

# The Charter School Experiment

*Expectations, Evidence,  
and Implications*

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# Hybridized, Franchised, Duplicated, and Replicated

## Charter Schools and Management Organizations

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### THE EVOLUTION OF CHARTER SCHOOL MANAGEMENT AND GOVERNANCE

This is a pivotal era in charter school reform, where early visions of a movement characterized by community-centered and teacher-initiated schools are giving way to more market-driven and corporatized schools. Advocates and policy makers have been disappointed with mixed achievement data that indicate in the aggregate that charter schools have not outperformed traditional public schools. Moreover, they have been frustrated by the persistently small percentage of U.S. students enrolled in charter schools, despite the movement's expansion to forty-one states. For these reasons, advocates have begun to support charter school growth along more business-like models. Reflecting this shift, the theme of the 2008 National Charter Schools Conference, held in New Orleans, where the majority of charter schools are operated by management organizations, was "Still We Rise: Achieving Academic Excellence at Scale." With the encouragement and support of venture philanthropists, policy makers and, most recently, the federal government, schools started and

managed by for-profit companies and nonprofit groups characterize the current wave of charter school reform.<sup>1</sup> In short, advocates are investing significant money, energy, and political capital into scaling up charter school models that they deem most effective at producing academic gains. The theme of the 2010 National Charter Schools Conference, held in Chicago, "Innovators in Education: Leading the Race to the Top," reflected the renewed national energy supporting charter schools under the Obama administration's Race to the Top program.

In this chapter, we organize the existing knowledge base on what is alternately referred to as the educational management organization, charter school management organization, or, simply, the management organization. The entities commonly labeled educational management organizations (EMOs) arrived almost simultaneously with the dawn of charter schools in 1992. In the intervening years, this private school-management sector has expanded and diversified. Policy researchers and advocates use various terms to refer to contemporary iterations of management organizations: The EMO usually oversees charter and noncharter schools. The charter school management organization (CMO) usually operates on a nonprofit basis and exclusively operates charter schools. The more general term, management organization (MO), is a catchall term for the entire sector.<sup>2</sup> Though not all schools run by MOs are charter schools, and neither are all charter schools run by MOs, a review of the development of the two sectors makes it clear that the growth of each has much to do with sustaining and expanding the other.<sup>3</sup> The relationship between charter schools and MOs has become especially symbiotic over the last decade, with philanthropists and policy makers lending their support to the development and expansion of MOs, hoping that their influence would help produce a more robust and better-quality charter school movement in light of mixed data on student achievement.<sup>4</sup>

## ORGANIZATION OF THE CHAPTER

This chapter investigates the claims of charter school and MO advocates and critics through an analysis of the knowledge base on MOs. Our review comes in four sections. First, we consider the competing theories of change that have animated the charter school movement; we specifically discuss the competing visions of charter schools as market entities or tools for community empowerment. Second, we expand upon our initial description of MOs, noting that they have been in operation in several iterations

since the early 1990s and have organizational antecedents dating back at least thirty years. In this section, we also describe the contemporary scope of MOs, finding that although they account for a small percentage of charter schools in the aggregate—9 to 12 percent, by some estimates—they appear to be concentrated in key urban districts, where they enjoy significant market share.<sup>5</sup> Third, we examine the empirical and advocacy-driven literature on MOs in terms of finance, equity, governance, and effectiveness. As we discuss, advocacy organizations and individual charter school boosters and critics produce much of the analysis on MOs, which can cloud empirical findings with political agendas. Despite these limitations, enough empirical study exists to point to key tensions in charter-school-MO relationships that require further examination. Finally, in the fourth section, we conclude by exploring the policy and normative implications of this chapter's findings for charter school research and practice, public education, and notions of democratic governance.

## MARKET CONTROL OR DEMOCRATIC CONTROL? COMPETING VISIONS FOR CHARTER SCHOOL REFORM

From their origins, charter schools were animated by seemingly competing theories of school change. These theories are best described as *market control* models of school, which embrace private-sector practices and organizational arrangements, and *democratic* or *community control models*, which imagine schools as sites for local stakeholders to create spaces responsive to their particular and idiosyncratic educational and social needs. For market advocates, public schools had been too beholden to public-sector special interests, especially to teachers unions; these special-interest groups exerted undue influence over the way school systems operated. Market-control advocates believed that by restricting opportunities for the special-interest groups to exert their political will, schools would greatly improve. Specifically, market-based tools of competition, choice, and accountability would generate superior schools that were more efficient. This theory is most often attributed to John Chubb and Terry Moe, who wrote, "The nation is experiencing a crisis in public education not because these democratic institutions have functioned perversely or improperly or unwisely, but because they have functioned quite normally. Democratic control normally produces ineffective schools."<sup>6</sup> In short, not only is democratic participation not a priority under a market model for schools, but it is the prescription for school failure.

For charter school advocates also committed to democratic control of schools, the bureaucratic layers of school districts had rendered school administration too distant from the needs and concerns of local schools and communities. Adherents of democratic control consist of both supporters and opponents of charter school reform, but each tends to favor making schools and school systems more open to influence by marginalized communities so that they can be more responsive. Charter school reform, by giving control over governance, curriculum, personnel, and other key school functions to the people closest to them, would restore the democratic function of schools. Community control advocates, racial and ethnic centrists, and alternative curriculum supporters often articulate this progressive argument for charter schools.<sup>7</sup>

Some theorists argue that the democratic possibilities of choice reform become truncated under the influence of corporate and market reformers. The introduction of education management organizations into charter school reform complicates the potential of charter schools to realize their democratic potential and aligns them closer to market-controlled entities, argues Michael Engel:

Charter schools are public-private hybrids that operate under the provisions of a contract negotiated between their organizers and a state or local public authority. Privatization, the last stop on the way to a free-market educational system, is contracting out writ large. It involves the transfer of control of school instructional services to managers who are neither elected nor on the public payroll and who are paid with public funds under contract with a governmental body.<sup>8</sup>

More recent scholarship has argued that the "market versus democratic control" theoretical frames fail to capture neoliberal policy activity.<sup>9</sup> In fact, as we will demonstrate in this chapter, it is often democratically elected public officials who have embraced private-sector actors in the form of MOs to run charter schools. This integration of market and democratic actors is especially poignant in charter school reform; within this terrain, they are not polar opposites, but rather partners. Under mayoral control, for example, it is democratically elected public officials who are most frequently ceding control of school management, data collection and analysis, testing and evaluation, school security, and food services to corporate entities.<sup>10</sup> Rather than being at tension, then, market and democratic forces become fused under contemporary school district governance and management.

### MOs, Charters, and the Shift in Charter School Purpose

The trend in which private, for-profit, and nonprofit organizations run charter schools is a detour from an original, oft-cited intent of the charter school movement, which was to encourage educators, parents, and community members to create innovative and independent schools.<sup>11</sup> Charter advocates credit at least two men with the original charter school concept: former American Federation of Teachers president Al Shanker and University of Massachusetts education professor Ray Budde. Each man presented his theory of charter schools in articles written in 1988.<sup>12</sup> Shanker argued for allowing "any school or group of educators" to propose improved ways of educating their students, and being granted a "charter" to implement their plans.<sup>13</sup> Similarly, Budde imagined that a charter would be granted to someone with a vision or plan: "In a school district, the grantees would be teams of teachers with visions of how to construct and implement more relevant educational programs or how to revitalize programs that have endured the test of time. Note, that a charter was granted directly to the person or persons responsible for planning and carrying out the vision."<sup>14</sup> Shanker and Budde each proposed that school boards would review such charters, give these schools or programs greater autonomy that would allow teachers to use innovative tactics, and then be evaluated five to ten years after initiation. Both authors predicted that with school board resources and oversight, innovation and risk taking would flourish. Writing in the midst of the 1980s-era school district experiments with site-based management, both imagined that charter schooling would result in more locally created, educator-initiated schools that served as models of local control. These reformers' notions of the purposes of charter school reform seemed to align with early adopters. For example, the federal study of charter schools, conducted from 1997 to 2000, found that the primary reason charter school founders started schools was to realize a particular educational vision.<sup>15</sup>

Despite the dominance of these early reformers' visions, in reality, the charter school movement has always been composed of advocates who held diverse educational and social policy goals. As many researchers have noted, progressive activists, market adherents, ethnocentrists, conservatives, and educational traditionalists all join together under the charter school umbrella.<sup>16</sup> The idea that there was ever any singular vision for charter school reform is a fallacy. Yet what seems to be emerging, especially in key urban school districts, is a new policy consensus—driven

by philanthropists, advocates, and policy makers—that MOs are the best way for the charter school movement to achieve competitive scale, academic quality, economic viability, and social equity by having an impact on the maximum number of students and their families.<sup>17</sup> These claims are contested by many critics, who argue that the increasing privatization of charter schools not only runs counter to their hopes for innovative, organizationally diverse, community-based schools, but also will result in more conformity, less accountability to local communities, and poorer quality.<sup>18</sup>

### EDUCATION MANAGEMENT ORGANIZATIONS: AN HISTORICAL OVERVIEW AND A LOOK AT THE CONTEMPORARY LANDSCAPE

Contracting with the private sector to run schools or educational programs within schools is not a new phenomenon; nor is the privatization of public sector services, an observation noted by numerous researchers.<sup>19</sup> Still, contemporary discourse about policy too often ignores history, and although past experience does not necessarily predict the future, a historical context can help us evaluate the present effectiveness of EMOs. The current trend toward relying upon the private sector to deliver such services has many elements in common with earlier experiments in U.S. educational policy. While states and local educational authorities have also engaged in contracting and outsourcing, for the purpose of providing a broad policy history, we focus here primarily on federal efforts.

#### Initial Experiments with Privatization and Contracting: 1970s to the 1990s

An historical antecedent of MOs is the foray into contracting out for the operation of particular programs within high-poverty, high-minority schools. This practice had mixed results in terms of cost effectiveness, student outcomes, and public accountability.<sup>20</sup> Performance contracting, a federally funded program of the 1970s and early 1980s, involved over 150 school districts. It was launched to improve the academic performance of students of color in low-achieving schools in light of efforts to desegregate public education. The thinking was that African American and Latino children needed remediation before they could be put in schools with white children. A series of evaluations found that the contracts were difficult to enforce since achievement and performance benchmarks had been vague, curricula were narrow, and cost savings were minimal or nonexistent. Moreover, there was much instability in

the pool of providers, with many going out of business or merging. Evaluators also found that public officials often lacked the capacity to hold contractors accountable to the terms of their contracts and that contractors taught to the tests to assure student performance on standardized assessments, shunned the teaching of subjects not tested, and often failed to adequately account for expenditures.<sup>21</sup>

A subsequent experiment with privatizing school restructuring took place under President George H. W. Bush and was launched in 1991 with the New American Schools Development Corporation, later called New American Schools.<sup>22</sup> This initiative resulted in the implementation of seven school restructuring models in several cities and states; the projects were funded with public and private funds. While several of the models proved to be promising, the ultimate test would be the ability to spread these models to public schools around the country after they had been successfully incubated. The goal was to scale up the implementation to other schools and districts—those that could purchase the model—once the restructuring was successfully adopted. Evaluators of the scale-up phase found that successful implementation was confounded by a lack of sufficient buy-in and fidelity to the reform models by schools that purchased the designs.<sup>23</sup>

In summary, research on nearly three decades of forays into contracting for private sector delivery of public education shows that policy claims of vast innovations, maximized efficiencies, and superior academic outcomes are often overstated and fail to account for issues of local context, which can be highly complex.<sup>24</sup> These claims also reveal a lack of understanding of the critical role of parents, community members, teachers, and school leaders in school reform. Research on the privatization of public services in other sectors also reflects the rhetoric-versus-reality mismatch upon implementation. This is not to say that such research cautions against contracting with the private sector altogether. Rather, researchers suggest that such engagement be carefully considered, regulated, and evaluated if it is to realize the desired benefits. The notion of engaging the private sector in education, never dormant, was revitalized with the 1991 passage of the first charter school legislation in Minnesota and with new scholarship that argued for the systemic use of contracting in public education. These developments were based largely on lessons learned from these earlier privatization experiments.<sup>25</sup> New privatization efforts were also informed by two other developments. First, a growing neoliberal and promarket ideology in public education was being advanced by think tanks funded by

key philanthropies that supported school choice. Second, there were the real and legitimate frustrations of many low-income communities of color about the failure of public education in their locales. These movements led to coalitions in support of vouchers, private contracting, and expanded school choice and led to the growth of the MO sector as chronicled in the following section.<sup>26</sup>

### The Rise of EMOs: 1992–1998

The middle 1990s marked EMOs' first experience in operating public schools and, in a few cases, whole districts. In 1992, Education Alternatives Incorporated (EAI) won contracts to manage nine schools in Baltimore and six in Hartford, and Edison Schools won contracts to operate four elementary schools: one each in Massachusetts, Michigan, Texas, and Kansas. While Edison continued to grow in the mid-1990s, EAI encountered trouble as schools under its management failed to show achievement gains. At a cost of 11 percent more per pupil than comparable schools in Baltimore and with no increase in test results, attendance, or other measures, the City of Baltimore, after three years, canceled its contract with EAI. Soon thereafter, Hartford terminated its contract as well. While this marked the gradual decline of EAI—encapsulated by its removal from NASDAQ in 2000—the EMO landscape was just beginning to heat up.

By 1998, new players had entered the for-profit education game and included Mosaica Education, Inc.; National Heritage Academies; and White Hat Management. Following the same business model that EAI and Edison employed, these for-profit EMOs aspired to deliver schools that were more efficient than traditional public schools, to scale up nationally, and to exploit economies of scale.<sup>27</sup> These new players fell into three categories: national firms, state-based firms, and virtual EMOs.<sup>28</sup> Both national and state-based firms offered management expertise in information management, payroll, and professional development and supplied their own curriculum and approaches to teaching and learning. The main difference between these two types was that national firms aimed to scale up nationally and operate schools across the United States. For example, Edison had schools in Michigan and Texas. In contrast, state-based firms developed a market in a single state. However, over time, many of the original state-based firms, such as National Heritage Academies, expanded and now work in multiple states. The third type, virtual EMOs, concentrated on distance

learning, for example, K12 Inc. Overlap existed between the types, especially as EMOs tried to increase their market share. For example, White Hat Management offered a distance- and electronic-learning program called DELA. As the EMO sector gained momentum, proponents and critics turned to the achievement data to see if privately managed schools ran more efficiently, had more innovative approaches to teaching and learning, and infused competition into the public school system.

### Diversification in the EMO Sector and the Growth of CMOs: 1999 to 2005

This period served as a reality check for advocates of the EMO movement. Evaluations and studies of EMO-managed charter schools revealed that achievement outcomes were mixed—in some cases were no better than district run schools—and that making a profit proved to be challenging. Additionally, mounting skepticism about the for-profit model raised questions about its impact. Specifically, the need to make a profit necessitated labor cost reduction by either hiring less experienced teachers or having larger class sizes; rapid expansion to create economies of scale; and fewer resources such as transportation and school lunch.<sup>29</sup> Since many of these policy decisions, especially larger class sizes and the lack of transportation, were unpopular with parents and concerned educators, policy makers and funders looked for other routes to expand the charter school movement.

As a result of mixed achievement results and increasing skepticism, for-profit EMOs, such as Edison and Mosaica Education, began to lose contracts. By 2001, EAI, which had changed its name to Tesseract, filed for bankruptcy, and by 2002, Edison's expansion had slowed down so much that its stock price dropped by 98 percent. Struggling to stay solvent and stave off over \$60 million in defaulted loans, Edison's CEO, Chris Whittle, took the company private, ending its much-publicized run on the New York Stock Exchange.<sup>30</sup> A 2007 National Charter School Research Project report described this period as "the frontier 'land rush,' in which new operators were welcome even if they were undercapitalized, financially primitive, politically naïve, or educationally unprepared."<sup>31</sup> Widespread disillusionment with for-profit EMOs and the realization that more charter schools would be needed to transform the education sector required the emergence of a new type of charter school operator. This is when charter management organizations (CMOs) were developed.

Similar to EMOs, CMOs have an "identifiable instructional model—a curriculum and approach to instruction" and offer operational support to schools.<sup>32</sup> However, unlike EMOs, CMOs hailed from the nonprofit sector and were not subject to the pressures of turning a profit or the controversy of being a for-profit. CMOs also benefited from significant funding and support from foundations such as the Bill and Melinda Gates Foundation and venture capital organizations such as the NewSchools Venture Fund, which in 2002 gave \$50 million "to help create dozens of new public charter schools and to develop organizations with the capacity to provide thousands of underserved students with an excellent education."<sup>33</sup> This funding supported a dozen CMOs and the management of over one hundred charter schools. CMOs supported by the NewSchools Venture Fund include Aspire Public Schools, Green Dot Public Schools, and Achievement First. Many CMOs, such as Green Dot Public Schools or Achievement First, started as successful charter schools and received funding to replicate their model and scale up nationally. As momentum congealed around CMOs, EMOs continued to struggle to prove their profitability and record of academic achievement. The passing of the No Child Left Behind Act of 2001 (NCLB) provided new hope for EMOs, opening up new educational markets for MOs and leading to diversification of the sector.

Stipulations in NCLB allowed for MOs to offer supplemental educational services and to ultimately run schools that fail to meet their annual yearly progress (AYP) indicators. Under NCLB, schools that fail to meet AYP three years in a row must offer supplemental educational services (SES) to students. Often, these services take the form of after-school programs or Saturday programs. Some EMOs, such as Edison Schools, provided SES to schools. In addition to SES, if a school fails to make AYP for five years in a row, it must be restructured. A school can be restructured by reopening it as a charter school or by contracting with an EMO, two solutions that help to enlarge the MO sector.

While CMOs remain focused on replicating charter school models nationally, EMOs, as illustrated by their role as SES providers, have been diversifying, branching out into assessment consulting and into creating customized achievement programs for schools to help them attain AYP.<sup>34</sup> True to the term *educational* in their name, EMOs seek to be generalists in their provision of services to schools and in their hope of being profitable. Alex Molnar and his colleagues described this situation: "Although our data suggests that the growth of for-profit EMOs has slowed, one should also be aware that some of the large and medium-size EMOs have been diversifying and

expanding into new service areas such as the provision of supplemental education services . . . Thus a slowdown in EMO growth in schools under management may reflect a strategic change of direction for some EMOs."<sup>35</sup> As EMOs diversify to meet schools' needs—the needs of both traditional public and charter schools—CMOs continue to grow. By 2009, there were 103 CMOs in the United States, compared with 95 EMOs.<sup>36</sup>

### Scale-Up of Charter Management Organizations and the Growth of School Development Organizations: 2006 to Present

The expansion of CMOs has led to variation within the management organization sector and has influenced the growth of school development organizations or intermediary organizations, which have been instrumental in starting new small schools across the nation. With over ninety firms in the sector—ranging from KIPP to High Tech High—CMOs have expanded in different ways. Some CMOs ascribe to a corporate style of growth, while others follow a franchising model.<sup>37</sup> Corporate-style growth emphasizes central management and gives CMOs more direct control over each school site, explains Julie Bennet: "The leaders of the corporate-model CMOs oversee the building and operation of each new school themselves. The trade-off for the slower growth is the assurance that each new school replicated the CMOs' standards for building design, staffing and programs."<sup>38</sup> Green Dot Schools and High Tech High are examples of corporate-style CMOs. In contrast, CMOs following the franchising model have a more decentralized structure, allowing for the organization to expand rapidly. Bennet explains: "While franchisees are building individual units, the central organization can spend its resources on promoting the brand and developing new products and services."<sup>39</sup> KIPP Schools and Uncommon Schools are examples of franchising CMOs. In terms of financial relationships, some CMOs, such as KIPP, require that schools provide a percentage of the revenue—usually 1 percent the first year. Other firms charge fees for specific services, while others, such as EdVisions, charge a flat start-up fee.<sup>40</sup> This rapid scale-up phase raises questions about quality. A recent Education Sector study raised questions about charter schools and the CMO's ability to scale up while still maintaining their quality.<sup>41</sup> The expense of educating high-needs students, the challenge and cost of ascertaining a physical space for the school, the churn and expense of high attrition rates for teachers and principals, and the heavy reliance on funding from philanthropies all make it difficult to bring high-quality, financially stable charter schools to scale.<sup>42</sup>

To ensure that their charter school models are being fully implemented, are of high quality and to address high attrition rates for principals and teachers, some CMOs have entered the field of principal and teacher preparation.<sup>43</sup> CMOs have been partnering with universities to offer certification for teachers and principals. For example, High Tech High has a partnership with the University of San Diego for a two-year certification program for its teachers. In 2008, three CMOs—KIPP, Uncommon Schools, and Achievement First—announced a partnership with the Hunter College School of Education, part of the City University of New York, to jointly create a new teacher preparation program. Courses in these programs will be cotaught by professors at Hunter College and practitioners from the CMOs. In terms of principal preparation, KIPP offers perspective school leaders either a one- or two-year-long, paid fellowship to prepare them to run a KIPP school.

While providing high-quality teacher and principal preparation programs represents one method of insuring quality, another means revolves around the termination of partnerships. CMOs function on the premise that if a school in a CMO's network does not meet its standards, the partnership will end. While the organization does not necessarily close the school, such schools face a daunting task in remaining open without the MO's institutional support. For example, in 2007, KIPP terminated its contract with the KIPP Sankofa Charter School in Buffalo. KIPP removed its name and official support because for over two years, the school had not been meeting KIPP standards. Specifically, students were not reaching their achievement markers.<sup>44</sup> As CMOs continue to scale up rapidly, it will be important for researchers and policy makers to monitor the frequency of broken contracts and the impact of termination on schools and the communities they serve.

Since 2003, CMOs have emerged as a lever for scaling up charter schools across the nation. Similarly, in the new small-schools movement, the emergence of nonprofit school development organizations, often referred to as *intermediaries*, has been pivotal in the rapid expansion of small schools. Similar to CMOs, many intermediary organizations—which also receive funding from the Bill and Melinda Gates Foundation—offer school design models and are involved in supporting the scale-up of new small schools. Examples of these organizations are Expeditionary Learning Outward Bound and Replications, Inc. While many of these intermediaries began in specific geographic regions, they are starting to expand nationally. For example, Replications began in New York City, but now has schools in Baltimore. Because overlap exists between the work of CMOs

and intermediaries, it remains unclear if, over time, they will merge into a single type of organization or will remain distinct entities. As the MO field becomes more diverse, it will be important to become more precise and descriptive about the range of organizations involved in school management and restructuring. Table 8-1 depicts the current MO terrain.

The evolution of MOs in the United States has morphed from its beginning in the 1990s with a high concentration of for-profit EMOs to its current emphasis on nonprofit CMOs. Questions of profitability and achievement changed the sector, pushing it away from its for-profit status

TABLE 8-1 Institutional landscape of management organizations

Type of organization	Activities	Examples	Level of control
<i>EMOs</i>	Operate schools on a for-profit basis. Contracts with local charter school boards or school districts to operate schools.	Edison Schools, Charter Schools USA	Tight
<i>CMOs</i>	Operate schools on a nonprofit basis.  Can hold the charter, or can contract with a charter school board to operate the school.  Often run networks or franchises of schools.	Green Dot, Uncommon Schools, KIPP	Moderate to tight
<i>Intermediaries</i>	Work as liaisons between districts, school boards, and schools; provide start-up funding and sundry curricular and administrative support.  Often have a network of affiliated schools.	The College Board, New Visions for Public Schools, Replications, Inc.	Moderate
<i>Supplemental education service providers</i>	Provide discrete services such as tutoring, professional development, data management, and analysis.	Sylvan Learning, Tungsten Learning Systems, Kaplan	Loose

Source: Adapted from Susan Colby, Kim Smith, and Jim Shelton, "Expanding the Supply of High-Quality Public Schools," September 12, 2005, Bridgespan Group, [www.bridgespan.org](http://www.bridgespan.org).



and toward a nonprofit model, spurred on by federal policy that helped to diversify the work of EMOs and CMOs. Debates about policy are endemic as CMOs navigate rapid expansion while also trying to provide high-quality schools. A distinguishing feature is the level of control these organizations exert, which can range from loose to tight.<sup>45</sup> With similar organizational forms emerging in the current educational management landscape, such as intermediaries and partner support organizations in New York City's public schools, there remain questions about how the organizations will involve and potentially influence each other over time. Given the historical volatility of the MO sector, we predict that in the coming years, there will be more mergers, collaborations, and intersections between established MOs and MO-like organizations.

### Contemporary Landscape of Management Organizations

The contemporary scale of MOs is difficult to determine with complete accuracy. Researchers following the development of MOs offer best estimates rather than exact numbers of organizations in operation. For example, the National Charter School Research Project (NCRP) estimates that MOs run just 9 percent of charter schools, while the Commercialism in Education Research Unit at Arizona State University estimates that EMOs operate 12 percent of charter schools.<sup>46</sup> Yet, these figures are potentially misleading for at least two reasons. First, given that few public agencies monitor the number of MOs in operation, it is likely that this sector is undercounted. Second, even if the NCRP estimate is accurate in the aggregate, it fails to recognize that in key urban school districts, MOs manage the majority, or a significant percentage of, charter schools.

New Orleans and Philadelphia are examples of this trend of MO concentration. Both cities are in the midst of district restructuring that has led to a large concentration of charter schools managed by MOs. Philadelphia's effort came in 2002 following a state takeover that initially recommended privatizing the entire school district. The New Orleans school district was reorganized after the tragic effects of Hurricane Katrina in 2005.

Key philanthropic and public policy support has facilitated these reforms, and while there has been community support for them, there has also been opposition. Teachers unions have been active in opposition movements (even as they have collaborated with MOs to start schools and functioned in MO-like roles to manage charter schools), but so have grassroots community members who have been displeased by how public officials have privatized the management of schools, sometimes with

little community input. Critics have also objected when some MO leaders appeared to have utilized their connections with policy makers to secure school contracts.<sup>47</sup> In 2010, for example, the Los Angeles Board of Education rejected numerous applications from MOs and instead supported groups of district-employed teachers and administrator to run its underperforming schools. Notably, the Los Angeles Unified School District contains more charter schools than does any other district in the nation.<sup>48</sup>

In the face of evidence of academic struggles in urban school districts, as well as significant fiscal support for them, such opposition has, for the most part, been easily overcome. Table 8-2 shows the concentration of privatized charter schools in four urban school districts, as well as the similarity in funders and MOs across these districts. Although the example of the Los Angeles School Board hints at larger, community-based opposition to MO-oriented reforms, these district concentrations of MOs and charters demonstrates the significant presence of MOs in urban school reform.

### MANAGEMENT ORGANIZATIONS: FINANCE, EQUITY, GOVERNANCE, AND EFFECTIVENESS

The current iteration of MOs is still in development, and empirical research is similarly in its early stages. Much of the literature is generated by the MOs themselves, by sympathetic think tanks or advocacy groups (see, for example, the Center on Reinventing Public Education at the University of Washington, or the National Alliance for Public Charter Schools), or by funders of MOs. Even if this literature comes from a supportive perspective, however, we find it helpful to utilize it in concert with existing empirical research to better establish the institutional terrain, policy tensions, and other issues to be explored in future research. Here we look at the literature on finance, equity, governance, and achievement.

#### Finance: Hybridized Funding of the MO Sector

Charter school finance is a complex issue. For a variety of reasons, charter schools are often ineligible for certain state funds, which, the charters argue, puts them at a disadvantage—especially in locales where real estate is expensive and scarce and they need to pay for capital expenses (see chapter 6 in this book). The passage of the American Recovery and Reinvestment Act of 2009, however, brings new resources for charter schools in this area in the form of real estate tax credits for charter schools as well as funding for charter school networks. Here we are less focused on this

TABLE 8-2 Defining the management sector in four urban school districts: type, size, and scope (academic year 2007–2008)

District	No. of schools	No. of charters	No. of charters managed by MOs (%)	MOs involved	Philanthropic support
New York City	1,466	61*	32 (52.5)	KIPP, Uncommon Schools, Achievement First, Beginning with Children, UFT, Victory Schools	Broad Foundation, Fisher Foundation, Bill and Melinda Gates Foundation
Los Angeles	714	139	63 (45)	Green Dot, KIPP, Inner City Education Foundation, Alliance of College Ready Public Schools, Aspire Public Schools, YPI, Bright Star, PUC, Celerity Education Group, Expectations Educational Excellence, Value Schools, Dialog Foundation	Broad Foundation, NewSchools Venture Fund, Fisher Foundation, Bill and Melinda Gates Foundation
New Orleans	5 (OPSB) 36 (RSD) (ACSA, no traditional public schools)	13 (OPSB) 21 (RSD) 9 (ACSA)	31 (72)	KIPP, SABIS, University of New Orleans, Pelican Education Foundation, Broadmoor Charter School Board, New Beginnings School Foundation, Choice Foundation, YMCA	Broad Foundation, Fisher Foundation, NewSchools Venture Fund
Philadelphia	270	63†	38 (55)	KIPP, Edison Schools, Mastery, Victory Schools, Chancellor Beacon Academies, Inc., Temple University, Foundations, Inc., Universal Companies, University of Pennsylvania, Alliance for Progress, Parents United for Better Schools	Broad Foundation, Fisher Foundation

\* A recent increase to the state charter school cap will allow New York City charters to expand to 100 schools; in 2008–2009, 19 new schools were scheduled to open. Of these, 17 were to be managed by MOs.

† In 2008–2009, 15 new charter schools were scheduled to open in Los Angeles Unified School District. Of these, 14 were to be operated by MOs.

‡ In 2008–2009, 2 new charter schools were scheduled to open. In 2008, the School Reform Commission reclaimed the management of 6 schools previously managed by MOs. Abbreviations: ACSA, Algiers Charter School Association; MOs, management organizations; OPSB, Orleans Parish School Board; PUC, Partnerships to Uplift Communities; RSD, Recovery School District; UFT, United Federation of Teachers; YPI, Youth Policy Institute.

broader financial picture for charter schools and instead interested in the prevailing fiscal incentives currently in place to increase the MO sector within the charter school movement.

In order to bring this movement to scale, several organizations have come to a policy consensus about the need to fund the growth of quality charter schools; the organizations concluded that the key to quality schools is through MOs that have a promising model. This more aggressive form of philanthropy is often referred to as *venture philanthropy* to capture its emphasis on the tangible return on investment and to contrast it with more traditional philanthropic forms.<sup>49</sup> The Philanthropy Roundtable, a group sympathetic to school choice, has published a guide for philanthropists interested in supporting school choice and recommends not only funding schools, but also funding research to demonstrate the effectiveness of school choice, as well as funding political candidates who are school choice supporters.<sup>50</sup> As table 8-2 demonstrates, key private donors are the backbone of this direction of charter school reform. These include several California-based philanthropies: the Broad Foundation, NewSchools Venture Fund, and the Fisher Foundation, for example, all of which have provided several millions of dollars to support charters and specific MOs.

These philanthropies are significant levers for the growth of particular MOs. In 2007, for example, KIPP was awarded \$65 million from a group of philanthropic organizations to start forty-two charter schools in Houston. Since 2001, the Broad Foundation has distributed well over \$60 million to help start charter schools in a number of cities—\$56 million in Los Angeles—and has provided support for twelve charter school support organizations, ranging from MOs to advocacy groups to facility developers. Recently, the Broad Foundation awarded \$23 million toward the creation of seventeen charter schools, funds that were allocated to KIPP, Aspire Public Schools (a CMO), and Pacific Charter School Development (a real estate development organization). The Donald and Doris Fisher Foundation is a key supporter of KIPP and Teach for America, many of whose alumni leave or graduate from the program to teach in KIPP and other CMO schools. Other foundations have long been supportive of school choice and continue to provide funding; these include the Thomas B. Fordham Foundation, the Lynde and Harry Bradley Foundation, the Olin Foundation, and the Walton Family Foundation. Of these, the Walton Family Foundation is the most active and generous funder of school choice. Together, these foundations in a given year provide over \$100 million to school choice efforts, not only helping to support MOs and other school choice providers,

but also providing a solid financial foundation for the broader school choice movement.<sup>51</sup> A recent Education Sector report found that “funding from foundations is so important to the rise of charter school management organizations that executives like Marco Petruzzi of Green Dot say flatly that the CMO movement ‘would stop in its tracks’ without philanthropic support.”<sup>52</sup>

Public funds also support MOs and the broader school choice expansion effort. The federal government has increased its allocations to charter schools and, by extension, to MOs. Under NCLB’s choice provisions, charter schools are prominent alternatives. Since 2006, the U.S. Department of Education’s Office of Innovation and Improvement has provided over \$278 million annually to charter school reform, an amount more than double the allocations to magnet schools and not inclusive of funds that have gone to support choice and charter advocacy organizations.<sup>53</sup>

The 2010 budget continues this trend by increasing funding to the Federal Charter Schools Program by \$52 million and by making—for the first time—charter school networks eligible for funding. Additionally, Congress and the Obama administration have shown their support for charter schools and MOs through the American Recovery and Reinvestment Act (AARA) of 2009. This legislation leverages billions of dollars in federal funding to foster the development of charter schools and MOs through four initiatives: Race to the Top (RTTT), Investing in Innovation Fund (i3), Title 1 school improvement grants, and real estate tax credits. Each of these initiatives favors charter school development and MOs. For example, in the RTTT competition, priority is given to states that have created environments friendly to charter schools. States that lift caps on the number of charter schools and support charter school networks are viewed as being more likely to win a part of the \$4.35 billion initiative. Similarly, the i3 Fund, which has over \$750 million (\$650 million from AARA and \$100 million from the 2010 budget) to support new educational ventures, allows charter schools and CMOs to compete for grants because they are deemed to be local school systems.<sup>54</sup> Both the RTTT and the i3 are administered by former employees of the NewSchools Venture Fund. Jim Shelton, who currently administers i3, exemplifies this connection. Before joining the Department of Education, Shelton developed and ran his own for-profit EMO until he sold it to Edison Schools, where he worked as a division president. The use of charter schools and MOs also features prominently in Title 1 school improvement grants. This \$3.5 billion effort champions four models, including a “restart model,” which closes underperforming schools

and replaces them with charter schools or places underperforming schools under MOs.<sup>55</sup> Finally, the AARA legislation opened up over \$25 billion in real estate tax credits to charter schools and MOs to acquire new properties for school construction. Since most states require charter schools to find their own space, this legislation marks a significant shift in favor of charter schools and MOs. The trifecta of new funding mechanisms, new charter-friendly policies, and new MO-oriented administrators in the Department of Education creates a fertile environment for the expansion of charter schools and MOs. These groups have also enjoyed significant support from the private sector, especially from venture philanthropies. Thus, while charter advocates may have a legitimate claim to the state funds they feel they are shortchanged, they also enjoy considerable private and federal support that is unavailable to noncharter and nonchoice schools.

While robust policy debates are in progress about the normative aspects of private funding, our goal is not to draw such conclusions here. Rather, we will briefly establish the private-funding landscape and explore some of the policy debates it raises. The private support does come with expectations for fairly rapid achievement outcomes, lest CMOs and charters lose their philanthropic support, and so in addition to the accountability demands of public agencies, the schools and their leaders are also accountable to the venture philanthropies. A relationship with a private donor can help MOs and charter schools and motivate them to perform better, even as it has the potential to cause some schools to cede over issues of curriculum or personnel in order to placate donors, or overpromise what their academic impact will be in order to secure and sustain funding.

### Governance and MOs

A related source of tension in the MO and charter school sector occurs around the policy of school governance. In theory, many charter school founders seek to realize an alternative educational vision while MOs increasingly look to maximize standardization and effectiveness according to their educational and fiscal models. We are interested in how governance unfolds when actors with various visions for the schools come together (by *actors*, we mean leaders, teachers, parents, students, funders, school district officials, state officials, and board members). Research on governance in charter schools managed by MOs, which we define as the interaction between power, values, and decision making, while not as prevalent as research into other charter school policy issues, reveals that despite original intentions for value alignment, there are often significant

disagreements at the school level about the mission and operation of the such schools. The questions of how such issues are negotiated and who or which parties prevail in the midst of such disagreements are important to explore.

A few studies have explored these issues. A team of researchers examined the relationship between MO-like organizations (which they termed "institutional partners") and the charter schools the organizations supported.<sup>56</sup> The researchers found that in four of the ten schools they examined, the partners exerted significant control over decision making. Since the partners had given money and other support to the school, they felt a sense of ownership over school operations and felt entitled to have ultimate authority over them. Institutional partners had more control in these schools, said the researchers, because they comprised a majority on the schools' boards of directors:

The chair or president of the boards of trustees in three of the four charter schools with institutional partners was a key official in that organization; in the fourth school, the institutional partner approved the chair. In all four schools, institutional partners' representatives or appointees comprised at least thirty percent of the boards of trustees. Moreover, since the institutional partner filled additional slots with acquaintances or professional colleagues with compatible interests, boards tended to support the partner organization's objectives in major policy decisions.<sup>57</sup>

The study found that in three of these schools, the boards of trustees did not include the school administrators. "Furthermore, two institutional partners were clear that executive sessions of their boards would be held in the administrator's absence, and that decisions about budgeting, capital funding, and facilities construction were outside the purview of the school administrator."<sup>58</sup> Finally, teachers in these schools reported being unsure about who had authority in the school; they felt pulled between the school leader's preferences and those of the institutional partners.

Other studies of the negotiation of power between public school stakeholders and their MOs, intermediaries, or institutional partners have revealed similar issues in a variety of geographic and state policy contexts. The studies suggested that the power of local actors within such schools to influence school policy is limited since MOs often have specific models they plan to implement, and since the MOs often hold greater fiscal and political power.<sup>59</sup> This research has found that many times, schools,

parents, and teachers exit partnerships as the only route available to exercise their own voice.<sup>60</sup>

These governance issues matter from the perspective of democratic governance, a construct that the current direction of charter school reform challenges and an issue that has always been in contention, even under traditional school district governance models.<sup>61</sup> In fact, most MO leaders and their supporters argue that for their models to be successfully implemented, local stakeholders must buy into them and implement them with fidelity, leaving little room for local voice.<sup>62</sup> Indeed, their theory of action holds that increased student achievement comes from solid school design, and so the most powerful indicator of their success becomes student performance on standardized assessments. And given the academic struggles of many communities that MOs target, the laserlike focus on achievement is in many ways laudable. In this new policy arena, however, there is still much work for researchers to do in further examining governance issues among the variety of actors involved in starting and sustaining particular MOs.

### **Equity, Achievement, and MOs**

Perhaps no two issues surrounding charter schools and MOs are as contentious and confounding as those of equity and student achievement. Since one of the key policy claims supporting the development of charter schools was that student achievement would flourish when schools were freed from school district bureaucracies, and since charters are theoretically supposed to be held to accountability goals they set in their applications to their authorizers, or risk being dechartered, all policy eyes are on student achievement. Thus far, the empirical research on charter school student achievement has been confounded by a number of methodological issues that researchers are trying to reconcile. Most researchers recognize the difficulty in drawing conclusions about the achievement of charter schools using aggregated data, given the tremendous organizational and pedagogical diversity of the movement, though ironically, many researchers see little problem with reaching conclusions about aggregated data from traditional public schools that are equally diverse.

Recent analyses of charter school and traditional school student performance on the National Assessment of Educational Progress indicate that charter school students perform at lesser levels in some grades and slightly higher levels in others when compared with traditional public schools.<sup>63</sup> Another controversial analysis conducted by researchers affiliated with the American Federation of Teachers found that charter schools

underperformed compared with traditional public schools, despite enrolling fewer poor students.<sup>64</sup> While the methodology of this study has been widely criticized, many of its key findings were echoed by a federal government analysis.<sup>65</sup> Some of the problems associated with these aggregate analyses have to do with the difficulty of controlling for local school policies that shape and structure student enrollment in charter schools, thereby making comparisons with other public schools without such admissions and other controls exceedingly difficult.<sup>66</sup> Still, meta-analyses of charter school achievement have produced similar conclusions about the relatively flat performance of charter school students on standardized assessments (see chapter 4 in this book).

Within schools managed by MOs, these same issues prevail, and in some ways, they are magnified. An unresolved policy tension related to student outcomes in MO-run schools is the relationship between at least three dynamics: the need to show rapid and consistent results according to prevailing accountability systems; the use of selective or screened admissions, or both, and other school-level policies to control and structure enrollment; and the need to prove that an MO is demonstrating results for underserved populations. Some data suggest that particular MOs have student bodies with fewer poor, minority, and special-education students; fewer English language learners; and proportionally more girls, even as other data indicate that MOs serve predominantly poor children (as indicated by eligibility for the federal free-lunch program), the majority of whom are students of color.<sup>67</sup> Given these demographic trends, parsing through the data on MOs and their effects on student achievement is difficult. For even if some MOs show positive student outcomes, any policy conclusions drawn from these data, if responsible, should consider the impact that parent and student contracts, longer school days and years, significant private funding, and school demographics have on those outcomes. As efforts increase to scale up MO-run charter schools, these broader contextual issues help to raise important questions about sustainability, the ability to replicate and duplicate models across diverse social contexts, and the effects on surrounding schools that do not require applications or behavior codes and enroll more special-education students or more English language learners.

If MOs' ability to increase student learning were not convincing, it is unlikely that they would have attracted such significant financial and political support. And some promising data indicate that many MOs are succeeding on several academic benchmarks: high graduation rates; high performance on state standardized assessments, especially in comparison

with traditional public schools in their host districts; and students' acceptance into four-year colleges or elite private high schools.<sup>68</sup> Recent analyses of standardized assessments in New York showed that New York City charter schools' performance outperformed statewide averages, though there were also problematic data on the relative under enrollment of special education students in charter schools.<sup>69</sup> In the context of a national conversation about the racial achievement gap, this array of research serves as evidence to reformers that MOs can help to ameliorate it.

Other research presents a more complex picture of achievement in MO-run schools. Specifically, the data indicate that there is variability in achievement within the MO sector, but also within particular MO networks. Some schools perform well and some do not, even when run according to the same educational model. One statewide study used longitudinal data for Arizona students in grades 2–8 between 2001 and 2003.<sup>70</sup> The researchers examined students who attended schools in the same sector for all three years—charter, traditional, and EMO. They found that charters and EMO schools overenrolled white students. EMO students were far less likely to be classified as English language learners (1.2 percent, versus 14 percent in traditional public schools). The researchers also found higher achievement in basic skills but lower achievement in complex-thinking skills. They suggest that the emphasis on cost savings, prepackaged curricula, and less experienced young teachers may be the reason for these results. Researchers have also examined student performance in Edison Schools and concluded that while there had been positive student achievement gains in some of the company's schools, others have lost ground, and the company often overstated overall achievement gains in its marketing.<sup>71</sup>

Studies on the performance of students in Philadelphia under the diverse-provider model are contradictory, yet indicate that such schools are not outperforming district-run schools.<sup>72</sup> In 2002, following a state takeover, Philadelphia undertook a diverse-provider model for school management in which forty-five schools were turned over to nonprofit and for-profit MOs to run. A collaborative study conducted by RAND Education and the Philadelphia-based Research for Action (RFA) found that student gains in proficiency in the district rose in the years after the state takeover, but that scores in privately managed schools did not keep pace with schools that were restructured, supported with additional resources, and kept under the purview of the school district.<sup>73</sup> In contrast, Paul Peterson looked at public test scores for fifth-graders between 2002 and 2006.<sup>74</sup> He found that private companies were very effective at raising test scores of students at or above

the basic level. In 2008, the Philadelphia school district leadership, citing poor performance, announced that it was revoking the contracts for the management of six schools that had failed to perform, and would be monitoring some twenty others for one year. The remainder were given new three-year contracts.<sup>75</sup> Peterson argues that the MOs were disadvantaged from the beginning since they were given the lowest-performing schools to manage and since there was very high teacher turnover in these schools.<sup>76</sup> This contention has some merit in that in state and school district policy, academic failure is the reason policy makers use to adopt private management strategies.<sup>77</sup> Thus, to prove their efficacy, MOs must serve academically struggling populations, which are often students of color whose families live in poverty, at least in urban contexts. In some respects, then, MOs can perpetuate long-standing patterns of racial and socioeconomic segregation in public education and potentially can exacerbate them, since as we have discussed, the MO sector is growing rapidly.<sup>78</sup> In short, the data on achievement and equity in the MO realm are complex, and much more study is needed to determine why such variability exists not only in the MO sector as a whole, but also within particular MO networks, such as KIPP or Uncommon Schools.

### CONCLUSION: POLITICAL, NORMATIVE, AND DEMOCRATIC IMPLICATIONS OF MANAGEMENT ORGANIZATIONS

The question of how to evaluate the work of MOs remains unanswered by research and public debate. Given the Obama administration's commitment to developing "effective" charter schools, and given the substantial philanthropic support for MO-operated charter schools in selected urban school districts, the tensions around control, achievement, and MOs' and charter schools' roles in public education are likely to persist and grow. In a post-NCLB policy environment, student performance on standardized tests, and schools' progress in making AYP generally trumps other measures of effectiveness. And as the research has shown, thus far the MO sector has mixed results in this area. There are other standards, however, by which we might judge the value of MOs and their management of charter schools, even if these are muted by the high-stakes accountability rhetoric in the national and state capitols. These would include more normative considerations of how Americans would like their public institutions to be governed; how to consider levels of parent and student satisfaction; how to evaluate the impact of the MO sector on the professional life of teachers,

students, and school leaders; the role of privatization of public services; and the relationship between the MO sector and racial segregation.

For example, in the area of governance, we argue that more attention is needed regarding the shifts in control over school policy and decision making that MOs seem to be heralding, issues over which there have long been struggles in American education. In 1990, John Chubb and Terry Moe argued in their influential critique of American public education that the problem plaguing schools was not that there was insufficient democracy governing them, but rather that there was too much; competing goals for schooling and the ensuing struggles over realizing them prevented schools from meeting anyone's preferences. In many ways, their vision for a marketized system of schooling has been realized through the intersection of charter schools and MOs in several urban districts. These trends have been coupled with mayoral control of school districts, in which corporate and market reforms often arrive in tandem.<sup>79</sup> And philanthropists are exerting unprecedented influence over the direction of reforms in many urban school districts.<sup>80</sup>

How democratic governance has fared under new institutional and managerial arrangements is unclear, but given the emphasis on scaling up and replicating particular school models, the space left for local decision making—for the teacher who has doubts that an instructional program is meeting her students' needs, for a parent who is unhappy with some aspect of school policy—appears diminished. Market advocates like Chubb and Moe might argue that teachers and parents expressed their democratic rights by choosing to work in the school or enroll their child there, but they are not to expect the school to conform to their whims. In the context of the growing numbers of MOs, the place and meaning of democratic governance of schools is clearly in flux.

Progressive policy analysts such as Paul Bauman have argued that "the central question in governance reform is interpreting the meaning of the word 'public' in public education. The public purposes of schooling require a democratic system of decision-making both as a means of school control and a demonstration of political values," but this iteration of school choice challenges this vision, long held by community-control advocates.<sup>81</sup> Future research will need to consider the following: Will the expansion and franchising of MOs create a new educational bureaucracy, supplanting the much-critiqued public one with a less transparent private one? Will market theory prove successful, and will low-performing schools be closed because of low consumer demand?

*consumer choice*

Other topics that warrant future research are the assumptions driving the expansion of the MO sector, that is, the arguments that it is possible and desirable to scale up and replicate or duplicate seemingly successful schools. While highly functioning public schools are certainly desired by most observers of U.S. public education, the definition of what constitutes a good school has always been contested across schools and school systems in America.<sup>82</sup> Ultimately, if the history of educational politics offers any lessons, while elites might primarily shape the broader policy context for charter schools and MOs, it will ultimately be parents, teachers, administrators, and local communities who will shape, implement, perhaps subvert, and determine the sustainability of the MO sector's involvement in public school reform.