Clown School

When media companies pile into education, money vanishes

Class Clowns: How the Smartest Investors Lost Billions in Education
by Jonathan A. Knee

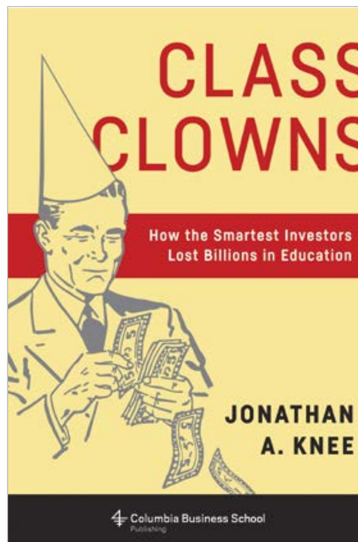
Columbia University Press, 2017, $29.95; 288 pages.

As reviewed by Julie Landry Petersen

In his new book, *Class Clowns,* Jonathan Knee wraps up his case studies with a list of lessons he frames as "cautionary reminders, empirical observations, and hopeful exhortations." It's a humble but accurate summary of the book overall. Although Knee is a business-school professor and former investment banker, his book reads less like a coherent analysis of the prospects of education businesses and more like a few standalone cautionary tales.

Knee profiles four large education companies—Edison Schools, Amplify, Houghton Mifflin, and Knowledge Universe—that either received investments from or were acquired by players in the media and entertainment industry in which the author formerly worked. His main argument is that despite a genuine desire to improve education, these companies and their investors dreamed too big, had flawed assumptions about the nature of the market, bungled many operational details, and failed to hedge against the realities of the market as their dreams dwindled. "These mistakes have often flowed from a basic misunderstanding of the education ecosystem specifically and the importance of industry structure more generally," Knee writes, adding that the lessons he draws can "help not just investors and business people but also policy makers and administrators avoid some of the more treacherous and persistent pitfalls."

If only Knee had taken this observation to heart and provided the reader with an upfront analysis of that education



ecosystem. This broader context and the resulting strategic lessons are often obscured behind a laundry list of criticisms that range from the tactical to the personal. By contrast, the author explains little about the way public-education spending itself works, let alone about the customers' decisionmaking processes or the skills required to manage and scale these businesses.

Knee does capture some unique journalistic details, taking the reader behind the curtains of businesses whose founders' ambitions were often hazy and grander than would prove attainable. These details are sometimes useful to understanding the business itself, while in other cases they obscure the real picture of what went wrong. The first chapter centers on Edison Schools, a company that sought to take over the management of public schools. Here, the author expends more energy on personal attacks than on market analysis. Knee, like many other writers, portrays founder Chris Whittle as a lavish spender heavy on vision and light on operational expertise (a combination that Whittle himself dubs "robust naiveté"). Despite the reputation of its leader, Edison attracted significant capital from top-tier investors and went public in 1999, only to be sold four years later for pennies on the dollar. In the interim, Edison found more resistance than revenue as it tried to persuade states and districts to turn over management of their schools to a private company using a new, unproven school model.

The following chapter, on Amplify, is a more successful analysis of a market and the company's challenges in serving it. It starts with an extended discourse on Rupert Murdoch's rocky investment history and tendency to pursue things he liked without respect to their likely value. Knee then hits his stride, showing how these factors played out when Murdoch's News Corporation acquired the learning analytics company Wireless Generation in 2012 to create an ambitious new "Amplify" division focused on educational tablets, games, curriculum, and data. Here, in contrast to his approach in other chapters, Knee illustrates well the politics that affected Wireless Generation and Amplify, and shows how Amplify's management team underestimated the challenges of curriculum development and adoption while spending aggressively to expand its narrow product focus. Ultimately, Knee admires the Amplify investors and executives who in 2015 took the company private for their focus on "the specific incremental needs of the multiple constituencies that drive buying decisions, rather than the general transformational goals of the founders."

The chapters on publisher Houghton Mifflin and the ambitiously diversified Knowledge Universe—whose services have ranged from childcare and toys to private schools and technology training—show how both businesses expanded in too many directions without ensuring there was real synergy to be gained. However, it is hard to extract meaningful lessons

from this material. Houghton Mifflin, for example, started out with a competitive advantage in education, but over time, it struggled, thanks to the "fundamentally capricious nature of the K–12 end market," as well as ineffective attempts to pursue globalization (though education content is fundamentally local), technology (despite schools' resistance), and "edutainment" (rarely successful). These points are unfortunately buried among debt terminology and the mechanics of private-equity investment deals.

It's easy to pick on a failed company in hindsight. What's unclear is what Knee would recommend for future education entrepreneurs and investors, aside from a narrower vision and some increased caution. I tried to attack this question myself from the opposite direction in an article for *Education Next* by examining the few successful education "exits" (see "For Education Entrepreneurs, Innovation Yields High Returns," *features,* Spring 2014). Ironically, because I measured "success" in terms of the likely returns to the original investors at the moment these companies exited—that is, went public or were sold—my list of companies overlapped greatly with Knee's, including both Amplify and K12, a Knowledge Universe company. At the time, these companies seemed to be successful investments for their early-stage investors (though storm clouds were beginning to gather for both), but Knee deems them failures for their acquirers and later-stage investors. Clearly, the definition of success is critical, as are timing and perspective.

Ultimately, Knee is at his best when he focuses on the mechanics of building a strong education business, but he fails to help the reader understand how money and power flow in that context. He glosses over national policy and rarely examines the functions of state boards of education, district officials, and school principals, who all play a significant role in what products and services are adopted and used in schools. Knee also misses an opportunity to address the elephant in the room that any education business must face: the impact of such companies on their customers or end users, including effects on student learning, teacher quality, school productivity, or district cost savings.

In Knee's view, "the greatest successes come from a series of targeted incremental steps forward." But without a deeper look at any real success stories of this sort, it's difficult to imagine this mythical success and why it eluded the companies Knee profiled. And without a comprehensive examination of the education market in which these companies operated, the reader is left unsure whether these firms were bad ideas or just badly timed investments—or whether students and schools have gained or lost anything as a result.

Julie Landry Petersen is a writer, editor, and communications strategist based in Petaluma, California.

History, Politics, and Policy in U.S. Education

Once the envy of the world, American schools have stagnated.
Why? What can be done?

Join Harvard Professor Paul E. Peterson
For a four mini-course sequence, free and open to everyone
www.edX.org

HarvardX