5. Should Charter Schools Be a Cottage Industry?

John E. Chubb

Although no one ever recommended it be so, charter schools have become a cottage industry. Charter schools are small, serving less than 200 students on average—about a third of the size of the typical public school. Charter schools number over 3600 nationwide, with concentrations of nearly a hundred or more schools in ten states.[1] But few of these sizable numbers have joined forces in larger entities to exploit economies of scale. No more than 15 percent of all charter schools are run or supported by management organizations, which work with multiple charter schools. Contrast this with regular public schools, where the average school is part of a system of six schools, and a quarter of all schools are part of systems twice to many times that size.[2] In the fifteen years since the first one was authorized, charter schools have shown a powerful tendency toward small size and total independence.

Is this a good thing? Curiously, the topic has received little

1. Center for Education Reform, Press Release, October 27, 2005.

2. Estimated from the National Center for Education Statistics, *Digest of Education Statistics 2004*, Table 86.

serious attention. Advocates of charter schools have sometimes painted a picture of a proverbial "thousand flowers blooming." And charter schools were certainly intended to give rise to a range of innovative and alternative schools. But charter schools were also founded on the premises of the free market—choice for families and competition among providers generating a new and improved supply of public schools. No economic analysis ever suggested that the market would or should generate mostly small schools, operating independently and enjoying no scale economies. The fact of the matter is debates over charter schools—political and academic alike—never addressed the ideal organization of charter schools. Nobody ever argued that charter schools should become a cottage industry.

Why a Cottage Industry?

The cottage status of the charter industry is, nevertheless, not an accident. Charters are a cottage industry largely because opponents of charter schools want them to be. Since 1991 some forty-one states and the District of Columbia have managed to authorize charter schools. Every piece of charter legislation has been fiercely debated, with opposition coming from the traditional public school world, concerned about the loss of students and revenue, and support coming from uneasy coalitions of business interests, wanting to accelerate school improvement, and community groups, often from inner cities, frustrated with the quality of regular public schools. Every charter law is a compromise. Few laws—less than ten by some estimates and even fewer than that according to the analysis in Caroline Hoxby's chapter in this book—give charter schools opportunity to compete on a level playing field with traditional schools.[3] Opponents are able to limit

3. The Center for Education Reform, the most widely cited evaluator of charter school laws, rates only six laws an "A" and fourteen laws a "B," judging them along

the funding for charters to less than the funding for regular public schools. They are able to cap the number of charters that can operate statewide or in a district. And they are often able to give traditional public schools, the prospective competition for charter schools, control over the granting of charters. These restrictions certainly discourage the growth of charter schools to substantial scale.[4]

But two additional limitations that have become nearly ubiquitous may best explain the scale of charter schooling. One is the ban on for-profit operators of charter schools. At most, three states permit for-profit companies to hold charters directly. Several states also prohibit for-profit companies from contracting with not-for-profit charter holders to provide comprehensive management services. Because for-profit entities generally bring scale to their efforts to maximize profits, the restrictions on for-profit companies reduce the potential for scale to emerge in individual charter schools as well as in systems of charter schools. Opponents of charter schools have long viewed private business as both an inappropriate participant in public education—except as a provider of books, computers, and the like—and as a potential threat to the traditional operators of public schools. That opposition has successfully limited the role of for-profit companies in running charter schools—and thereby kept a lid on the scale of charter operations.

Scale has also been limited by the widespread prohibition upon charter holders of operating more than a single school under one charter. Few states explicitly allow charter holders to operate

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various dimensions of support for charter school openings. The Center for Education Reform, *The Simple Guide to Charter School Laws: A Progress Report*, Washington, DC: Center for Education Reform, 2005.

4. The political battles associated with new charter legislation and the compromises emerging from those battles have been widely documented. See, for example, Chester E. Finn, Jr., Bruno V. Manno, and Gregg Vanourek, *Charter Schools in Action: Renewing Public Education*, Princeton, NJ: Princeton University Press.

more than a single school. Even those often require each school to have its own board, though boards can occasionally share some members—a "daisy chain" of boards—to facilitate common policies and integrated operations. Most states, however, limit each charter to a single school overseen by a unique board. Such governance requirements ensure that charters cannot become systems—they can only be individual schools. Again, opponents of charters, concerned about the proliferation of well-resourced systems of schools, prefer governance this way—and have successfully lobbied for it in most places. The argument is not that charters will perform best if their scale is limited. The argument is that charters should not threaten the traditional public school system.

Charter schools, then, are a cottage industry not because anyone thought they would do a better job educationally if they were organized this way. Their organization is a byproduct of political opposition and compromise—not conscious design. But does it matter? Would charter schools work better if they could benefit from the direct involvement of business or from economies of scale? More modestly, is there evidence that business involvement and scale operations are a detriment to charter schools, and do they deserve the restrictions now on the books?

Economies of Scale

Although the term "cottage industry" is often used pejoratively, to refer to an enterprise that is exceptionally fragmented and inefficient—though perhaps also quite entrepreneurial—there is nothing inherently wrong with small-scale organization. The appropriate scale of an organization depends on what the organization is trying to do. Five-star restaurants, for example, are almost always small, independent operations. The extraordinary quality found in such establishments depends largely on the in-

dividual chef, and gifted chefs do not scale. Grocery stores, by contrast, which also sell food, scale very nicely. Grocery stores with hundreds of sites can offer consumers far lower prices and far more choices than a single "mom and pop" grocery store, and a wider range of quality prepared foods, not unlike a respectable restaurant. National grocery chains have superior purchasing power compared to the independents, and they bring scale economies to all of their operations—from the design of their stores, to the perfection of their operations, to the training and development of their staff.

Whether an enterprise should be small scale, as with five-star restaurants, or large scale, as with grocery stores, depends on many factors. Can the core competence of the enterprise be replicated through strong systems and processes? Do the marginal costs of producing more of the goods or services generally decrease with larger and larger volumes? Is the mission of the organization to serve large numbers? *Private* enterprises regularly ask these questions—and then try out their answers in the marketplace. If scale is beneficial, consumers flock to the larger enterprises for their lower prices, their higher quality, and their greater convenience—or whatever mix of benefits that consumers value. If scale does not offer benefits that consumer value, smaller scale enterprises prevail. Over the last century, consumers have clearly chosen large scale over small for a wide range of goods and services: food, clothing, finance, transportation, communication, and more. Yet, it is also true that small businesses are a major part of today's economy, serving, for example, as a greater source of new jobs than big businesses. The free market values enterprises large and small.

The Politics of Scale

What about schools? First, and foremost, we do not have the benefit of the market to evaluate the ideal scale of schooling. Public schools are products not of market forces but of public policy. Public education is provided as a public good in the United States as in most countries. It is in the public interest—few would disagree—to ensure that every child receive an education sufficient to prepare him or her to be a responsible citizen and a productive adult. Education is therefore provided freely and universally in most countries. As a public good, education can be provided in various ways, and countries do differ in this respect. Most importantly, education can be provided exclusively through schools run by the government. Or education can be provided by funding private, parochial, and other types of schools—for example, charter schools—with tax dollars, as well as setting up government-run schools. Until very recently, all public education in the United States was provided through government-run schools.

The scale of public schooling in the United States has therefore been largely a matter of public policy. To be specific, state policy establishes the fiscal and educational requirements for local school districts, and district policy determines the size of schools. A century ago, public schooling was generally small scale. With the exception of major city school systems, public schooling was community-based, every community having democratic control over its own schools. Some 100,000 school systems dotted the national landscape, many containing but a single school. "One-room school houses" serving students at multiple grades with a single teacher were very common. The average public school system had barely two schools with each serving a little over 200 students.

Over the last century, however, the scale of public schooling

changed decisively. In the early 1900s, education authorities from leading universities, the business community, and the governing elite, began to argue for a more "scientific" organization of schools.[5] They wanted schools less influenced by the political prerogatives of amateur school boards, less dependent on the wiles of the individual classroom teacher, and more driven by planning, systems, and specialization. Students needed differentiated programs, teachers needed prescribed curricula and formal training, and schools needed the support of sophisticated professionals including a superintendent and an expert staff.[6]

To be organized scientifically, schools and school systems needed greater scale. Over the course of the twentieth century, school systems were consolidated to create less than 15,000 systems from the original 100,000. Schools grew in size, more than doubling to over 500 students on average. High schools were especially affected as more and more adopted the post-war "comprehensive" model providing students with programs tailored to their post-high school aspirations, from business to vocational to college.

The impact of all of this consolidation on school performance is an unsettled issue. The comprehensive high school has certainly come in for strong criticism in recent years for being too large and impersonal. The biggest school systems in America, serving mostly major cities, have long been criticized as too politicized, too bureaucratized, and largely unsuccessful. The effects of district consolidation on rural education have not been clearly positive. One might say that while the question is unresolved, it is not clear that scale is an answer for what ails America's schools.[7]

5. The development of the modern school system is well explained in David B. Tyack, *The One Best System: A History of American Urban Education*, Cambridge, MA: Harvard University Press, 1974.

6. Augmenting these arguments were concerns about schools falling under the control of waves of immigrants flooding the cities.

7. On the impact of school and district consolidation see Paul E. Peterson, "Con-

Yet, that would be jumping to a conclusion because scale has been put to a very different kind of test in public education than in private enterprises. Scale has not been put to a market test; it has passed a political test. Schools and school systems are the scale that state and local politics, through time and compromise, have caused them to be. Schooling is not organized to maximize what consumers—be they students, families, or taxpayers—value. The closest we have to a market test of educational scale is private schools, which tend to be small and independent. But the private market is widely dispersed and serves only ten percent of all students and only families with the ability to pay. There is no telling what scale public schooling might assume if we allowed a family-driven market to determine its organization.

This is the crucial point: with charter schools, the nation has a potential vehicle for exploring the ideal scale for public schooling. The organization of public schooling heretofore has been determined entirely by politics. This is appropriate to a degree since public schools must be ultimately accountable to democratic authority. But politics need not be the only determinant of how education is organized and delivered. It is a high price to pay for education to remain the only important enterprise in American society for which we have so little idea how scale or alternative forms of organization might benefit its delivery. Charter schools could provide a test of how scale might or might not benefit education, but the test has been hampered by the limitations on scale imposed by charter laws—by politics.

The Potential of Scale

Consider the budget of a typical charter school with, say, 200 students. Assume (see Table 5.1) the school is funded with

solidate Districts not Schools," in Koret Task Force, *Reforming Education in Arkansas*, Stanford, CA: Hoover Institution Press, 2005.

Table 5.1 Annual Budget of Typical Charter School

Revenue	
200 Students @ $9,000 per student	$1,800,000
Personnel Expenses (including benefits)	
Teachers: 15 @ $60,000 per	$900,000
Principal	$100,000
Counselor	$75,000
Nurse (part time)	$25,000
Technology Manager	$75,000
Administrative Assistants: 2 @ $50,000 per	$100,000
Total Personnel	$1,275,000
Non-personnel Expenses	
Rent or Mortgage	$250,000
Furniture (amortized over five years)	$20,000
Durable books, materials, equipment (amortized over five years)	$30,000
Computers and lab technology (amortized over five years)	$10,000
Non-durable instructional supplies	$20,000
Office supplies, copier rental	$20,000
Contracted professional services (e.g., psychologist)	$25,000
Legal fees	$25,000
Utilities	$50,000
Maintenance	$75,000
Total Non-personnel Expenses	$525,000
Total Expenses	$1,800,000
Surplus	$100,000

roughly the national average per pupil revenue of $9,000, which provides the school total funding of $1.8 million. If the typical class size in the school is twenty, the school will need ten core teachers, plus another three teachers of non-core subjects (e.g., art, music, physical education, etc.) to provide the core teachers—and themselves—one to two planning periods per day. If we assume that 12 percent of the students—the national average—require special education services, the school will need two special education teachers, each with a case load of twelve students. The total teaching staff therefore will number fifteen. If each is paid the national average salary of about $47,000 with typical benefits of 25 percent of base, each teacher costs approximately $60,000. Total cost of teaching staff: $900,000.

The school will require additional personnel. A principal will cost $100,000 including benefits. The school will almost certainly want a counselor—another $75,000. A part-time nurse is usually necessary—at least $25,000. If the school employs technology, it will want the hardware and software maintained—another $75,000. The front office needs student information recorded, reports produced, phones answered, and parents greeted: two administrative assistants, $100,000. Total "non-instructional" staff: $375,000. Total personnel costs for the small charter school: $1.275 million.

On the non-personnel side the biggest cost is rent or mortgage. Students on average require at least 100 square feet per pupil—and that would be tight by most new public school standards. Minimum school size then would be 20,000 square feet. A new facility would cost at least $2 million to construct, plus land, which could be assumed to value a quarter of construction costs, or $500,000. A $2.5 million new facility could be financed, but at rather high interest rates, say 10 percent, because charter schools are only authorized for five years at a time. Even an interest-only loan imposes a $250,000 burden on the budget. Market rents would be in the same ballpark based on replacement costs.

Students need books, equipment, and computers, which averages $750 per student for grades K–8. The total cost of $150,000 can be spread over five years for an annual cost of $30,000. A computer lab with server runs another $50,000, which also can be spread over five years, for a yearly hit of $10,000. Schools must be furnished with desks, chairs, bookcases, etc. Average cost for a school this size is $100,000, which amortized comes to $20,000 annually. Nondurable materials, like workbooks, paper, and art supplies cost about $100 per student, or $20,000 per year. Instructional materials, furniture, and equipment totals $80,000. Office supplies, photocopier rentals, and the

like add another $20,000 per year to a typical small school. Total supply bill: $100,000.

The services of psychologists, speech pathologists, and other specialists required for special education services not provided by school staff demand $25,000 be set aside for contracted services. Charter schools inevitably face legal fees, especially associated with special education; $25,000 is a conservative estimate. Schools have utility bills, which for a 20,000 square feet school could easily cost $50,000 per year. Maintenance, assuming one full-time custodian and night-time cleaning under contract to a school maintenance firm, costs at least $75,000. The total cost of contract services, legal, utilities, and maintenance: $175,000.

The total annual expenses of this very typical charter are $1.8 million. This sum assumes that the school does not provide transportation or food. It also assumes it is not a high school, which would be even more expensive. What remains, if the school does a superb job of watching its expenses, is a surplus of $100,000. With this the school must do everything else necessary to meet state and federal academic standards, fulfill all other commitments of its charter, and compete successfully with traditional public schools. But what can a school do on its own for $100,000 to improve its performance? The answer is not very much.

Schools—meaning teachers and principals—need help with a wide range of issues that govern their success. How should a curriculum be constructed to maximize student success on the standards of a particular state? What should be done about the achievement of disadvantaged students who are not responding to published reading programs? How shall students be assessed on an ongoing basis? How should standardized test data be interpreted? How shall student management be handled? As students get older and the subjects more demanding, where do teachers turn for advice in the sciences, the branches of mathematics, and different fields of literature? If managing data and instructional

information requires technology, who is going to handle the necessary technology systems and their integration? If we want to assume that the teachers and other professionals in the schools will bring some of these skills with them, how do we assume the schools will recruit and hire the very best education staff when great educators are very hard to find?

The answer to all of these questions is that the school's $100,000 will not go very far. The school can hire a curriculum, instruction, and assessment specialist for the whole sum—hoping to find a brilliant jack of all trades; it could send the entire staff to two professional meetings a year, or it could buy professional development and consulting, which might meet a need or two annually. Basically, the $100,000 surplus will not allow the school to do the research, to develop the solutions and systems, and to address the many challenges it will inevitably have. The school will be left to depend, much like schools a century ago, almost entirely on the wiles of its own staff.

But schools do not have to suffer for lack of crucial support services. If schools are banded together, or if schools themselves are larger in size, economies of scale are possible. Larger schools are not proportionately expensive. Almost every cost except teachers declines on a per student basis. The "surplus" of a 500 student school could very easily be $500,000. More dramatically, the sum of the surpluses of multiple schools could fund a serious support organization, with the specialists necessary to meet key school instructional needs. A support organization paid a fee of $500,000 per 500 student school would be a $25 million operation if it served only fifty schools. That kind of scale is still small by the standards of corporate America, but it is great by the standards of public education. The average public school is part of a system of only six schools. Three-fourths of all public schools are

served by systems with less than fifteen schools.[8] Even the larger school systems do not devote anything like $25 million to support services focused on curriculum, instruction, and assessment.

Comprehensive support organizations should be able to offer charter schools a range of educational services at a much lower total price and a much higher quality level than schools would find if they tried to provide the services themselves or tried to purchase them individually from multiple vendors. Schools do not have the resources to develop serious expertise in any of the specialized areas of knowledge crucial to school success, nor do they have systems to ensure consistent and effective execution. Scale organizations do. And when scale organizations offer comprehensive services, they enjoy additional economies. Field staff can be trained to provide multiple forms of support to their schools. Training conferences can address a wide range of needs. Schools are therefore likely to find it more efficient to purchase support—assuming they need multiple forms of support—from comprehensive organizations than from specialized ones. Educational support organizations have traditionally been set up on a specialized basis, offering discrete services such as curriculum alignment, data analysis, student assessment, special education, classroom management, leadership development, and a long list of other training needs. With the advent of charter schools, however, the comprehensive model of service provision has become increasingly popular.

Charter schools and charter advocates are beginning to recognize the potential of comprehensive service providers—and scale. In California, one of the leading charter states with over 500 charter schools, serious organizations have sprouted to support multiple charter schools. The New Schools Venture Fund,

8. Estimated from National Center for Education Statistics, *Digest of Education Statistics 2004*, Table 86.

an investment philanthropy capitalized with some $15 million, is funding the start up of what are becoming known as Charter Management Organizations (or CMOs). These not-for-profit entities, which include Aspire Schools, Green Dot Schools, and the Knowledge is Power Program (or KIPP), among others, aim to provide bundles of well-researched and highly developed educational services that charter schools could never provide themselves and could never buy effectively unbundled or ala carte. KIPP, for example, offers an exceptional leadership development program. Other philanthropies such as Pisces (funded by the Fisher family, founders of The Gap) and the Walton Foundation are funding the leading CMOs and cultivating new ones. These prominent philanthropies, like growing numbers of charter advocates, believe that charter schools will perform better if each school does not have to solve every problem on its own—if each school can benefit from scale educational services organizations.

The Benefits of For-Profit Scale Organizations

The CMO movement represents one form of scale organization—the not-for-profit form. But scale can obviously come from organizations with the same mission as CMOs but organized on a for-profit basis. For-profits have come to be known by the similar title of Educational Management Organizations (or EMOs). What might they add to the potential benefits of scale organizations?

For-profit organizations have a natural tendency to push scale economies to their limit. As long as the mission of a for-profit organization is to provide its services as widely as possible—a grocery chain, for example, and not a five star restaurant—a for-profit organization wants to reach scale. With scale come operating efficiencies, additional revenue, and greater profits—in absolute terms and as a percentage of profits. For-profit organizations seek to maximize profit and, thereby, scale. But they don't

do so without limits. In a proper market they must compete with other organizations for customers—a process that rewards quality service and drives profit down. As consumers of for-profit services, charter schools would be the ultimate beneficiaries of a market for service providers. Schools would receive the best service that scale can offer and at the lowest price. If a for-profit operator tried to skimp on quality to increase profits, it would lose business to operators who did not reduce quality at the same price. This all assumes, of course, a free market for for-profit charter support organizations—which does not fully exist.

For-profits have another potential advantage over not-for-profits. For-profits tend to have much greater access to the capital needed to get to scale. Launching and building an organization requires investment or philanthropy. No business of any scale pays for its own operations from opening day. The advantage of for-profits is that they can raise capital in the private market where vastly more funds are available than through philanthropy. Investors put money in for-profit organizations to help them get started, to grow, or to develop the next great innovation because they hope to get a return on their investments. Donors put money in philanthropies because they want to help a cause that the market does not usually support, and they, unlike investors, do not expect anything in return. Organizations that can promise investors a return on their money usually have a far easier time attracting funds than organizations looking for gifts.

For-profits, then, should have more motive and better means than not-for-profits to get to scale. But not-for-profits have their own advantages, particularly in the support of charter schools, in beating for-profits on price. The not-for-profit needs about 8% less revenue because it is not seeking to make money, and it can also subsidize its services with philanthropy. For example, with generous philanthropic support, schools supported by KIPP have budgets that sometimes exceed per pupil public revenue. The

schools pay KIPP, but KIPP tops off the paid services with offerings paid with philanthropy. Not-for-profits also have advantages under current charter law: they can hold charters directly while for-profits generally cannot.

The Evidence: Scaling Up

Although scale organizations, both for-profit and not-for-profit, have been limited by existing charter law, they have not been thwarted altogether. Over the nearly fifteen year history of charter schools, scale organizations have accumulated enough of a track record to suggest what their contributions may ultimately be. Many organizations have been in existence since the mid-1990s and are now working with charter schools in over half of the states that authorize charters. In 2004–2005 roughly 600 schools were supported by organizations that work with at least four schools overall.

Which raises a question of terminology: what is a scale support organization? Why would one consider an organization that works with only four schools a scale operation? Putting first things first, the focus here is not on just any kind of scale educational enterprise. Charter schools can and do buy their books and computers from major businesses that operate at enormous scale. They may also buy discrete services from other specialized scale vendors like bus companies, food service providers, payroll companies, testing firms, and the like. The focus here is on CMOs and EMOs, organizations with the expertise to help charter schools with every aspect of their educational mission—classroom management, curriculum, instruction, assessment, technology, data analysis, special education, family and community. These organizations often fully manage or run the school for the charter holder. They frequently apply their services in accordance with an integrated model of how the entire school should work. But

they are also relatively new enterprises, still seeking scale—which is why four schools are sufficient to warrant consideration in this analysis. Organizations with fewer than four schools are simply too small to track reliably.

One final clarification: some of the organizations with four or more schools also work with non-charter public schools, through comprehensive management agreements with school districts. The data on the scale and scope of the organizations considered here does not attempt to separate out non-charter contracts because the information to do so is not always available. In any case, if work with non-charters is part of the process of getting to scale, organizations that follow such a route should not be downplayed—they are still establishing scale. However, to avoid any confusion about what is most important, the subsequent analysis of organizational effectiveness will look only at charters. All data are through the 2004–2005 school year.

Table 5.2 displays the distribution of management organizations by the geographic scope of their operations. Several patterns stand out. First, there is a strong tendency toward geographic concentration. Over half of the management organizations—eighteen out of thirty-two—work in only a single state. Only seven organizations work in more than five states. There are several possible explanations for this pattern. One is that some of the not-for-profits, especially the universities, have no mission to work beyond their local community. They might some day work in a significant number of local schools and develop true scale operations, but they would never work beyond their immediate borders. Another explanation is time. Most of these organizations have less than ten years' experience offering comprehensive services; they may not have had time to scale beyond a state or two, though they will eventually. The truth of this is unknowable.

The final reason for geographic specialization may be the nature of public education itself. Controlled by the states, public

Table 5.2 Geographic Distribution of School Management Organizations with Four or More Schools (School locations operating in the 2004–2005 School Year)

	Location	*Number of States*
For-Profit Management Organizations[a]		
Edison Schools, Inc.	CA, CO, DC, DE, GA, IA, IL, IN, MA, MD, MI, MN, MO, NV, NY, OH, PA, WI	18
Imagine Schools	AZ, DC, FL, GA, MA, MI, MO, NC, NY	9
K12, Inc.	AZ, CA, CO, DC, FL, ID, OH, PA, WI	9
Mosaica Schools	AZ, CO, DC, DE, IN, MI, NY, OH, PA	9
Connections Academy	AZ, CA, CO, FL, OH, PA, WI	7
SABIS Educational Systems	AZ, LA, MA, MI, MN, NY, OH	7
National Heritage Academies	IN, MI, NC, NY, OH	5
Richard Milburn High School, Inc.	TX, FL, IL, NC, VA	5
White Hat Management	AZ, CO, MI, OH	4
Charter School Administrative Services	FL, MI, MO, TX	4
The Leona Group, LLC	AZ, IN, MI, OH	4
Victory Schools, Inc.	MD, NY, PA	3
Charter Schools USA	FL, TX	2
Designs for Learning, Inc.	MN	1
Helicon Associaties	MI	1
The Planagement Group	TX	1
Sequoia Charter Schools	AZ	1
Choice Schools, Associates	MI	1
Excel Education Centers, Inc.	AZ	1
Ideabanc, Inc.	AZ	1
Nobel Learning Communities	PA	1
Ombudsman Educational Service, Ltd.	AZ	1
Pinnacle Education, Inc.	AZ	1
The Romine Group, Inc.	MI	1
For Profit Averages		4.08
Not-For-Profit Management Organizations[b]		
KIPP – Knowledge is Power Program	AR, CA, CO, DC, GA, IL, IN, MA, MD, NC, NJ, NY, OK, PA, TN, TX	16
Boston University	MA	1
Foundations, Inc.	PA	1
Temple University	PA	1
Universal Charter Schools	PA	1
University of Pennsylvania	PA	1
Aspire Public Schools	CA	1
Green Dot Public Schools	CA	1
Not For Profit Averages		2.67

[a] Source: Molnar, Alex et. al. (2005), *Profiles of For-Profit Education Management Organizations: Seventh-Annual Report*, Commercialism in Education Research Unit- Education Policy Studies Laboratory, Arizona State University, http://edpolicylab.org

[b] Based on Schools Reported in Education Management Organization Websites

education differs a great deal from state to state as gauged by academic standards, high-stakes assessments, school law, program regulations, and school culture. Support organizations need to master the details of each state's education system—and this takes major resources. An organization would seem more likely to scale and succeed if it focused on a small number of states it could perform in exceedingly well. For the most part, management organizations have concentrated geographically, which is probably a good thing for improving schools since expertise matters.

Yet, some organizations have chosen to set up shop in many states. Seven CMOs or EMOs are working in seven or more states. Two organizations, Edison and KIPP, are in eighteen and sixteen states respectively. What can we say about the tendency to try and serve multiple states? It is clearly a tendency of for-profit firms. Six of the seven organizations working in seven or more states are trying to make a profit. Only one of the fourteen organizations operating in more than one state—KIPP—is a not-for-profit.[9] What the data unmistakably show is that while there is a preference among all organizations for geographic specialization, the for-profit firms have frequently chosen or been driven to expand their operations beyond single states. To be sure, KIPP is evidence that a not-for-profit can approach national scope; it is second to Edison in state penetration. But KIPP notwithstanding, for-profits and not-for-profits seem to prefer different geographic playing fields. As the table shows, the average for-profit is working in half again as many states (4.08 vs. 2.67) as the average not-for-profit. Whether geographic spread is a good thing or a bad thing educationally is another matter, considered subsequently. But first, let's consider some additional aspects of getting to scale.

9. At this writing Imagine Schools was reportedly in the process of converting from for-profit to not-for-profit status. But because it built its school portfolio as a for-profit organization, it is considered for-profit here.

Table 5.3 depicts EMOs and CMOs by initial year of operation, total enrollment, number of schools, and average school size. A few patterns are very plain. First, EMOs and CMOs have been around for the same amount of time on average with both sectors' modal operations commencing in the mid-1990s. Despite the same amounts of time on the scene, for-profit firms have achieved more scale than not-for-profit organizations. The average EMO works with 20.1 schools; the average CMO works with half that number, or 10.1 schools. The average EMO serves 9,232 students; the average CMO serves less than a quarter of that or 2,051 students. Compared to public school systems, EMOs are reaching the scale of mid-size school systems while CMOs are currently more like small school systems. The EMOs also include several firms that have reached the scale of moderate to major school systems. It is too early to tell what scale for-profit and not-for-profit support organizations will ultimately reach. None has been operating long enough to have established a growth plateau. But it seems safe to say that for-profits are moving toward scale more rapidly than not-for-profits.

Another trend that bears watching still is school size. The averages do not show great differences between for-profits and not-for-profits. The average school served by for-profits enrolls 373 students; the average school served by not-for-profits enrolls 300. This difference is in the expected direction. Larger schools are more efficient and generate more of a surplus than smaller schools. For-profit firms have more need, since they lack philanthropy, to work with schools that can pay their own way. And several of the larger EMOs tend to work in significantly bigger schools than the EMO average—serving 500–700 students.[10] But these numbers are not all that large when compared to the national average of all public schools, which approaches 600.

10. The average enrollment in K12 schools exceeds 900 because these schools are virtual, attended via the Internet.

Table 5.3 Longevity and Size of School Management Organizations with Four or More Schools (School Year 2004–2005)

	First School	*Number of Schools*	*Total Enrolled*	*Average School Size*
For-Profit Management Organizations[a]				
Edison Schools, Inc.	1996	98	66482	678
National Heritage Academies	1995	51	26133	512
The Leona Group, LLC	1995	45	13990	311
White Hat Management	1998	38	18318	482
Imagine Schools	1996	33	18194	551
Mosaica Schools	1997	27	9995	370
Charter Schools USA	1999	18	11205	623
Richard Milburn High School, Inc.	1989	18	4339	241
The Planagement Group	1998	18	2301	128
Charter School Administrative Services	1995	15	7295	486
K12, Inc.	2001	15	14460	964
Helicon Associaties	1995	14	5522	394
Victory Schools, Inc.	1999	13	5683	437
Sequoia Charter Schools	1996	11	1552	141
Connections Academy	2002	10	1081	108
Designs for Learning, Inc.	1996	10	1485	149
Pinnacle Education, Inc.	1995	9	1327	147
Choice Schools, Associates	1994	8	1825	228
Excel Education Centers, Inc.	1995	8	687	86
SABIS Educational Systems	1995	7	4660	666
Ombudsman Educational Service, Ltd.	1996	5	448	90
Ideabanc, Inc.	1998	4	1384	346
Nobel Learning Communities	1999	4	2109	527
The Romine Group, Inc.	2002	4	1095	274
For-Profit Averages	1997	20.1	9232	373
Not-For-Profit Management Organizations[b]				
Knowledge Is Power Program (KIPP)	1995	38	3461	91
Aspire Public Schools	1999	11	944	86
Boston University	1989	10	3826	383
Foundations, Inc.	1992	5	2173	435
Green Dot Public Schools	2000	5	1482	296
Temple University	1991	5	2029	406
Universal Charter Schools	1999	4	1482	371
University of Penn	2001	3	1009	336
Not-For-Profit Averages	1996	10.1	2051	300

[a] Source: Molnar, Alex et. al. (2005), *Profiles of For-Profit Education Management Organizations: Seventh-Annual Report*, Commercialism in Education Research Unit- Education Policy Studies Laboratory, Arizona State University, http://edpolicylab.org

[b] Based on Schools Reported in Education Management Organization Websites

The more striking deviations from sector averages are two prominent CMOs, KIPP and Aspire. Their schools are absolutely tiny, averaging only ninety-one and eighty-six students respectively. KIPP and Aspire want them this way. They build their schools slowly but surely, grade by grade, over a period of years, and reach capacities well below national averages. This approach requires substantial external support, as tiny schools are not efficient. But with philanthropy, it has certainly proven workable: KIPP in particular is second only to Edison in number of states served and fifth in number of schools operated. KIPP served less than 4,000 students in 2004–2005, but its footprint was all over the nation. Time will tell whether the gradual roll-out of small schools is a viable strategy, with philanthropic support, for helping large numbers of charter schools succeed.

To recap, for-profit support organizations tend to pursue scale faster and more widely than not-for-profit organizations. For-profits do this by scaling up their own operations rather than dramatically scaling up their individual schools. But who do the different sectors serve as they pursue new customers? Are they reaching out to kids in clear need? The purpose of charter legislation, after all, is to offer alternatives to students who often do not have them, particularly the economically disadvantaged. Table 5.4 helps answer that question.

Both sectors tend to serve students who are more diverse and more disadvantaged than public schools generally. Most obviously, African Americans make up 35 percent of the for-profit enrollment and 53 percent of the not-for-profit enrollment versus a national average enrollment for African Americans of 13 percent. Poverty has a similar tendency. Students eligible for free or reduced-price lunch represent 54 percent of the for-profit enrollment and 71 percent of the not-for-profit enrollment; the national public school average is only 38 percent. The not-for-profit sector is enrolling a more diverse and needier group of students

Table 5.4 Demographics of School Management Organizations with Four or More Schools (Demographic Data from the 2003–2004 school year)[a]

	Percent African American	*Percent Hispanic*	*Percent White*	*Percent Free/Reduced-Price Lunch*
For-Profit Management Organizations[a]				
Charter Schools USA	29.8	24.4	44.1	100.0
Connections Academy	5.9	2.9	90.3	100.0
Charter School Administrative Services	93.6	5.0	0.7	98.0
Victory Schools, Inc.	92.5	4.2	1.2	89.4
Edison Schools, Inc.	67.3	20.4	10.4	69.2
Mosaica Schools	56.7	34.6	27.2	63.8
Choice Schools, Associates	41.9	4.1	52.3	56.4
Designs for Learning, Inc.	38.8	8.0	42.4	55.5
White Hat Management	68.4	2.6	26.5	47.4
Richard Milburn High School, Inc.	29.6	26.8	42.6	42.7
Helicon Associaties	39.3	7.3	46.4	41.7
Imagine Schools	37.5	17.5	41.5	40.8
The Leona Group, LLC	38.6	32.0	24.9	37.8
National Heritage Academies	29.9	6.2	61.4	29.7
The Romine Group, Inc.	18.4	4.7	72.9	19.2
Nobel Learning Communities	29.4	5.1	64.5	16.6
SABIS Educational Systems	49.8	16.7	32.1	10.8
The Planagement Group	n/a	n/a	n/a	n/a
Ideabanc, Inc.	14.4	41.4	38.2	n/a
Pinnacle Education, Inc.	8.9	42.3	42.5	n/a
Sequoia Charter Schools	6.5	18.8	70.6	n/a
K12, Inc.	4.9	4.0	85.0	n/a
Ombudsman Educational Service, Ltd.	3.7	19.5	71.5	n/a
Excel Education Centers, Inc.	0.8	13.9	63.4	n/a
For-Profit Demographic Average	35.1	15.8	45.8	54.1
Not-For-Profit Management Organizations[b]				
Boston University	6.8	71.8	15.6	n/a
KIPP	37.2	34.4	2.8	68.6
Foundations, Inc.	98.6	0.8	0.5	86.4
Temple University	82.9	11.1	0.7	96.2
Universal Charter Schools	89.3	1.0	3.4	76.9
University of Pennsylvania	93.0	1.3	1.4	90.8
Aspire Public Schools	3.1	44.5	41.6	11.2
Green Dot Public Schools	13.7	85.7	0.6	65.3
Not-For-Profit Demographic Average	53.1	31.3	8.3	70.8

[a] Based on the Nation Center for Education Statistics Demographic Data for the 2003–2004 School Year

[b] Based on school listings from organization websites, cross referenced with the Nation Center for Education Statistics Demographic Data for the 2003–2004 School Year

than the for-profits, on average, but the differences between the sectors are considerably smaller than the differences between schools run by management organizations and public schools generally.

It is also the case that some of the largest providers in each sector tend disproportionately to serve students who have traditionally not been served well by public schools. Among CMOs, KIPP students are 82 percent eligible for free or reduced-price lunch; Green Dot students are 85 percent eligible; Universal students are 81 percent eligible. Among EMOs, Charter Schools USA students are 100 percent eligible; Victory students are 89 percent eligible; Edison students are 69 percent eligible. Critics of business participation in charter schooling have argued that firms might exploit the poor: the poor are the most desperate for alternatives to their traditional public schools and least able to evaluate the quality of what a new provider might offer. But the data do not show such a pattern. For-profits, like not-for-profits, serve needier students than the national average by far. This indicates that both groups are reaching the students that charter schools are supposed to reach. But there is no evidence that for-profits are somehow trying to capture a niche of the poorest of the poor. Not-for-profits on average serve the students who are very most in need.

The Evidence: Student Achievement

Any policy that stands to affect the operation of charter schools ought to be evaluated by how it affects students—particularly their achievement. Unfortunately, policies concerning scale organizations historically have been based on the arguments of political opponents and not on hard evidence of effects of any kind. Opponents have argued successfully that scale organizations will weaken public control over charter schools and that for-profit

organizations will put profits ahead of students. Opponents have persuaded policymakers that large entities, whether for profit or not, will behave in ways that are likely to compromise educational quality. Yet, it is also clear that through economies of scale an organization supporting many schools might be able to provide those schools far more and better services than any school could provide or purchase on its own. The key questions, then, are really empirical. How do scale organizations actually behave and what difference do they make for students?

To begin, the data indicate that management organizations have not generally committed the sins that opponents feared they would commit—going national, driving up school size, serving the easy-to-serve. The data also indicate that for-profits are scaling more rapidly than not-for-profits. If it turns out that scale organizations are helping charter schools, then understanding how organizations get to scale may prove helpful. But the decisive data for making good policy regarding charter schools is data on student achievement.

Table 5.5 displays the data necessary to evaluate the academic progress of schools working with management organizations. Under the federal government's *No Child Left Behind (NCLB)* legislation, passed in 2002, all states are required to administer reading and math assessments to all students in grades 3–8 inclusive and one grade of high school, every year beginning in 2005–2006. Prior to that time states were permitted to test fewer grade levels each year, but all states had begun annual testing during the 1990s. States had also written their tests to measure achievement of explicit academic standards and to gauge student progress toward a demanding definition of "proficiency"—all later required by *NCLB*. State tests therefore provide increasingly common metrics for analyzing student achievement across the nation. State standards and tests differ in difficulty, to be sure, but they bring a singular perspective to assessment—annual measurement of

Table 5.5 Academic Gains in Management Organizations with Four or More Schools (Percent Proficient or Advanced – Reading and Math on State Assessments 2002–2005[a]

		Schools in Sample			*Manager Gains*			*State Gains*			*Relative Manager Gains*		
	No. of Schools	*1 year*	*2 years*	*3 years*	*1 year*	*2 years*	*3 years*	*1 year*	*2 years*	*3 years*	*1 year*	*2 years*	*3 years*
For-Profit Management Organizations[b]													
Edison Schools Inc.[a]	51	44	39	25	5.62	10.41	14.60	3.56	7.53	8.20	2.06	2.88	6.40
National Heritage Academies[a]	51	38	33	28	4.53	9.41	19.36	−1.53	5.02	5.92	6.06	4.39	13.44
Leona Group LLC[a]	45	38	30	26	12.06	14.53	19.67	3.70	2.09	6.26	8.36	12.44	13.41
White Hat Management	36	26	19	12	10.83	20.09	21.79	4.79	8.68	8.11	6.04	11.41	13.68
Imagine Schools	31	29	26	20	8.90	11.00	11.60	1.24	3.92	6.65	7.66	7.08	4.95
Mosaica Schools[a]	27	19	14	9	3.25	9.91	16.91	−0.14	4.94	6.63	3.39	4.97	10.28
Charter Schools USA	18	11	9	6	6.45	4.48	13.87	1.73	3.92	8.83	4.72	0.56	5.04
Richard Milburn Academies	15	14	11	3	−2.02	2.67	−1.42	−0.54	1.82	4.50	−1.48	0.85	−5.92
For-Profit Average Gains	274	219	181	129	6.20	10.31	14.55	1.60	4.74	6.89	4.60	5.57	7.66
Non-Profit Management Organizations[b]													
KIPP[a]	52	24	9	1	8.75	10.39	3.00	2.02	1.89	4.75	6.73	8.50	−1.75
Aspire Public Schools	11	10	8	4	9.64	10.33	19.30	4.25	4.62	10.01	5.39	5.71	9.29
Not-For-Profit Average Gains	63	34	17	5	9.20	10.36	11.15	3.14	3.26	7.38	6.06	7.11	3.77

[a] In Indiana, Fall 2005–2006 ISTEP+ results are used to provide one-year gains for this analysis. Edison Schools, National Heritage, Leona, and Mosaica each have one charter school in Indiana.

[b] Based on schools listed in official websites and cross-referencing with 2004–2005 state test result reports.

achievement in reading and math at consecutive grade levels calibrated against an objective standard of proficiency.

Table 5.5 presents average reading and math scores on state tests measured as gains against proficiency. The focus is on gains rather than on absolute scores because we want to know whether the charter school or its manager is adding any value. If a school in its first year of operation posts a score of, say, 50 percent proficient, there is no easy way to evaluate the score. If the students were very bright upon arrival, a 50 percent success rate would be terrible. If the students had historically been very weak, a 50 percent success rate would be very good. To know whether the school is making a difference for students, the simplest test is to see if the school helps more kids achieve proficiency each year. Comparing scores from year to year—calculating gains—gives a rough measure of the effect that the school is having on student achievement.

Gains alone do not tell the whole story, however. For many reasons—from student experience with tests to adjustments in state proficiency standards to the state release of information to help schools prepare for tests—scores can move upward without students really learning anything more. If a school, for example, posted a 5 percentage point gain in its proficiency score, but every school in the state did the same thing, the gain would hardly be an indicator that the school was doing anything special. Accordingly, it is useful to look not only at gains, but gains relative to average gains by the whole state. Table 5.5 does this as well.[11] Finally, test scores have a certain element of random error in

11. The state gains are weighted to reflect the grade levels served by the managers in a given state. For example, if managers in a state served mostly elementary schools, the elementary grades would dominate the state gain averages. An even more rigorous analysis of gains would look at gains by schools in comparison to gains by demographically and academically similar schools. With hundreds of management-supported schools in this analysis, the number of comparable schools that would need to be identified would number in the thousands—beyond the scope of this research.

them. Students would not post identical scores if they took the same test multiple times. As a result, the average scores of schools tend to move up and down randomly depending upon underlying trends in student learning. To not be misled by random fluctuations that could lead gains to be unusually high or low in a single year, Table 5.5 also presents data for two- and three-year gains. The three-year gains are for 2002–2005; the two-year gains for 2003–2005; and the one-year gains for 2004–2005.[12]

What do the data reveal? First, the charter schools operated by all managers are making academic gains against their state proficiency standards. Over a three-year span many of the gains are in double digits, which is close to what *NCLB* demands in lower performing schools. No manager has test scores showing no progress. Given all of the failure in public education, it is striking that not a single manager is failing on average to make academic progress.

But how impressive is the progress? All of the states in which the managers work have also been making gains. Typical gains are two percentage points per year, though higher in some states. When the average state gains are subtracted from the respective manager gains, the manager gains are less impressive than in their absolute form. In relative terms, the results are generally positive. With only a few exceptions managers are posting one-, two-, and three-year gains greater than state averages. Since the positive findings are not only evident in one year data, it is clear that the relative gains are not short-term flukes. The long term data are pretty clear evidence that management organizations can help charter schools perform better than state norms.

Does it matter whether the management organization is for-profit or not-for-profit? The evidence on this point is insufficient

12. All gains are measured spring to spring or winter to winter except for schools in Indiana which are calculated from fall to fall, including fall 2005–2006 for the most recent gains.

to draw any firm conclusions. The data on the not-for-profits is rather scant because few of those organizations have had sufficient history with their schools under current state testing regimes. A number of the not-for-profit firms—e.g., Universal, Foundations, Temple University, the University of Pennsylvania—are also serving non-charter public schools, and separate data on their charter operations was not readily accessible. The not-for-profit operators had only five schools with three years of data in 2005, making it difficult to draw strong conclusions about long-term effects.

What evidence can be adduced suggests there should be no policy issue with the for-profits, relative to the not-for-profits, on student achievement. The average gains for the for-profit managers relative to state gains round to 5, 6, and 8 percentage points for one-, two-, and three-year intervals. The gains for not-for-profits round to 6, 7, and 4 percentage points for one-, two-, and three-year gains, though again the three-year gains are based on too little data to take seriously. Generally speaking, the academic track records of for-profits and not-for-profits are similar and are superior to state averages over the short and longer term. The concern that for-profit managers would trade short-term profits for achievement gains is not supported by the data. The idea that not-for-profits will be academically superior scale operators is also not supported. Both types of scale operators are making gains in excess of state averages. Scale seems to benefit student achievement.

Summary and Recommendations

The funding of public schools in general and of charter schools in particular makes it unlikely that any individual school will have the resources to develop all of the expertise and build all of the systems necessary to maximize its success for students. This point

is acknowledged in long-standing arguments for school district consolidation, and should be acknowledged in policy-making for charter schools. Like traditional public schools, charter schools stand to benefit from being part of larger groupings of schools, where pooled resources and economies of scale can produce more support services at a lower cost. Charter policy should allow for these potential benefits.

Policymakers and education experts have no idea what the scale of a school district or a system of schools truly should be. The scale of public school systems—and of public schools—has been determined entirely through political decision-making, constrained by local political geography. Policymakers have never had opportunity to ask: what scale school system would maximize student achievement for a given level of taxpayer commitment? Charter schools offer an unparalleled opportunity for policymakers to let factors other than political influence and tradition determine the scale of public education. Charter schools are driven more by market forces than by political forces—more by choice and competition than by democracy and bureaucracy. Charter schools still need government oversight, for certain. But market forces could and should play a larger role in shaping their development. One force that policymakers could and should leave more to the market is the role of scale organization.

Opponents of charter schools have successfully argued that scale organizations, for-profit and not-for-profit, are a danger to public education. But those arguments were advanced before the evidence to evaluate them was available. Now we know several important things about scale support organizations:

1. Despite the limitations imposed on them by charter school law, scale management organizations are proliferating: they are meeting a need that charter schools are experiencing.
2. Management organizations are not turning into national be-

hemoths threatening the local character of education; they are instead becoming geographically focused, trying to master the local standards, rules, and cultures that distinguish education from state to state.

3. Management organizations are not driving schools to excessive size to increase site efficiencies. Schools working with outside managers are larger than typical charter schools but smaller than traditional public schools. For-profit firms are not driving schools to exceptional size as a rule; even the firms with relatively large schools are still operating close to national norms.
4. For-profit management organizations are moving toward large scale operations at a faster pace than not-for-profit organizations. Though time will tell whether not-for-profits are simply moving more slowly than for-profits because they have different aspirations for scale, none of the organizations examined here has reached a size that would suggest they have reached ideal scale. In all likelihood, whatever their goals at scale, for-profits appear likely to get there faster than not-for-profits.
5. Fears that large size or profits would get in the way of the best interests of students appear unfounded. While schools working with management organizations do not always succeed, and all management organizations do not succeed on average every year, the general tendencies are positive. All management organizations make achievement gains on average. These gains are sometimes only at rates states are making overall. But over the long-term, schools appear to make greater gains with management companies than schools statewide make in general. Finally, though the achievement data on not-for-profits are scant, the data on for-profits are not: schools working with EMOs are gaining at rates increasingly

above state averages the longer schools work with those companies.

Because scale has potential to help charter schools succeed; because there is no evidence that scale organizations, for-profit and not-for-profit, do any harm; and because for-profit scale organizations have potential to reach scale faster than not-for-profit organizations, policymakers should remove the barriers they have erected to scale organizations. Specifically, groups granted charters should be able to operate multiple schools under a single charter. For-profit as well as not-for-profit organizations ought to be able to hold charters and operate charter schools directly. At the very least, not-for-profit charter holders ought to be able to hire for-profit operators to run their schools completely.