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Contracting as a Mechanism for Managing Education Services

Abstract

Contracting with for-profit firms is one of the new organizational arrangements to emerge in public education in the nineties. Fueled by millions of new investment dollars and by demand for education management services from the burgeoning charter school movement, education contracting is growing. The Edison Project, for example, opened its first four schools in 1995 and now operates 77 schools serving approximately 37,000 students in twelve states. Contracting, like vouchers and charter schools, is a market-based reform presumed to promote improved performance through new accountability mechanisms and exploiting competition.

School districts have long contracted for building maintenance, transportation, and food services. Districts have even contracted for educational services, but typically only for specialized services for a small number of children with handicaps or other special needs. What is happening now is different: school districts are contracting for regular educational services, the very services they are organized to provide.

This issue of CPRE Policy Briefs describes key features of education services contracts between school districts and forprofit firms and discusses some management issues raised by these contracts. The information is based on the terms of 11 contracts and interviews with the officials who shaped these contracts. The contracts were intentionally selected to be diverse. They include contracts from 1990 to 1998 and contracts with school districts as well as with charter boards. One contract established external management control of an entire school district; other contracts focused on school-level management; while still others provided a limited set of educational services. A few of the contracts ended contentiously; others have been in force for some years without dispute. This Policy Brief does not evaluate particular contracts from an educational or legal perspective, but uses the set of contracts to analyze contracting as a management tool in education.

Disciplines

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Contracting as a Mechanism for Managing Education Services

by Jane Hannaway

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The 11 contracts are all with for-profit firms. Many issues related to contracting with for-profit firms are relevant to contracting with nonprofit organizations as well, but not all.

The Consortium for Policy Research in Education (CPRE) studies alternative approaches to education reform in order to determine how state and local policies can promote student learning. Currently, CPRE's work is focusing on accountability policies, efforts to build capacity at various levels within the education system, methods of allocating resources and compensating teachers, and governance changes like charters and mayoral takeover. The results of this research are shared with policymakers, educators, and other interested individuals and organizations in order to promote improvements in policy design and implementation. CPRE is supported by the National Institute on Educational Governance, Finance, Policymaking and Management, Office of Educational Research and Improvement, U.S. Department of Education.

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A primary difference between for-profit and nonprofit firms is the ability to raise capital. For-profit firms can turn to investors for investment capital; nonprofit firms must rely largely on gifts and foundation grants. This difference provides for-profit firms with a definite advantage in terms of raising funds for development and expansion. It also allows them to provide financial inducements to school boards, as discussed later. For-profit firms, however, are disadvantaged to the extent that their profit motive raises suspicions about whether they are acting in the best interests of the schools they manage. As in any collaboration, firms and school boards both benefit to the extent that the working relationship is open and trustful, and contracts can play an important role in establishing such a relationship.

Contracting for regular education services involves considerable delegation of responsibility for managing schools, but states and school districts always retain ultimate responsibility. Private contracting is not an abdication of public responsibility; it is a *management mechanism* through which school districts may, or may not, better attain their traditional goals. By contracting, school districts simply decide to *buy* rather than *make*. It is too early to determine whether private contracting arrangements will yield improved student performance, but it is not too early to examine the underlying structure of contracting as a management tool in education.

The first two sections of this brief define contracting and identify common contract clauses. These clauses raise questions parties should consider before entering into a contract. The next section addresses the possibilities and limitations of contracting and is organized around three general issues embedded in contract provisions—objectives, performance measures, and costs. Many issues that arise in educational contracts are predictable from the sizable body of research on contractual relationships between organizations. Certain characteristics associated with education organizations, however, make some contractual issues particularly noteworthy. In

particular, problems associated with the identification and measurement of educational performance make the development of performance incentives difficult. For related reasons, education contracts generally differ from everyday and more ideal contracts. Accountability provisions, for example, are probably less specific than might otherwise be expected. The last section of the brief considers some implications suggested by emerging educational contracting arrangements.

What is Contracting?

Contracting, for purposes of this analysis, is an agreement undertaken by the governing board of a public school district or charter school with an outside for-profit firm to deliver certain educational services in return for certain payments. Under the contract, the outside firm assumes a large role in managing the education process and, to a significant degree, becomes *accountable* for the results. The contract specifies the responsibilities of the firm—say, providing textbooks or computers or making other investments—and its range of discretion, for example, authority over teachers. The contract also specifies the responsibilities of the school district and the effective duration of the contract.

Contracts are typically designed to provide strong incentives for achieving desired results. For example, financial rewards may be based on attainment of certain targets, say, a certain fraction of students achieving passing grades on a particular exam. Even when explicit performance incentives are not stated in the contract, an understanding usually exists that contract renewal depends on at least satisfactory performance.

The terms of a contract define what the firm and the school board are obligated to do and provide incentives for the achievement of goals, so the design of the contract itself is important for the success of the venture in a very basic way.

About CPRE Policy Briefs

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A bad contract, like one where the objectives conflict or are beyond the reasonable reach of either party, is unlikely to lead to full attainment of expected benefits. It even may lead to disputes, the costs of which may well offset any benefits otherwise achieved. Under a good contract, both parties feel they can adequately meet the objectives set forth so neither party feels that the only way to benefit from the relationship is by “gaming” the process.

Common Contract Clauses

Contracts for education or any other type of service generally include clauses that describe basic aspects of the relationship between the contracting parties. We identify some of the key clauses below. While many of these seem obviously important, they are sometimes overlooked. The best way to specify such terms is also not always clear. To an important degree, the specification depends on the objectives of the contracting parties, the risks each party is willing to assume, and the amount of trust in the relationship, among other factors.

Responsibilities and relationship of the contracting parties. What is the school district or charter board expected to do? For example, is the district expected to ensure a student body of a particular size? What is the contractor expected to do? Is the contractor expected to provide a facility with certain characteristics by a particular date? Who provides the curriculum? Who recruits, hires, and fires the principal? The teachers? Must the other party approve personnel decisions? Who ensures compliance with state and local health, safety, financial, and educational regulations?

Payment. Should payment to the contractor be based on a fee for services, on cost savings, on a particular performance target, or on some combination of factors?

Duration. What is the length of the contract? A short contract, say of one year, may allow closer control over the contractor, but the short horizon may also limit the contractor’s level of commitment and investment in the service. It may also be too short a time for the contractor to feel reasonably confident that results can be shown. In general, the longer the contract period, the weaker the control, but the greater the likelihood of contractor investment. Many of the contracts analyzed for this brief covered five years.

Key Contract Clauses

- Arbitration
- Asset ownership
- Duration
- Intellectual property
- *No compete* clause
- Payment
- Performance and performance incentives
- Renewal
- Responsibilities and relationship of the contracting parties
- Termination agreements

Renewal. What are the terms for contract renewal? Will the contract be renegotiated and renewed or will the contract be awarded based on a new round of competitive proposals? Assuming satisfactory performance, can the contract just be extended? How long before the end of the contract will a renewal decision be made?

Performance and performance incentives. Performance is among the most difficult matters to determine in education service contracts. It is difficult to define performance objectives precisely, and measuring various elements of performance is often problematic. As discussed further below, the more narrowly objectives are defined, the easier it is to measure them and to establish effective performance controls. The advantage of narrow specification, however, is its disadvantage as well. Does a school board really want a contractor who is focused only on a narrowly defined, precisely measured set of objectives? What is left unspecified probably will not receive much attention.

Asset ownership. Some contractors make large up-front investments in the schools they manage. Edison pays the expenses associated with wiring schools for computers, providing each student with a computer to use, and training teachers. Some contractors also have become heavily involved in the purchase or lease of facilities. Who owns these assets (and liabilities) if the contractual relationship fall apart? This was a matter of great concern in the Education Alternatives, Inc. contract with the Hartford, Connecticut Board of Education and resulted in an extended and costly court dispute.

Intellectual property. Some contractors invest heavily in developing a curriculum and curricular materials for the schools they run. Who owns the rights to the curriculum?

Can the contracting school board share the curricular materials with other schools in the district? What happens when the contract ends? Can the school continue to use the curriculum if the contractor is no longer involved?

“No compete” clause. Personnel is an area of control that contractors generally guard closely. Contractors may expend great effort in hiring and training school personnel. What happens to the personnel when the contract is over? Can a school board end a contract, but keep the staff that the contractor recruited, hired, and trained? Some contractors guard against this possibility by specifying in the contract that the personnel hired by the contractor cannot be hired by the school board for a set period, like a year, after the conclusion of the contract period.

Termination agreements. Contracts usually specify conditions that are agreed upon by the parties as grounds for termination. They are the conditions under which either party would prefer not to be in the relationship, often conditions that make it difficult for them to meet certain objectives. For example, Edison contracts specify that school board actions that threaten the employment terms established by Edison for teachers in Edison-operated schools are grounds for termination. Edison contracts also consider enrollment that falls below a set minimum to be grounds for termination. A school district might require a provision specifying that the private firm’s going bankrupt is grounds for terminating a contract. Violation of other aspects of the contractual agreement—for example, use of a particular curriculum—might be grounds for which one party or the other ends the contract. Early Edison contracts (probably in an effort to overcome skeptics and establish trust) provided school boards with a large escape hatch, allowing termination of the contract “without cause.” Now that Edison has established a track record, its later contracts are more specific about the cause for termination. The 1998 contract between the Pontiac, Michigan Board of Education and the Edison Project L.P., for example, specifies failure “to make reasonable progress toward student achievement.” In addition to the conditions leading to the end of a contract, termination clauses may also identify the timing and terms of termination, such as the required amount of notice or the obligation to complete a school year.

Arbitration. There are always uncertainties surrounding a contract and its implementation, and contract disputes are usually costly to both parties. For these reasons, many contracts include clauses that specify procedures for settling disputes between the parties without going to court. In the event of a dispute, for example, each party might appoint two rep-

resentatives to participate in a conflict resolution process. If such a process is unsuccessful, the parties might refer the matter to the American Arbitration Association.

Contracting in Education: Possibilities and Limitations

To understand the advantages and problematic aspects of contracting for educational services, it is important to recognize that all contracts are necessarily incomplete for at least two reasons. First, contracts cannot anticipate all contingencies. Circumstances change and all relevant conditions are not under the control of the contracting parties. In contracting with government agencies, for instance, political conditions are generally germane, but they are often difficult to predict or control.

Second, contracts must allow the contractor some discretion. Outside contractors are engaged because school boards presume the contractors have some capability to improve the management and efficient operation of schools. Otherwise, why enter into a contract? If a school board knew the nature of all work demands and what actions to take in every situation, it would not need to engage outside managers; the board could just establish decision rules, standard procedures, and enforcement mechanisms. Education managers are hired partly because of uncertainty about what to do and how to do it well. Still, uncertainty necessarily contributes to the incompleteness of contracts and always leaves room for dispute. Which party should bear the cost of unanticipated or unpredictable contingencies? If there are extenuating circumstances and the contractor does not meet performance targets, who bears the cost? It is well worth the effort for parties to think through as many contingencies as possible, to determine the importance of various objectives to each party, and to learn from the contracting experiences of others. Well-designed contracts not only provide better incentives, but also reduce the likelihood of costly disputes. Even the best preparation, however, cannot prevent some level of incompleteness, a condition of all contracts; some measure of trust is necessary to seal the deal.

Education contracts, due to inherent difficulties associated with specifying educational objectives and with measuring educational performance, tend to have incompleteness or limited specificity in many key clauses, such as those covering objectives, performance, and costs. Below we discuss how some of the contracts we analyzed handled these clauses.

Objectives. The most important part of any contract formulation, even more than bargaining over specific terms, is identifying clear objectives. The contract should clearly specify what each party wants to achieve from the relationship. Some of the 11 contracts reviewed for this analysis revealed some confusion and ambivalence, especially on the part of school districts. Uncertainty, especially about the primary objectives of the contract, can lead to serious conflict over respective responsibilities and level of effort during implementation.

The objectives of the 11 analyzed contracts fall into two major areas: financial objectives and educational objectives. These sets of objectives share an underlying efficiency purpose—obtaining the best outcome for a given level of expenditure or minimizing the level of expenditure required to obtain a given performance level. The analyzed contracts vary greatly in the degree to which they stressed educational or financial objectives. In some of the so-called *educational performance* contracts, it is difficult to find the *educational* purpose of the contract, even though that is the presumed central purpose of the venture.

That financial objectives appear to dominate some contracts, perhaps because they accurately reflect what some districts hope to achieve. Cost reduction is the reason government agencies usually cite for private contracting (Pack, 1989) and that school districts give for contracting out transportation, food services, and the like. It is difficult for many public entities, including school districts, to raise revenue. Most districts must issue bonds to generate substantial new funds. Even high-wealth districts are constrained by fixed costs, such as personnel costs that are determined largely by union agreements. The financial advantages of a contractual relationship can be an important inducement if a district needs an influx of funds to finance the wiring of schools for computers or to implement a reform effort.

Financial objectives are prominent in the Educational Alternatives, Inc. (EAI)¹ contracts with the public school districts in Baltimore, Maryland; Hartford, Connecticut; and Dade County (serving greater Miami), Florida. The contract terms reveal a clear expectation that the contractor would cut district costs, invest significant capital in the districts, and raise additional funds for the district. “Revenue enhancement” is an explicitly identified objective in the Baltimore contract and an expectation of significant financial investment by EAI in the Hartford school district was explicitly stated into its contract with Hartford.

Contracts Analyzed

Educational Alternatives, Inc. with
Dade County School Board, Florida
(June, 1990)

Educational Alternatives, Inc. with
Baltimore City Public Schools, Maryland
(July, 1992)

Educational Alternatives, Inc. with
Board of Education of the City of
Hartford, Connecticut
(July, 1994)

Sylvan Learning Systems, Inc. with
Charleston County School District, South Carolina
(February, 1997)

Sylvan Learning Systems, Inc. with
School Board of the City of Richmond, Virginia
(January, 1997)

Sylvan Learning Systems, Inc. with
St. Paul Public Schools, Minnesota
(August, 1995)

Edison Project, L.P. with Wichita Board of Education
United School District #259, Wichita, Kansas
(January, 1995)

Edison Project, L.P. with
Boston Renaissance Charter School, Inc.,
Massachusetts
(April, 1995)

Edison Project, L.P. with Board of Trustees of
Sherman Independent School District, Texas
(April, 1996)

Alternative Public Schools, Inc. with
Wilksburg School District, Pennsylvania
(July, 1995)

Beacon Education Management with
Chelmsford Public Charter School Board of Trustees
(June, 1998)

Educational Alternatives, Inc. is not alone in promising financial resources to school districts; other contractors provide financial inducements as well. Edison expends about \$1.5 million in capital improvements and staff development in every school it operates. The Sylvan Learning Corporation, which contracts with school districts to operate remedial programs, upgrades—at an approximate cost of \$60,000—each classroom it uses.

EAI has represented that it expects to invest in the School System approximately \$14 million of capital (\$2.6 million in technology lease payments) during the first year of this Agreement, and approximately \$20 million in technology and software over the term of this Agreement, and has further represented that it expects to incur \$1.6 million in building improvements during the first year of this agreement . . . The Board has relied on these representations as inducements to enter into this Agreement . . . EAI-Hartford contract excerpt (4.6.1, p. 36)

Financial objectives are not a problem in themselves; indeed, they are a definite advantage to resource-constrained school districts. They no doubt also increase the commitment of the firm to the venture. Financial objectives can become a problem, however, to the extent that they create confusion about what is most important in the contractual relationship. A contract that sends mixed messages not only affects the behavior and expectations of the contracting parties, but also how the venture is viewed by others—such as teachers, unions, and parents—who are not signatories to the agreement. Such confusion may explain part of the conflict in the Educational Alternatives, Inc. ventures in Baltimore and Hartford where the contracts explicitly identified cost containment and cost reduction as school district objectives. Given this kind of contract language, any changes proposed by the contractor aroused the suspicions of employee unions and parents.

Performance measures. The establishment of performance measures is a critical part of any contract. These measures provide the basis for determining whether a contractor has fulfilled contractual obligations and have implications for the contractor's compensation. When a contract specifies performance incentives, performance measures are even more important. What is measured and rewarded directs the focus of the work effort covered by the contractual relationship.

The 11 analyzed contracts incorporate a wide range of education performance measures. The Sylvan Learning Systems contracts have by far the most specific performance measures; and only the Sylvan contracts establish performance-based incentives based on direct educational performance measures. Not surprisingly, the scope of work in the Sylvan contracts is also the most narrowly defined and easiest to measure. Sylvan Learning Systems provides remedial instruction in mathematics and reading; it does not assume responsibility for the full instructional program or for managing schools. Sylvan uses the achievement tests commonly employed by the districts as performance measures in its contracts with these districts. Sylvan contracts specify and guarantee the amount of improvement expected of students who complete the program; the firm provides, at not charge, additional instruction to students who complete the program and do not meet specified growth in achievement. In short, there is little uncertainty or ambiguity in the Sylvan contracts about what services will be provided, what goals will be pursued, the means of measurement, or the consequences of not meeting performance goals. Such contracts are unlikely to lead to disputes and provide clear benefits as a management tool.

The Sylvan model is what many people have in mind when they think about contracting in education. But most education contracts are far less specific. In general, the greater the number and the more complex a contract's objectives, the less specific are the performance terms of the contract.

SYLVAN guarantees that each student in the SYLVAN program who receives the "required number of hours of direct instruction" will attain at least +2 NCEs growth in that student's primary subject (reading or math) . . . NCE growth will be measured by the appropriate subtest of the MAT-7 . . . SYLVAN will, at no charge or cost to CCSD, provide 12 hours of primary subject instruction to each student who does not attain the growth guaranteed above . . . Sylvan-Charleston contract excerpt (4, p. 5)

In contrast to the Sylvan contracts, the Edison contracts assume full responsibility for a school's management and educational operation. The objectives, therefore, are by definition multiple and complex. As contracting theory would predict under such circumstances, the Edison contracts generally do not establish precise performance targets or perfor-

mance incentives. Edison “expects” its schools to promote higher achievement than other comparable district schools, but it does not guarantee it. The contracts identify a number of assessment instruments they will use to report student results, as well as other measures of performance including parent and community engagement, parent and student satisfaction, student attendance and motivation, and teacher satisfaction. Thus, they provide considerable performance information, but they do not specify how the various performance indicators will be weighed in determining Edison’s overall performance. There appears to be more risk for both contractor and school district under the Edison contracts than under the Sylvan contracts as well as perhaps more gain. Less specific contracts require good faith on both sides. To some extent, the Edison contracts are actually tipped in favor of the school districts. Though the contracts do not contain specific performance targets, they give the school district the right to determine whether Edison’s performance has been satisfactory. The district, in effect, can assign whatever weight it deems appropriate to different objectives. Edison is obligated to provide multiple measures of student performance, as well as assessments of parental satisfaction and other matters, but it is the school district that decides if the contractor’s overall performance is sufficient.

The Beacon (formerly Alternative Public Schools) contract with the Chelmsford Charter School takes a different approach. Like the Sylvan contracts, the Beacon contract specifies performance incentives, but the incentives are not based on student academic performance. Instead, the charter school’s board of trustees agrees to award a performance bonus based on enrollment demand and a survey of parental satisfaction. Beacon receives the bonus if parents rate the school as excellent (a score of 3.25 or above on a 4.0 point scale), or if applications to the school are 2.5 times greater than available seats.

Contracts vary greatly in the amount of information they contain about the education process. Beacon is educationally agnostic and simply agrees to manage whatever education program the (usually charter) school board wants. The Beacon contract specifies little about the education program. In contrast, Edison has a well-defined curriculum and education program clearly laid out as part of its contracts. Edison contracts also detail considerable information about student/teacher ratios, the curriculum, professional development, technology, and relationships with families. This process detail provides observable measures of contractor effort and is important especially when performance measures are not entirely clear.

Almost all contracts provide contractors some kind of control over personnel. Contractors apparently believe they can yield higher performance if they control the selection, training, and assignment of personnel, particularly teaching personnel. Although some Sylvan sites use district teachers, Sylvan usually employs its own personnel to provide instructional services. All teachers must follow the Sylvan curriculum and other Sylvan workplace practices including, for example, attendance at regular meetings, performance evaluations, and dress codes. When contracting with a district, Edison uses district teachers, but its contracts reserve certain rights over teachers’ work. These include the right to impose greater work demands on the typical teacher, including longer days and school years, than the district does. In exchange, Edison pays higher salaries, given teachers’ experience and education, than the school district. Edison contracts also reserve the right to supervise, assign, evaluate, and return to the district any teachers whose performance Edison considers unsatisfactory.

. . . Edison shall have the sole responsibility and authority to determine staffing levels, and to select, evaluate, assign, discipline and transfer personnel consistent with federal and state laws, rules and regulation . . . (Edison-Wichita, 11.1, p. 10)

Education is a labor-intensive industry and labor is the contractors’ largest cost category. Because contractors are interested in both quality control and cost control, the most serious disputes tend to concern personnel. Disputes over control of personnel were the primary reasons that the Alternative Public Schools contract in Wilkesburg, Pennsylvania contract ended up in the courts. Education Alternatives, Inc. claims district teachers resisted implementing the contractor’s education program in Baltimore, Maryland; since this experience, the firm prefers contractual arrangements where it directly employs the teachers.

Costs. Decisions to contract out education services are often based on costs: Is the cost of contracting out a service more or less than the cost of providing the service? *Production costs*, those direct costs associated with running a school are the most obvious costs. Other costs that must be considered include *bargaining, opportunism, and political costs*.² Bargaining costs are related to the terms and conditions that were sometimes unclear at the time of the initial contract. Opportunism takes place when one party, acting in bad faith,

takes advantage of an uncertainty or contract loophole for its own benefit.³ Political costs—for example, the extended turmoil that may ensue from eliminating certain staff positions—are particularly relevant in the education sector.⁴

There is reasonable evidence that government contracting to private firms does lower production costs for at least some services (for example, Pack, 1989). But the other costs—such as those associated with monitoring operations—all have to be factored in when deciding whether it is worthwhile to contract out educational services.

The experiences of some contractors and school districts demonstrate the seriousness of these other costs. Alternative Public Schools, Inc. spent many months in court because the teachers' union challenged the personnel decisions the firm had made in Wilkesburg, Pennsylvania. In addition, the local school board members who brought the outside firm into the district lost their seats in the next election.

Educational Alternatives, Inc. faced a difficult situation in Hartford when unanticipated district budget problems exerted financial pressure on the contractor. The contractor believed that these pressures exceeded the terms of the contractual agreement. Community hostility, due in part to reports that the contractor would reduce costs by eliminating staff positions in the district, complicated and appeared to render impossible any negotiations between the district and the contractor to resolve the situation.

Having learned from such experiences, contractors now structure their relationships with schools to minimize or avoid some of these other costs. More aware of the political and operational problems caused by union distrust, Edison now uses district teachers, refuses to go into districts if there is any threat that positions will be cut, and includes union representatives in discussions with the district from the start to ensure that all concerns are on the table.⁵ Education Alternatives, Inc. (now Tesseract), no doubt feeling burned by its experiences, no longer contracts with school districts. And newer firms just entering the market seem to be concentrating on contractual arrangements with charter schools, rather than contracting directly with school districts.

The costs of monitoring contracts for education services can be significant because of inherent measurement difficulties and because performance measures are available only periodically. Reporting procedures can fulfill some of the monitoring function. Some contracts specify regular meetings with the school board; others require quarterly written reports

containing particular types of information. Some monitoring can be informal. Parents perform some aspects of the monitoring function by collecting information about their children's daily experiences in school. Parents who actively choose the school their children attend (such as a charter school) are likely to monitor the school carefully and may be a good source of informal information, although the reliability of this information would need to be weighed in making important decisions.

All these "other" costs affect both firms and school boards and both parties need to take them into account when entering contractual relationships.

Implications

It is too early to tell if contracting out regular education services has been or can be successful in promoting greater student achievement. Good results have been reported (Edison Project, 1997; 1999), but questions remain (American Federation of Teachers, 1998; Edison Project, 1998). Certain instructive patterns, however, emerge in the contracts analyzed here.

Contracting out education management is probably not the easy solution to establishing accountability for student achievement that some may have thought. Explicit performance-based incentives are not evident in education management contracts for the most part, and where they are evident, they are not always directly related to student performance. Still, in theory at least, anticipated competition from other education management providers and interest in establishing a reputation for reliable, good performance may result in high levels of focus, effort, and performance by education management contractors. In difficult-to-manage schools the value of these firms may be especially high. The small number of providers and limited specificity of education contracts, however, also provide an opportunity for fly-by-night firms, uninterested in the long-term benefits of building a good reputation, to take advantage of the situation. So, contract terms, especially those that describe the education services and programs to be provided, are especially important. Effective monitoring by the school board is also important: the clearer the board is about its objectives and priorities, the more effective its monitoring is likely to be.

The value of contracting is likely to vary according to the particular needs of the school board. New start-up charter schools with little experience and expertise in operating schools are likely to have higher demand for education man

agement services. School districts with hard-to-manage schools constitute another potential market for education management services. Management firms provide school districts with a way to structure a new start for these difficult schools by bringing in new staff, new curriculum, and technical support; by setting expectations and creating accountability mechanisms; and sometimes by providing additional resources.

School boards having cost reduction as their primary objective will probably not find education management services a worthwhile alternative. Contracts provide the legal backing for a working relationship, but they only partially shield that relationship from outside influences. Public schools, governed by elected and duly appointed officials and financed with public revenues, are public institutions, and as such, they command the interest of many individuals and groups. Successful implementation of contract agreements depends on the support, or at least acquiescence, of parents, teachers, unions, and other parties. Some of the contracts analyzed here led to disputes with these groups and resulted in unworkable situations that were costly to both sides. Before entering into a contractual relationship, school boards and outside firms should at least be sure that the general environment is not hostile to the contract.

This analysis of 11 contracts with for-profit firms to provide regular education services proves, once again, that there are no easy answers to complex educational problems. As with any serious solution, contracting requires careful consideration and analysis. For many districts and schools, contracting may provide the structure and discipline necessary to improve schools, especially schools that are hard to manage. Experienced contractors are likely also to be valuable for new start-up schools and for schools attempting to operate fairly autonomously. But the benefits of contracting will only emerge in settings where both parties are aware of its many contingencies and are committed to making the relationship work.

End Notes

1. Educational Alternatives Inc. is now known as Tesseract.
2. See Williamson, 1975 for an extended discussion of these costs.
3. This is more likely to happen when competition for a particular service is low.

4. See Globerman and Vining, 1996, for their discussion of some political costs of government contracting for information technology.

5. The statement of agreed-upon facts in recent Edison contracts includes a statement of understanding that the teachers and administrators unions are prepared to cooperate with the venture. (Agreement between the Governing Board of Area Cooperative Educational Services and the Edison Project L.P. - 5/12/98)

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