficial treatment in terms of higher financial compensation than for comparable district schools.

Another factor that is likely to undermine the future profitability of EMOs is that if they are successful, they may work themselves out of a job. For example, if an EMO succeeds in turning around a struggling district contact school, the district likely will want to resume control of the school. In the case of charter schools, EMOs can be critical as they navigate the start-up phase which requires the most work and capital. Once the budget is stabilized and operation of the school becomes more routine, the charter school board may wish to resume responsibility for operating the school.28

Levin (2002) questioned whether EMOs can be profitable and identified five critical characteristics of education that EMOs have “failed to realize”: (1) education is a tough business because it is regulated, monitored, and subject to the demands of multiple audiences and layers of government; (2) EMOs must incur high marketing costs that public schools do not face; (3) relatively short-term contracts (3–5 years) have their own risks in amortizing investments at school sites; (4) the economies of scale that were anticipated do not exist; and (5) a uniform educational model akin to a single business model cannot be owners of nonprofit EMOs and for-profit EMOs that are not profitable29 can garner generous easily applied (Levin, 2002). These factors as well as changing political climates are critical in determining the further growth and profitability of EMOs.

Even if EMOs prove not to be profitable in the long run, that may not mean they will not survive. Political agendas that promote private management are likely to continue to result in new opportunities for EMOs, including new contracts to operate schools with higher levels of revenues than surrounding schools receive. Furthermore, the fact that investors may perceive the potential of high returns and administrators can command high salaries and benefits (including bonuses) in successful EMOs may motivate others to consider taking risks to establish EMOs. Closer scrutiny by investors and a weak track record of overall profitability, however, is likely to limit or stop many of the new companies from flourishing.
SAFEGUARDS TO ENSURE REASONABLE AND EQUITABLE CONTRACTS WITH EMOS

Reasonable and equitable contracts ensure that there is a balance between the authorizing board’s need to fulfill its public obligation to govern the school responsibly and the EMOs need to have sufficient freedom to run the school without micro-management from the board (Lin & Hassel, 2005). Faulty financial incentives, combined with poorly designed contracts can result in EMO-run schools operating in ways that may be at odds with the goals set by the contracting board as well as the overall public interest. Boards that contract with EMOs should consider the following measures to ensure that they engage in “smart buying” (Horn & Miron, 2000; Lin & Hassel, 2005):

- Require at least two competing bids from EMOs.
- Limit the length of a contract to no more than the length of the charter and preferably less. In the case of contract schools, the length of the contract should allow reasonable time for implementation of new models (e.g., at least 3 years), but not more than five years.
- Establish benchmarks for intermediate outcomes and contingency plans to resume control of the schools in the event of poor EMO performance; these will help ensure that the option for terminating a contract early is viable and realistic.
- Require full disclosure of finance and performance data.
- Ensure that the district or a nonpartisan group serves as a broker for information on schools from which parents can choose. This should not be left to the EMOs alone.
- Retain independent legal counsel.
- Budget for internal and external evaluations of contracted schools and EMO performance.
- Ensure that the EMO has no personal connections with the contracting board members (i.e., arm’s-length negotiation of contract).
- Ensure that materials developed at the school and equipment and materials purchased with public funds remain under the ownership of the school board.

Although the safeguards noted above are specific to school boards, there are other safeguards that are more specific to state agencies and authorizers that can help ensure a proper balance that protects the public interest while still tapping the entrepreneurial spirit of private management to provide education.

Oversight of EMOs Policy makers should act to make oversight of EMO-operated schools as transparent to the public as possible. Boards that contract with EMOs are still responsible for the services delivered and should therefore be required to budget for and plan adequate oversight. Authorizers of charter schools should require that they be allowed to review contracts with EMOs before boards enter into agreements.

Technical Assistance for School Boards District boards or charter school boards that contract with EMOs could benefit from technical assistance and information regarding the contracting process. Many large EMOs have experienced and effective business people promoting their company as well as sophisticated lawyers and accountants negotiating their contracts. Support and guidance from the state may help public school boards negotiate more carefully and effectively.
Create Equitable Funding Formulas

Involving EMOs in the provision of public services creates an opportunity to harness the entrepreneurial interests of private companies. Policymakers should ensure that funding formulas are fair and equitable, and they should be aware of how monetary incentives steer for-profit enterprises. In other words, policymakers should peg funding for schools to variations in the true cost of educating different groups of students (Miron & Nelson, 2002). If it costs more per pupil to educate secondary school students than students in the elementary grades, the funding formula should account for this. If services such as transportation are going to be optional, so too should funding for these services. When funding formulas assume that it costs the same to educate every child, EMOs will have an incentive to target those students who, experience shows, cost less to educate.

Ensure Adequate Start-Up Funds and Timely Payments to Charter Schools

Both the limited amount of start-up money and the fact that many new charter schools need to wait several months after the start of the school year before state or district money arrives create a need and demand for EMOs. While charter schools can benefit from EMOs’ access to capital and administrative capacity, they are likely to lose in other areas. They may face higher administrative costs and, in accepting a standardized school model, lose key ideals of charter schools such as autonomy, site-based management, and ability to create diverse school options.

These measures and safeguards presume that EMOs can and should be allowed to manage public schools. Interestingly, some suggest harsh restrictions on EMOs. Conn (2002), for example, suggested that state legislatures enact laws that require for-profit EMOs to post monetary bonds in escrow that will provide remedial education, tutoring, or job training to students whose academic achievement is impaired as a result of attending schools managed by the companies. In addition, she proposed creating a limited private cause of action for education malpractice. Although measures such as these may help protect public interests, they are likely to go too far and serve as a deterrent to EMOs rather than a safeguard to balance school boards’ interests and those of private management companies.

CONCLUSION

Private involvement in public schooling is not new. Neither is the notion that private companies can contribute to and profit from public education. Nevertheless, many educators and policy makers are uncomfortable with private management of public education, a relatively new form of privatization (Belfield & Levin, 2005). Most would agree, however, that if a company can deliver a better product for less cost, it should have the right to claim remaining revenues as profit. Education management organizations remain controversial for a number of reasons, including the following:

- Even though democratically elected public officials are responsible for the services that are contracted to EMOs, this responsibility is complicated by the lack of transparency and the fact that important information regarding the operation of these private companies is largely proprietary. There is also concern that public officials may become increasingly dependent on private contractors for information regarding quality and performance of the actual services they are contracted to provide.
- After more than a decade and after hundreds of contracts to outsource management and operation of public schools to private EMOs, there still is a lack of evidence that private
companies can operate public schools more efficiently and with more favorable outcomes than traditional public schools.

The intent of this chapter, with its review of research and available literature on EMOs, is to provide a sound basis for understanding education management organizations and the manner in which they are affecting the control, performance, and public nature of education. As has been illustrated, EMOs represent a relatively new but controversial form of privatization that confounds the basic notions of accountability and further blurs the distinction between public and private.

NOTES

1. HMOs, or health management organizations, have been perceived less positively by the public in recent years due to rapidly increasing costs of health care and the common perception that HMOs have become another layer of health care bureaucracy.
2. Some management companies, such as JCR & Associates (now a part of Imagine Schools), began by providing a menu of services for the schools with which it worked and later evolved to an exclusively full-service EMO. Some EMOs, such as Charter Schools USA, advertise that they can provide either comprehensive management or just back office support.
3. KIPP, which has more than 50 schools in 16 states plus the District of Columbia, is a nonprofit network of schools that many confuse with an EMO. The KIPP model provides assistance and quality control to locally operated schools that follow the packaged model. However, since KIPP does not actually manage the school or have executive authority over the school, it is not actually an EMO.
4. The term charter “management organization” (CMO) is sometimes used to refer to nonprofit groups that manage multiple charter schools and whose goal is to promote expansion of charter schools and address concerns with quality and sustainability (NewSchools Venture Fund, 2006).
5. In Arizona, EMOs are allowed to hold a charter. In Michigan, like most states, there must be a school board that holds the charter and then subcontracts to an EMO.
6. In these instances, it is not uncommon to see one spouse running the school as a principal and the other spouse heading the EMO to which the board has subcontracted the operation of the school (Horn & Miron, 2000). The creation of the EMO undermines the authority of the school board, but provides greater assurance to founders that the facilities or school they created will not be taken from them easily. In many cases, founders of charter schools have put considerable personal wealth on the line to start the school.
7. Charter school authorizers—also known as sponsors—are publicly elected or appointed groups that issue and oversee the contracts that govern charter schools. In most states, local and state school boards are authorizers, although in some more permissive states, other groups such as appointed boards and public or nonprofit agencies are permitted to issue charters.
8. This estimate is based on figures from 17 states that account for approximately 80 percent of the nation’s charter schools. For these 17 states the figures were based either on existing reports or on estimates made by individuals working with charter schools in the state. For the remaining 20 percent of the charter schools—for which we had no basis for making an estimate—it is assumed that 5 percent of the schools were operated by EMOs, which is a rather conservative estimate. The Center for Education Reform suggests that only 10 percent of the charter schools in the nation are operated by EMOs. Molnar et al. (2006) estimated that approximately 18.8 percent of charter schools are operated by EMOs.
9. Lists of EMOs can be found in Molnar et al. (2006), who have been preparing annual reports on EMOs, and also in Miron and Nelson (2002). The National Association of Charter School Authorizers (2006) identified 22 EMOs and lists them on its Web site (this list includes a few nonprofit EMOs). The list is being updated and will reportedly profile an additional 20 companies. Differences in the total number of EMOs reported by differing sources or groups relate to whether or not the growing number of single school operators is included. Also, some lists do not include nonprofit EMOs.
10. Public education systems consume a large portion of each nation’s gross national product. The American public education sector (kindergarten to 12th grade) is estimated to cost around $420 billion per year and consumes nearly 5 percent of the Gross Domestic Product of the United States. Because revenues for education expand moderately from year to year, this sector is both a stable yet potentially lucrative market for exploration and expansion by private entrepreneurs.

11. Hentschke, Oschman, and Snell (2005) highlight five likely factors that can explain the growth of EMOs: (i) districts have a history of outsourcing special education services, (ii) growth in accountability policies, (iii) increasing use of school choice programs, (iv) greater use of school district outsourcing, and (v) increasing numbers of charter schools.

12. Cyber schools, also known as virtual schools or online schools, deliver the majority of their instruction to students through a Web site instead of in a school building. These schools are particularly popular with families that are homeschooling their children. Cyber schools receive recognition and public funding by applying to become a charter school, which is permitted in a large number of states.

13. Several EMOs, have a strategy to start with lower elementary grades and then grow from the bottom. In other words, they add a grade each year until the school reaches its desired range of grades.

14. Edison Schools Inc., for example, has lost contracts for more schools than the total number of schools it currently operates. By 2005, Edison lost contracts for 81 schools (American Federation of Teachers, 2006). Commonly cited reasons for terminating contracts with Edison include poor performance on tests and additional expenses required by the contract. Less commonly cited reasons were low enrollments and teacher attrition.

15. The EMO studied was Education Alternatives Inc. This company ultimately lost its contracts with districts and, after a name change and an attempt to enter the charter school market, went bankrupt.

16. One important limitation in satisfaction surveys is that they include only teachers and parents that remain in the school. Dissatisfied teachers and parents that leave are typically excluded from the samples.

17. Molnar (2001) reported that 5 of 21 EMOs contacted indicated that they were profitable. Four of the five profitable EMOs, however, were rather small in size or had sizeable investments in operating private schools.

18. Lacireno-Paquet (2004) found that enrollment patterns in EMO-operated charters differed substantially. On the whole, she reported that small EMOs were less likely than large EMOs to enroll low-income or minority students.

19. State and federal categorical grants do provide additional revenue for special education and economically disadvantaged students. These additional revenues, however, typically falls short of covering the additional costs of providing educational services to these special needs students.

20. Costs for elementary schools are noticeably lower than secondary schools because of differences in average teacher salaries, extracurricular activities, and demands for specialized subjects with high infrastructure costs such as science laboratories and vocational technical programs.

21. In her study of teacher salaries in charter schools, Burian-Fitzgerald (2005) found that charter school teachers had similar starting salaries as teachers in traditional public schools although charter school teachers gained less salary for additional years of experience.

22. In Michigan, employees of EMOs including teachers, are specifically exempted from the Michigan teacher retirement system. The resulting financial boost is frequently mentioned as an explanation for the growth of private EMOs in Michigan (Prince, 1999).

23. In most NHA schools, teachers are greeted with relatively homogeneous classes of students with supportive parents. Teacher satisfaction surveys from teachers at NHA indicated that they were more satisfied at NHA and less likely to leave than teachers in other Michigan charter schools (Miron & Nelson, 2002).

24. In-depth analyses of Michigan finance data presented in Miron and Nelson (2002) suggest that charter schools realize cost savings by offering a more limited range of services than noncharter public schools. In other words, even while Michigan charter schools received less funding per pupil than traditional public schools, they typically were receiving more funding than traditional public schools once we controlled for the types of services offered and students served. This reduction in services
resulted in an annual $1,033 per-pupil cost advantage for one of the NHA schools that was studied in depth. From this same analysis, it was found that EMO-run schools tend to spend a considerably lower proportion of their total expenditures on instruction and, not coincidentally, have higher administrative costs.

25. In Dallas, an audit revealed that the district was paying around $12 million more for the 7 schools operated by Edison than it did for its remaining schools that were still under district management (Dallas Public Schools, 2001).

26. Many of the large for-profit EMOs have been effective in securing capital resources from investment firms, although much of the interest from the investment sector seems to have fizzled after the collapse of value in Edison shares in 2002. A number of the nonprofit EMOs have secured additional funding from foundations and private individuals who wish to promote the growth of private management of public schools (NewSchools Venture Fund, 2006). This capital largely has been used for starting and establishing the EMOs and CMOs.

27. Because NHA leases its facilities from a sister company, it also retains any profits derived from the building lease. In fact, the financial arrangement that NHA has with its boards essentially allows NHA extensive leeway to set the terms of the lease. Annual leases on most of the buildings are above market rates (Miron & Nelson, 2002). Interestingly, NHA doubled the annual lease paid by one of its schools in 1999, which drew questions from the media (Reinstadler, 1999) but not from the school’s governing board.

28. In many states, training of charter school boards has become mandatory or at least highly recommended. With boards that are aware of their responsibilities, increasingly autonomous, and empowered, we are likely to see them terminate more contracts with EMOs. In Delaware, the charter school boards terminated all of the contracts for the EMOs that once operated a third of the charter schools in the state (Miron, Cullen, Applegate & Farrell, 2007). Interestingly, Wilson (2006) claims that EMOs are losing contracts in part because of conflicts with school boards and the unwillingness of authorizers or state regulators to enforce contracts.

29. While shareholders of Edison stock suffered with the collapse of stock value, top administrators in the company were enjoying salaries that were more than twice what large district superintendents would receive. In addition, a number of top Edison administrators cashed in on lucrative stock options and have benefited from low-interest loans from the company.

30. In order to work efficiently, markets must provide cheap and reliable information about products to potential consumers (see, e.g., Stiglitz, 1988). Therefore, at the state or district level, reliable and accurate data should be reported on the schools from which parents can choose, including those under contract.

31. Arsen, Plank, & Sykes (1999) identify and discuss rules that policy makers should consider to encourage positive outcomes and protect students and citizens against the harmful consequences of a poorly-structured market for schooling.

32. Pini (2001) calls for greater oversight and scrutiny of EMOs after she found extensive disparities between what EMOs say and what they actually do.

REFERENCES


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