Policy Research

Although Education Management Organizations have been operating since the early 1990s, we know relatively little about them. Since EMOs are privately run companies, their proprietary status limits what they must disclose to the public (Miron, 2008). EMOs have two goals, one is to make a profit, and the other is to increase competition and in turn increase student performance (Levin, 2001). It is on these two goals that EMOs success should be measured. We must also remember that EMOs are operating within the current public school system and must navigate the politics and pressures that involves (Levin, 2002).

EMO Approaches

EMOs take varying approaches in how they choose to enter the education market. Many EMOs are service providers to schools (lunch, curriculum, after school programs, professional development) who have contracts to provide only these specific services (Levin 2001). However, the EMOs we are focusing on in this paper are those that are managing schools. The two models of school management are contract schools and charter schools. Contract schools are those where a school district has contracted a private company to run the operations of the school, while the district maintains control over the staff, facilities, and educational requirements. The other more common approach is in the charter sector. In this model a board secures a charter from the state, which each have different authorizing methods, and then the charter holders contract an EMO to facilitate the start-up and operations of their school (Levin, 2002). In the majority of states, private management companies are not allowed to hold charters; Arizona is currently the only exception (Molnar, et. al, 2009). According to a study of for-profit EMOs by Arizona State University (2009) 94% of EMOs are managing charter schools while 6% are district schools. Some EMOs operate both district and charter schools. There are also

EMOs that are single site operators while other operate either regionally or nationally. The current trends show that contract schools are decreasing while charter schools are increasing. Gary Miron (2008) found that for-profit charter schools make up approximately 20% of all charter schools and are growing at the same rate as charter schools as a whole.

Underlying Social Problems

Education management organizations have tried to address the problems of low student achievement and lack of adequate school choice while operating to make a profit. In the 1990s there was the belief in many industries that government deregulation would lead to increased competition and in turn better outcomes (Levin 2002). John Chubb (2001) cited the belief that schools "are paralyzed by politics, bureaucracy and are incapable of innovation…what we need is innovation." Private providers who did not do a good job would be pushed out by competition and industries would become more streamlined when not bogged down by the bureaucracy of government. These beliefs reinforced the idea that student achievement was tied to mismanagement (Levin, 2002). Business knowledge of management was intended to cut wastes and lead to innovation in education. Through competition both EMOs and traditional public schools but would force to improve or loose their share of the market. This movement coincided with the creation of charter schools, which operate under the same principles of innovation, competition, and choice.

The passage of the No Child Left Behind Act (NCLB) (2001) created a new role for EMOs. The reauthorizing of the ESEA as NCLB marked a shift in the government's view on school reform. Instead of the 1990s view that bureaucracy needed to be minimized to improve schools, NCLB implied that we needed to increase accountability for all schools by keeping track of student progress, eventually getting all students to reach a proficiency level as

determined by each state (NCLB, 2001). If a school fails to meet the predetermined adequate yearly progress (AYP) they face several levels of remediation. Included in remediation is the option to contract schools to private companies. This suggests the belief EMOs can improve failing schools and can be successful in an accountability-based system. This option isn't very popular thus far. In California 10% of failing schools have chosen EMOs and only 2% nation wide (Molnar et. al, 2009). Despite it's limited use, researcher still believe that EMOs can be a viable option because it allows the district to retain control of the school while increasing operational support (Miron, 2009).

There has recently been a shift in the context of Educational Management Organizations. President Obama has set aside stimulus money for education, with some of the money ear marked for charter schools. President Obama's Secretary of Education also recently announced his "Race to the Top" competitive education funding initiative (http://www.ed.gov/programs/racetothetop/index.html). One of the requirements states have to meet in order to compete for funding is to remove any caps on charter schools. This proposed increase in charters is an attempt to encourage innovation in education. The government is still addressing student achievement with a focus on increasing student choice and innovation (Miron, 2008).

Efficacy of Approach

According to Levin (2002) there are two criteria that should be used to measure the effectiveness of for profit EMOs; first, are they profitable and second, have they improved outcomes in their schools while leading to improvement in competing schools. The research on educational management organizations is limited and varies in quality. There haven't been many independent studies. Also, the very nature of EMOs and charter schools makes them difficult to

conduct comprehensive studies as each state varies. Some authors have reviewed the most reliable studies and they have found that no definitive conclusions can be made and more research needs to be conducted (Wilson, 2006; Minor, 2008). Studies on achievement have looked at both contract schools and charter schools.

The most comprehensive research done on contract schools had been on Philadelphia's diverse provider experiment (Rand, 2007). That study found that student achievement rose in all schools in the district regardless of which treatment they received, (for profit, non-profit, district take over) and there was no significant difference between the models used. The study also found no evidence of competition but could not conclude that competition didn't exist. Although Philadelphia has been the largest contract school example to date, there are serious limitations to basing judgments on contract schools on this one sample. One issue is that there was no student choice over which school they attended. There were also required district benchmark assessments and common curriculum. These are major issues that can limit the efficacy of contract schools by taking away their autonomy. According to Frederick Hess and Chester Finn (2007) "innovation normally occurs only when that establishment allows it and only up to the limits it allows" (p. 54). In the contract model the school district still has a high level of control over the EMO. They control the school, the transportation, can regulate district mandated assessment and the teachers contracts. This forces the EMOs to operate within the context of the district's collective bargaining and limits their opportunity to be innovative and make money (Levin 2002).

The research on charter schools is also limited; because of the nature of charter schools it's difficult to conduct reliable research (Miron, 2008). Many of the studies are either based on individual networks of charters or on individual states. The largest obstacle to researching

charter schools is the lack of common assessments. Current research is based on student achievement as measured by state standardized test, which is a limited and potentially flawed method. If we could agree that standardized tests were a good measure of student achievement, the research would still be flawed because there is currently no national assessment (Gary Miron, personal communication, November 16, 2009). The review of the research, as seen above, hasn't come to any consensus on the effectiveness of EMOs. However, some studies have looked at EMOs operating within a single state. A study done by David Welsch and Cynthia Hill (2009) looked at student achievement in charter schools in Michigan found there to be no difference in student achievement between non-profit and for-profit charter schools. They also found no difference in success based on size of EMO (large providers operating 10 or more schools vs. small providers). It is unclear whether EMOs are increasing student achievement and more research needs to be done in this growing sector.

The final review of efficacy of EMOs requires an examination of their ability to make profits. Initially some EMOs were publically traded companies. Edison, the largest and most widely followed EMO, reported losses which according to Levin (2001) where approximately $600 million. They, like all other EMOs today are now private companies. Because they are private we know very little about their profitability. In an interview with Dr. Martin West (personal communication, November 16, 2009) he said that many EMOs today claim to be profitable, although it is doubtful they are highly profitable. According to John Chubb (2001) for-profit EMOs can make money by "using economies of scale…to build organizations that use time and resources more efficiently and effectively then public school districts, leading to higher student achievement and a similar cost." It has been debated whether economies of scale can be obtained in education. Some experts believe that they don't exist in education because although

some costs can be shared, each school and district is unique and constantly changing so cost cutting strategies won't be successful (Levin, 2001). Others believe that EMOs need to be careful not to expand too much and surpass economies of scale to diseconomies of scale (David Welsch, personal communication, November 20, 2009). Whether economies of scale have currently been achieved is uncertain as we can only hypothesize the methods EMOs are using to make profits. We know that both contract and charter schools receive per-pupil funding, for charters it's based on a state funding formula. Contract schools can negotiate with school districts and have occasionally negotiated higher fees to account for administrative costs (Levin, 2002). Therefore, if on average EMOs are receiving comparable funding it stands to reason that they must cut cost somewhere to make a profit.

Henry Miron (2008) proposes six ways that EMOs try to make money; cutting employee costs, recruiting less costly students, reducing services, negotiating, equipment and facilities, and expanding. It has been estimated that staffing accounts for 80% of school budgets. EMOs might try to cut costs by employing novice or less qualified teachers, or by using more part-time employees. Also if an EMO hires their staff (not the district) they can save money on using cheaper health care and retirement programs. Reducing staff costs is believed to be the most common cost saving practice among EMOs (Levin, 2001; Miron, 2008). EMOs also have to spend money on marketing their programs. It has been proposed that some EMOs target students that are homogenous and therefore easier to educate. Although they cannot selectively enroll students they put in place barriers such as requiring high levels of parental involvement and not providing transportation (Henry Miron, personal communication, November 16, 2009). Not providing transportation is also part of reducing services to cut costs. Schools also might cut extracurricular activities, or hot lunch. Negotiating is only relevant to contract schools that have

the opportunity to negotiate with the district. Saving money on equipment and facilities typically entails the EMO owning the facilities and equipment. Henry Miron (personal communication, November 16, 2009) described an example where the EMO said that they were leasing the building, which turned out to be owned by a sister company. Finally, EMOs can try to save money by expanding. This follows the economies of scale theory that if the school size increases they can save money by having shared costs (Miron, 2008). Although we don't currently know if EMOs are making a profit, we do know that companies believe that money can be made as companies are still willing to enter the industry (Henry Miron, personal communication, November 16, 2009).

Given the paucity of available research on innovation, it's difficult to determine the level of innovation in EMOs. The only two available resources are the Rand Study (2007), which isn't a good representation of EMOs as a whole, and qualitative data from Dr. Henry M. Levin (2006) who observed several EMO operating schools. They both found few examples of innovation and instruction that mirrored traditional public schools. One possible cause for this is that EMOs need to market themselves in order to get contracts (Levin, 2001).