Market Share (Figure 1)

In several states, between 10 and 30 percent of charter schools are run by charter management organizations; in Illinois, CMOs run 45 percent of charter schools.

Percentage of charter schools operated by nonprofit charter management organizations, 2009-10

SOURCE: National Alliance for Public Charter Schools
The $500 million Question

Can charter management organizations deliver quality education at scale?

*Education Next* talks with Kevin Hall and Robin Lake

Charter school management organizations (CMOs) have emerged as a popular means for bringing charter schooling to scale. Advocates credit CMOs with delivering a coherent model of charter schooling to a growing number of children across numerous sites. Skeptics have wondered whether CMOs constitute an effective management approach, whether they won’t merely re-create the pathologies of school districts as they grow in size and scale, and whether they are well-suited to make use of new technological tools. In this forum, Robin Lake of the University of Washington’s Center on Reinventing Public Education (CRPE) and Charter School Growth Fund (CSGF) CEO Kevin Hall discuss what we know about the strengths and frailties of CMOs, what the future holds, and what promising alternatives might be.

**EN: How should we define a “quality” charter school? How does quality vary between those operated by CMOs and those that are not? What is the track record of CMOs to date, in terms of quality-conscious growth and replication?**

Kevin Hall: At a minimum, a high-quality charter school produces a vast majority of students who meet or exceed academic standards regardless of their ethnic or socioeconomic background and who are well prepared for postsecondary success.

The Charter School Growth Fund invests in CMOs that operate networks of high-quality charter schools, providing grant and loan financing packages that enable these organizations to expand their capacity to serve more low-income and minority students. Over the past five years, CSGF has invested in more than 20 nonprofit charter-school operators. Among them are successful charter school networks across the country, such as Achievement First, YES Prep, KIPP, Rocketship Education, and IDEA Public Schools. In fall 2010, CSGF announced the launch of a new fund of $160 million to invest in the expansion of the best-performing charter schools and CMOs nationally over the next five years.
Approximately 95 percent of CSGF’s member schools enable students to outperform comparable district schools in both math and reading; nearly 70 percent of schools enable their students to outperform state averages in both math and reading, although they serve much higher than average percentages of low-income and minority students. Some of our CMO schools are beginning to close the achievement gap; their students perform better than affluent students who traditionally outperform low-income students by a significant margin. This is an extremely rare level of performance, particularly for organizations that run a number of schools.

While success stories reveal the potential of high-quality charter schools (and CMOs in particular), there are certainly many poorly performing charter schools across the country as well. It is important that those schools be closed in order to protect the integrity of the charter schools proposition: increased flexibility in exchange for performance accountability. As a balance to that strategy, however, there also needs to be an effort to expand the reach of the highest performers, particularly those that are able to scale their work to serve more students. Several of the CMOs in our portfolio are improving their performance as they get bigger, a historical rarity in the K–12 sector, though a phenomenon that is quite common in other sectors.

Robin Lake: The quality of any school, charter or not, has to be measured in terms of outcomes: are students better prepared for college, career, and citizenship than they would have been had they not attended that school? Rigorous research on charter school performance (studies that make true apples-to-apples comparisons) shows that there is tremendous variation nationally; charter schools often outperform traditional public schools, though not the majority of the time. When it comes to educating low-income students, however, charter schools do tend to outperform other public schools.

Many hope that by replicating high-performing schools CMOs will provide more consistent results than stand-alone charter schools have achieved, but there is no rigorous evidence yet to support that claim nationally. Many CMOs do seem to outperform their district schools, but there is also a lot of variation among CMOs and even within a particular CMO’s portfolio of schools. The CMOs we often point to as successes represent a very small portion of the 80 or so CMOs in the country. It’s not clear that the CMO model, as a rule, produces more consistent quality than does effective authorizing and oversight of “one-off” charter schools.

CMO founders are finding that large-scale replication with fidelity, especially at the high-school level, is a lot more difficult than they thought it would be. It’s also true that CMOs sometimes serve fewer special needs and ELL students and students with severe behavior challenges than their district counterparts, so achievement studies have to take that into account. The study we (CRPE) are conducting in partnership with Mathematica is the first nationwide apples-to-apples analysis of CMO effectiveness. “The National Study of Charter Management Organization (CMO) Effectiveness: Report on Interim Findings” is available on the CRPE website. A final report, with achievement results, is due out in 2011.

EN: How much private funding has gone into CMOs so far and have these investments delivered?

RL: Most estimates put the total philanthropic investment in CMOs at around $500 million, and most of the big foundations are no longer funding stand-alone charter school start-up. I don’t think anyone would disagree that some great things have come from those investments. Some CMOs are creating opportunities for low-income and minority students that people didn’t generally think were possible, and they have shown the results can be replicated. That’s a very important lesson.

But CMOs are growing slowly and exist in a very limited number of cities. The CMO model is typically highly centralized, with services akin to school districts. That model, so far, has produced new schools pretty slowly (the average CMO grows by one school a year), and many CMOs have built up very expensive central offices that could not exist without continued philanthropic support.
Many of the well-known CMOs report annual spending of more than $13,000 per student. That level of spending may be necessary to serve our neediest students, but in no way represents an obvious cost saving over school districts and stand-alone charter schools. The CMO business model is so far proving impossible to sustain on public funding alone. A well-known CMO in California recently required an infusion of $700,000 in private funding to prevent financial collapse. More of these bail-outs may be on the horizon.

It’s hard to say exactly how many schools have been created from private money invested in CMOs, but our estimate is around 400. That means that more than 1 million private dollars have gone into each of the existing CMO schools so far (though some of that money is likely intended to fund central office systems to support future growth).

Could that half billion dollars have been spent in ways that produced a far greater number of high-quality charter schools? I think it’s likely. Diverse investments in innovative approaches to scale, such as back office and data management services, leadership training, and technology platforms for promising stand-alone charter schools, might have vastly increased the quality and number of new schools throughout the country. The important question now is how to make the most out of new federal dollars intended to support replication and scale. It would be a shame and a great waste of money not to be honest about, and learn from, the first generation of CMOs to create faster and more efficient paths to scale.

Our report suggests a variety of ways that that can happen, including experimentation with smaller and leaner management organizations like those that are cropping up in New Orleans and New York City.

KH: CMOs have demonstrated that they can create high-quality schools at a fraction of the cost of traditional school districts, but like any growing organization they need capital to expand. Until CMOs can benefit from the billions of dollars of school bonds raised by districts, they will need “equity-like” investments from philanthropy in order to expand and effectively serve more students. The schools operated by CMOs often receive less overall public funding on a per-pupil basis than comparable district-run public schools, with the deficit ranging from approximately 10 to 30 percent. The deficit varies widely by geography, due to differences in the cost and funding of facilities as well as other factors. Many CMOs utilize a model where new schools operate with a deficit for two to four years until the schools reach full enrollment capacity, at which point the schools will generate operating “surpluses” at the site level.

To date, CSGF has committed more than $75 million to more than 20 emerging CMOs that represent more than 55,000 seats and are on track to exceed 100,000 seats. At that point our portfolio’s total enrollment would place it in the top 30 school districts by size in the nation.

CSGF’s goal as a financial investor is to enable organizations to reach sustainability on public revenues. When the schools reach capacity, they pay management fees to fund central administrative costs, such as academic coaches, student data systems, and payroll.

The scaling of high-performing CMOs provides one of the highest levels of return and leverage for philanthropic funds, particularly when you consider that CMOs tend to deliver much higher student achievement than the local district; these schools will continue to serve students in a high-quality way over time; and there are few investments in K–12 that have consistently yielded this level of performance.

The long-term funding solution is two-fold: equitable funding and access to publicly financed school facilities. The federal government has a critical investment role to play in 1) supporting the replication and scale-up of the best providers through its grant programs; 2) improving access to low-cost public facilities for charter schools through its own funds and by leveraging existing public-school space; 3) pushing states and local districts toward more equitable funding systems for all public school students, including those in charter schools; and 4) supporting efforts to create early-stage, innovative, and scalable models that incorporate greater uses of learning technology.
EN: What is the largest number of high-quality charter schools you could see existing CMOs creating over the next five years? What’s the theory that envisions how these schools will have an impact on the larger system?

KH: Over the past 10 years, the total number of students attending schools run by high-performing CMOs increased at least tenfold, from approximately 10,000 students in 2000 to more than 100,000 students today. Over the next decade, the opportunity exists for CMOs to continue this pace of growth and serve more than 1 million students by 2020.

Growth in the CMO sector will come in three main areas: 1) Existing CMOs will continue to scale up. Most CMOs are adding one to five new schools per year as well as filling out their existing schools, and a few over the next several years may begin to expand to new regions. Currently, the CMOs in our portfolio are averaging annual growth rates of about 30 percent. 2) New CMOs will emerge from outstanding single schools, particularly in regions where many high-performing schools were launched over the past five to seven years. 3) Next-generation models showing promising early results will take root. Rocketship Education, a CMO based in northern California, uses a “hybrid” model that combines learning technology with great teaching to deliver outstanding results at much lower school site-level costs.

High-quality CMOs will set the bar for the entire K–12 sector when it comes to educating disadvantaged students. Over the next decade, several successful operators will serve a significant share of their local market (at least 10 to 15 percent of all students). More importantly, based on continuing their historic levels of performance, these schools could double the number of low-income students going on to college in these communities. Even though charter school enrollment is relatively small, we expect charter schools to dramatically increase the number of low-income students graduating from four-year colleges, and, in many cases, exceed the number of college graduates emerging from the much larger local district schools. This level of performance at scale will have a deep impact in those communities on the expectations for what schools can accomplish.

About half of the public school students in the U.S. attend schools in districts that have fewer than 10,000 students. Many CMOs that started from scratch over the last decade will grow to be among the largest 10 percent of districts in the country. Aggressive smaller districts may adopt some of the practices of these CMOs, including how they recruit, select, and develop talent; the culture they build in their schools; and the way they manage multiple schools, more effectively pairing accountability and decisionmaking rights throughout the school system.

RL: The CMOs we’ve surveyed (about half of those in the country) say they plan to create just over 300 new schools in the next five years. If we double or even triple that number, we are still nowhere near the number of schools needed to replace or transform the 13,000 chronically low-performing schools in the U.S. So while CMOs are replicating as quickly as they can and are becoming a significant presence in some cities, they are clearly still “a drop in the bucket” when it comes to large-scale public-school improvement.

Some have suggested that the next generation of CMOs will produce far greater numbers of schools, but CMO growth projections have historically been overly optimistic. What’s more, many U.S. cities have no hope of attracting CMOs: a large majority of CMOs are either committed to staying in a particular city or state or cannot operate in states with lower per-pupil funding. Few existing CMOs are interested in turning around existing schools, one of the highest priorities of Secretary Duncan.

Some CMOs believe that by flooding a particular district with high-quality schools and by providing proof that it is possible to close the achievement gap, they will prod entire school systems into changing. Unfortunately, so far only a few school districts in the country are responding to CMOs in this way. It seems clear, then, that if the charter sector hopes to contribute to transformational numbers in high-quality public schools, the current CMO approach alone can’t get it there.
EN: How big a challenge is the replication of high-quality schools, even by admired CMOs? What measures, whether in terms of practice or policy, could help CMOs succeed at delivering more high-quality schools at scale?

RL: Finding ways to replicate successful schools has stymied public education for decades. CMOs have so far scaled faster and seemingly with more consistency than any of the many failed dissemination and replication strategies of the past, including comprehensive school reform. But the challenge is still immense. Most CMOs say that facilities costs, inadequate per-pupil funding, and limited access to high-quality teachers and leaders are barriers to growth. All of those issues could be addressed by changes to local, state, and federal policies.

But CMOs also suffer from many self-inflicted problems as they scale: many are dealing with very high teacher turnover, increasing standardization and bureaucracy, and difficulty maintaining consistent quality, especially in their high-school models. Larger CMOs are beginning to look a lot like the very school districts charter schools wanted to escape. The expense of CMO central supports means that few CMOs have shown they can replicate without the massive philanthropic subsidies they have enjoyed in the past. In our survey, CMO leaders said that uncertainty about continued philanthropic funding is second only to limited access to facilities as their most significant barrier to scale.

These challenges are not reasons to dismiss the CMO model, but they do point out that CMO problems will not be solved with simply more public funding or access to public facilities. CMOs were meant to help charter schools capture economies of scale, given expected lower per-pupil funding relative to school districts. Large CMO models have not achieved those economies (though they are likely achieving other goals), and it is possible that other initiatives might be better able to capture economies of scale and still maintain high quality. Some possibilities: CMOs might spin off schools once they are stabilized or they might only offer very limited central office services. New technologies might make it possible for stand-alone charter schools to “plug in” to remote services that provide CMO-like supports, such as data analysis or real-time teacher coaching.

KH: We are beginning to see CMOs succeed in delivering consistent high-level quality across their networks. For example, Aspire Public Schools operated 25 schools last year and averaged a 9.5 (out of 10) similar-schools ranking, meaning their schools are averaged a ranking in the top 5 percent of schools in California serving similar demographics. Organizations like Aspire, Uncommon Schools, IDEA, and YES Prep are proving beyond a doubt that school systems can deliver high quality at scale. The main barriers to replication are indeed building a quality talent pipeline, particularly at the school–site level; ensuring full per-pupil funding follows the student; access to publicly financed facilities, one of the largest barriers, particularly for early-stage CMOs; patient, long-term focused growth capital sufficient to enable CMOs to build out high-performing networks; and the regulatory framework, as state and district-level structures and policies are often at odds with scaling up high-performing and promising new operators.

There has been good progress over the past year on the policy front in many states, and the Obama administration and Secretary Duncan have been working on smart ways of lowering the barriers outlined above. Recently, a few states and cities have been working to create environments where the best-performing CMOs might be able to expand and thrive.

EN: How do CMOs compare to traditional school districts? Will they replicate the same dysfunctions as large school districts, or will they be able to avoid this fate?

KH: The successful CMOs in our portfolio have been able to put student achievement as the driving force within their organizations. Because of this relentless focus on achievement, we have seen these organizations innovate in critical areas like improving instruction.
in the classroom, providing career paths for teachers, and principal leadership training. We believe these innovations are possible in traditional school districts, but the work is complicated by factors that distract from the core mission of student achievement.

Many outstanding CMOs incorporate common elements in their approach. In many cases, this means a longer school day and a longer school year than those found in a traditional public-school setting. The organizations emphasize carefully recruiting, selecting, developing, and evaluating talent, especially at the principal and teacher level. The organizations have a firm conviction to use data to make hard choices. The enterprise is built from the classroom and school level “up” versus an organizational model of a central, bureaucratic organization driven “top down,” as is typical in most U.S. school districts. Principals and teachers at the school level have considerable latitude for decisionmaking inside the construct of the academic, operational, and financial model of the organization. These organizations have an intense and meaningful focus on a set of values that permeate the school and entire organization. Students, faculty, and staff are held accountable for living these values, and they are reinforced by authentic “cultural norms” shared by all.

The central office is a “service provider” that seeks to free schools and educators from operational burdens and allow them to maximize the time and resources that are focused on student learning. A focus on efficiency, particularly with respect to nonschool expenditures, enables more funds to be spent closest to the student and the use of school time to maximize the amount of learning for students. While each of these elements is consistently present, high-performing CMOs offer a diversity of models through which they accomplish academic excellence. These models cater to the unique needs of each CMO’s student population.

Because many of these elements are highly scalable, the rise of high-performing CMOs represents one of the most promising developments in K–12. Other key differences between CMOs and most school districts will enable the former to continue to scale effectively: 1) Governance structure. CMOs are governed by self-perpetuating boards that can align their governance and oversight around the organization delivering on its mission over time. Elected school boards are often unable to deliver upon this function effectively. 2) Client focus. CMOs are subject to market forces. They have to deliver for their parents, students, and employees every day or they will lose them. This discipline helps to maintain focus on providing the environment where students can achieve. 3) Talent opportunities. With their flexibility, CMOs are better able to attract and reward talent, most importantly, great teachers and school leaders. They create a culture in which people are united around a common mission, and their growth enables them to provide talent with new challenges and opportunities. CMOs are beginning to achieve a level of scale, in which they are developing more of their own leadership and building great cultures of excellence. As an example, YES Prep was recently named one of the “Best Places to Work” in Houston, based on the feedback from their team members.

As our successful CMOs grow, they must work hard to remain nimble and innovative to avoid replicating the bureaucracies we have encountered in other school systems. So far, they look more like high-performing companies and nonprofits than school districts. They have many of the same functions as those found in a “traditional” district structure, but their culture, incentives, and alignment are very different from the majority of larger school districts in the U.S.

**RL:** Many CMO leaders fear they will recreate the same systems they had hoped to escape and to some extent there are signs this is happening. This is in part because a centralized approach to school management is what everyone—district leaders and businesspeople working in education—knows. The organizational charts and central office services offered look strikingly similar. It’s also true that as CMOs have grown larger and more bureaucratic, many are struggling to find ways to remain innovative, flexible, and
responsive to their teachers. Our research shows that larger CMOs are more likely to prescribe solutions to their schools and are more likely to have formalized policies. Organizational rigidity and complexity are classic pathologies of scale that most large organizations, including schools districts, encounter. Unchecked, they can carry serious organizational and financial costs. One-fifth of CMO central office leaders say that efforts are underway to unionize their teachers.

There are important differences between CMOs and districts, however. Most notably, CMOs tend to include significantly more time for instruction in their schools and focus much more on leader and teacher accountability. CMO leaders also say it is easier to keep the organization nimble and focused on the mission without the politics of elected school boards. It’s impossible to say, however, whether these potential advantages over districts can be sustained over time as CMOs grow and mature.

In theory, one of the prime advantages of the charter sector is its decentralized nature, which allows teachers and principals to adopt innovative missions, methods, and organizational structures that work best for its community of students and change them quickly if they do not work. Some of the most effective charter schools thrive because the culture of the organization is nimble and informal, inspiring teachers to work as cohesive, trusting teams and put forth monumental effort on behalf of the neediest students. If large, centrally planned organizations like CMOs come to dominate charter schooling, much of that advantage may be lost.

**EN:** How do CMOs compare to for-profit education management organizations (EMOs)? Given that CMOs have more difficulty generating capital, must rely more heavily on philanthropy and government grants, and have few incentives to expand aggressively, is there value in envisioning a larger role for EMOs going forward?

**RL:** A lot of investors were disappointed with what they perceived to be lackluster quality in early EMO expansion. Many early EMOs expanded quickly and opportunistically to meet aggressive investor growth targets and imploded as a result. They also struggled with local community politics because state charter laws required them to contract with nonprofit governing boards rather than run schools directly. The theory was that nonprofits would have more incentive to stay focused on quality and would be able to avoid the political and governance fights of EMOs. CMOs do seem to have set a higher bar on student learning and their governing boards are typically pretty high functioning, but the trade-offs mentioned are real. Some EMOs, such as National Heritage Academies, are expanding aggressively throughout the Midwest, and we should study their results. Given the need for more high-quality schools, we should be open to finding ways for any high-quality public-school operator to be successful, whether they are stand-alone charter schools, EMOs, franchises, networks, or CMOs. There may even be new organizational models and structures that could combine the best elements of all of those organizational types.

**KH:** Students, parents, and teachers should have choices among schools operated by a variety of providers. The key is the quality of the school, not who runs it. Schools run by for-profit EMOs will be an important part of the long-term picture, but there are structural differences that make the CMO approach more attractive now, including the ability of a CMO to hold its own charter, which many for-profits cannot do. For-profit organizations have strong potential in terms of their ability to develop new models, particularly those that operate in various “turn-around” environments and incorporate individualized learning technology. In the near term, there are significant barriers to raising for-profit venture capital for operators.

**EN:** How much potential is there for charter schooling to utilize virtual learning or introduce new technologies? Are CMOs a good way to help

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- **Founded:** 2005
- **Schools:** 24
- **Locations:** MA, NY, NJ
- **Students:** 4,500
make use of these new tools at scale, or are there faster and better ways to expand their use?

KH: A new generation of education entrepreneurs will find ways to transform the current “one teacher, one classroom” mindset that dominates K–12 education. CMOs are beginning to figure out ways to combine adaptive learning technologies and great instruction to deliver outstanding student achievement. CMOs like Rocketship Education have been early innovators in this area, and they are inspiring a new wave of technology innovation in the charter school sector. These “next generation” models are highly compelling in the context of persistently poor academic performance and declining education funding anticipated over the next several years.

Technology can provide a wealth of data about what students know and where there are gaps. Over time, educators will find new ways to harness this information to accelerate learning and use school resources more effectively. Leading-edge innovation will initially happen outside of traditional school districts and will most likely occur in charter schools and the home school market. It is important that CMOs play a central role in this innovation because they can implement new ideas while setting the standard for high student achievement.

In the past, “innovation” in K–12 has not always resulted in better student outcomes. Many large districts will struggle to create an atmosphere that promotes innovation as they wrestle with dramatically changing the existing teaching and learning paradigm, especially given existing labor contracts; building a spirit of risk-taking; and maintaining an unwavering commitment to success that will be required to develop new and innovative models that produce outstanding results.

RL: CMOs are important in education reform, but they can and should only be one piece of the scale puzzle. In the next 10 years I hope CMOs will evolve to operate in partnership with school districts that want to turn around low-performing schools and oversee a portfolio of different school-governance models. In any given community I expect we will see CMOs operating alongside high-quality stand-alone charter schools, franchises, and networks. I also expect we’ll see lots of mutations of the CMO idea. Some might act as incubators for new schools and spin-off schools once they are stable. Others might see their role as matching students with online and community services rather than running schools directly.

The best CMOs are obsessed with continuous improvement and adopt a “whatever it takes” mentality to solve problems that get in the way of student achievement. We need to adopt the same level of urgency and commitment to problem solving around getting to scale, continually inventing a new architecture to support effective new schools rather than being wedded to any model of the past. This will mean a commitment from CMO leaders, funders,
and policymakers to address weaknesses in the current CMO model as well as experimentation and real ingenuity to regularly develop and test new models.

KH: In the next decade, the highest-performing CMOs have a tremendous opportunity to transform American education and ensure that demography is not destiny for our nation’s students. By 2020, the following is possible: High-performing CMOs will be graduating more than 80 percent of their students college- and work-ready regardless of family income. Their schools will set the pace both locally and nationally for achievement performance, particularly for low-income students. More than 200 CMO organizations will be delivering a consistent level of high-quality education, creating this performance across many cities and states. A small number of CMOs will have grown to serve at least 20,000 students, placing them among the largest 2 percent of school districts nationally in terms of size, while delivering a level of performance that will change the current paradigm of delivering performance at scale. Many CMOs will serve more than 10 percent of the students in a local market and will help to more than double the number of low-income students going to college in their community. Several CMOs will become the leading-edge providers using “hybrid” approaches that combine the best of emerging adaptive learning technologies with great teaching talent and school cultures to provide more personalized and effective instruction for students.

There is no “silver bullet” that will transform K–12 education in our country. However, the creation and rise of very high-performing charter management organizations that have a very distinct culture, operating philosophy, and ability to deliver results will be an important element in driving change.

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