
The New Landscape of Educational Privatization in the Era of NCLB

Educational privatization has received great attention in recent years. Most often, the focus is on companies that manage all aspects of school operations. But Ms. Burch, Mr. Donovan, and Mr. Steinberg examine the rise and impact of specialty-service providers that perform specific functions for schools or districts.

By Patricia Burch, Joseph Donovan, and Matthew Steinberg

PRIVATIZATION is a buzz word in education circles. It covers a broad range of activities, initiatives, programs, and policies, including charter schools, vouchers, and the contracting out of services and management. Educational privatization has a long history in the United States.¹ In the past two decades, much media and scholarly attention has been devoted to the educational management industry. Educational management organizations (EMOs) are comprehensive in nature and include companies that manage entire school systems or entire schools. These firms typically assume

full responsibility for all aspects of school operations, including administration, teacher training, and such noninstructional functions as building maintenance, food service, and clerical support. Edison Schools, the brainchild of entrepreneur Chris Whittle, is perhaps the best known of the EMOs.

However, educational privatization has implications for public schooling far beyond what is evident in the efforts of today's EMOs. The next chapter of educational privatization is being written by firms of a different kind, which have tended to receive much less attention from researchers and the press but cannot be ignored. These are the specialty-service providers.²

Specialty-service providers contract to fulfill specific educational functions. Their products and services range from software for tabulating and reporting test scores to the design of instructional materials. In contrast to other forms of privatization, such as vouchers, school districts maintain direct control over funds paid to specialty-service providers and, in theory, control the use of those funds through the design of requests for

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proposals and the establishment of contracts.

No Child Left Behind (NCLB) is just the most recent effort in a decades-long national movement to give the private sector a larger role in school reform. However, NCLB is distinctive in that it *requires*, not simply *permits*, some local school systems to contract with private providers for services. Across the U.S., test publishers, software companies, and research firms are swarming to take advantage of the revenues made available by NCLB. Such well-established firms as ETS have been joined by a newer breed of providers whose product design and marketing strategies have been informed by the Internet. These later firms have names such as PowerSchool, Brainade, and Orion's Mind. Many begin as start-ups and then, once they demonstrate their profitability, are acquired by conglomerates such as publishing houses. Like their counterparts among the EMOs, the firms gaining prominence under the new educational privatization are drawing on political networks, new technologies, venture capital, and government revenues to become major suppliers of services to school systems.

Among the accountability measures faced by schools that fail to meet NCLB's specified goals is the requirement that they offer students the chance to receive after-school remedial instruction from private service providers. It is more than a little ironic that, while NCLB puts real teeth into its accountability policies for schools and districts, it offers little guidance or meaningful sanctions for strengthening the accountability of pri-

ivate firms that are increasingly responsible for providing such tutoring.

To analyze the role of NCLB as a driver of current developments in the K-12 education market, we examined market-trend data from the education industry and from annual reports (1997-2004) filed with the Securities and Exchange Commission by publicly traded key suppliers.³ We identified four dominant domains of contracting with specialty-service providers in the K-12 education sector: test development and preparation, data management and reporting, remedial services, and content-specific programming.

In investigating these four domains, we collected data on the roles of both governmental and nongovernmental organizations. To cross-check the trends reported by industry leaders and analysts, we analyzed the Web-based policy documents of 10 large public elementary and secondary school districts (enrolling from 60,000 to 360,000 students), located in different geographic regions of the U.S. In each district, we reviewed current mission statements and goals, districtwide and departmental strategic plans, and budget reports. Where available, we also reviewed district summaries of contracting activities, including requests for proposals and either recently awarded or pending contracts.

THE NEW EDUCATIONAL PRIVATIZATION

In the mid-1990s, district contracts with specialty-

TABLE 1.
Revenue Analysis of Leading Companies in Each of Four Domains

Domain	Description of Leading Company	Increase in Annual Reported Revenues	
		1997-2000 %	2001-2004 %
Test development and preparation	Develops content of exams and offers range of supplemental content linked to test preparation and standards alignment	40	77
Data management and analysis	Provides technology-enhanced assessment, data, and instructional solutions for districts and states	19	46
Remedial services	Offers tutoring in reading and mathematics (preschool to adult) both within and outside of school settings	86	300
Content-specific programming	Produces reading intervention content and training and professional development through customized consulting and online courses	20	150

Source: Securities and Exchange Commission.

service providers represented only a small slice of the privatization market in education.⁴ However, in the past five years, specialty-service providers have become vital players in the K-12 education market. Table 1 shows that the rate of growth in revenues for the leading K-12 specialty-service provider in each of the four domains has accelerated under NCLB.

Schools and local governments now spend approximately \$48 billion per year to purchase products and services from the private sector. While standardized tests continue to account for a large part of that figure, other products and services demanded under high-stakes accountability reforms have become the fastest-growing segment of the K-12 education market.⁵

We use the term *new educational privatization* to refer to the growing market for those specialized products and services driven by accountability mandates, both federal and local. The four domains that we identified are central to an understanding of the new educational privatization. Below, we give specific examples of the new products and services being offered, we present evidence of growing local demand for these services, and we consider the role of federal education

policy in spurring that demand.

Test development and preparation. In the past, the role of vendors in test development and preparation mainly involved creating the content of tests and producing materials designed to increase students' test performance.⁶ Under the new educational privatization, vendors also align tests with other aspects of districts' reform agendas. Vendors now offer districts full-service test-development solutions that include customized products and services for teachers, students, and school administrators. In moving into this market, large firms (both for-profit and nonprofit) are making use of their experience as creators of test content to create libraries of test simulations that allow educators to assess students regularly, without waiting for scheduled standardized tests.

With the introduction of these new products and services, test developers have expanded their role from designers of assessments to designers of *systems* for monitoring compliance with standards and designers of pre-packaged interventions. Sales of printed materials related to standardized tests nearly tripled between 1992 and 2003, jumping from \$211 million to \$592 mil-

lion. One of the four largest companies in the area of test development and preparation generated sales of \$4.4 billion and a profit of \$560 million in 2003.⁷

NCLB has helped firms providing test-development-and-preparation services to make fast inroads into local markets and to accelerate their revenues. Before NCLB, many districts had adopted state standards or developed standards of their own, but they did not attach high stakes to progress toward meeting standards. NCLB significantly raised the stakes on progress by introducing sanctions for schools and districts that fail to make adequate yearly progress (AYP) in reading and mathematics. This policy increases incentives for districts to assess early and often and to identify which students and schools are at risk.

Test-development firms have sought to use the mandates of NCLB to attract new business. The major test-development-and-preparation firms explicitly refer to NCLB on their corporate Web pages, and several named the law as spurring revenue growth in their financial statements. In addition, they all have links to the U.S. Department of Education's website on No Child Left Behind and include in their marketing materials references to how their products can help districts comply with the federal law.

Data management and analysis. New products and services related to data analysis and management also have emerged under the new educational privatization. Districts have historically contracted out some aspects of data analysis and management while keeping other elements of the work in-house.⁸

During the 1990s, most district technology spending went toward computers and Internet connections, a reflection of the Clinton Administration's eagerness to wire schools for the Information Age. Today, most districts, even poor ones, are relatively well equipped with hardware, so districts are free to spend more of their technology budget on software.

In response to this change, suppliers have aggressively promoted new products and services. Both for-profit and nonprofit firms have arisen to offer such services as analyzing scores or designing computer-based information management systems. In addition to compiling raw scores, most leading suppliers now offer "data interpretation services," in which the firm disaggregates raw scores by student populations (e.g., special education, African American) or skill areas (e.g., literacy). In addition, rather than simply providing the overall school community with a raw score for each grade level, many firms now provide different stake-

holders, including parents, with customized printouts that pinpoint the strengths and weaknesses of individual students. As part of their expanding portfolio of assessment solutions, other firms now offer districts hardware and technical support as part of a redesign of their entire student information system.

As in the case of test development and preparation, NCLB appears to be helping to drive the market for new data services and products. As Table 1 shows, one firm specializing in technology-based instructional solutions for districts and states saw revenues accelerate nearly threefold in the first two years after the adoption of NCLB. Because NCLB requires that states, districts, and schools report standardized test data by student subgroups and provide parents with prompt and understandable reports on their children's progress, nearly every district and school that participates in the federal Title I program has needed to find new ways of collecting, interpreting, and sharing information. Indeed, the central role of NCLB in driving these changes is evident in the marketing materials of firms specializing in data-management-and-analysis services: all leading suppliers in this area mention NCLB in their materials.

Remedial services. The new educational privatization has also brought expanded opportunities for non-profit and for-profit providers of remedial services. These firms contract with districts to provide remedial services to students who perform poorly on standardized tests. In the past, districts contracted with outside firms mostly for educational services that the district believed it lacked the expertise to deliver.⁹ For example, districts might have contracted with an outside vendor to provide instruction for students with severe behavioral and emotional disabilities. Some also contracted with vendors for foreign language instruction and driver education.

Today, a growing number of districts are relying on outside vendors to provide remedial instruction to students who continue to attend regular classrooms during the day.¹⁰ With services paid for by the district, these students receive remedial instruction through after-school or summer school programs that are designed and staffed by outside firms. Sometimes the services are delivered on school grounds and sometimes not. Because of such changes, vendors are assuming an important responsibility for the education of a newly created category of students: those who fail to perform well on standardized tests. Though new federal policies define eligibility rules and mandate participation,

outside vendors design the remedial curriculum and hire and train the tutors. They also profit from the revenue generated by children's poverty levels and educational needs.

As with the other domains, new technology is integral to contracting for remedial services. In urban areas, private tutoring companies are creating online instructional programs that permit larger class sizes and reduce staffing costs.¹¹ In addition, a growing number of exclusively online tutoring companies now market their services to districts in rural states, where the demand for remedial services may exceed the supply of onsite providers.

In 2003, for-profit tutoring companies took in \$4 billion in revenue. By 2005, that number was expected to exceed \$5 billion. Sylvan Education Solutions is perhaps the best-known firm that contracts with local education agencies to provide remedial services.¹² It operates school- and community-based tutoring centers nationwide and has been approved to receive Title I funds under NCLB in 25 states. Though Sylvan was the leading provider of supplemental educational services even before NCLB, its revenues have accelerated since the enactment of the law, as reflected in financial statements filed with the Securities and Exchange Commission. Milwaukee, a medium-sized urban school district, spent approximately \$3.2 million during the 2004-05 school year to provide after-school tutoring to students.¹³

Prior to NCLB, there was some federal funding available to districts for after-school programming through 21st Century Learning Grants. NCLB expands funding for remedial services through a new mandate that requires districts to spend some of their 20% set-aside on after-school tutoring for students in underperforming schools. In addition, continued federal funding depends on the ability of schools to make AYP. Schools and districts have a much stronger incentive than in the past to "remediate" students quickly — or at the very least to signal that they are serious about trying to do so.

Content-specific programming. Content-specific programming is the fourth area attracting new industry attention. Content-specific programming refers to both products (e.g., books, CD-ROMs) and services (e.g., workshops, conferences, and consulting) that focus on improving student learning or teacher and administrator practice in such core subject areas as reading, mathematics, and science. Districts historically have contracted with external professional devel-

opers for some aspects of staff development for teachers and administrators.

Under the new educational privatization, districts are investing an ever larger number of their professional development dollars in outsourcing content-specific services.¹⁴ The top four vendors specializing in instructional materials in remediation for literacy and mathematics reported sales for 2003 in the range of \$1 million to \$2 million. Nonprofit and for-profit organizations are equally represented among leading suppliers of content-specific programming, with revenues for nonprofit companies reaching \$1.57 billion in 2003 and revenues for for-profit providers reaching approximately \$1.62 billion.

Vendors are also capitalizing on the demand for professional development by offering customized online services that teachers can access from their classrooms. For example, Wilson Academy, a key supplier of content-specific programming, offers a literacy curriculum that allows teachers to download and print literacy tools, such as word cards, decodable stories, and student notebook pages. More intensive packages offer teachers online feedback from trainers, as well as college credits that can lead to recertification. Through such services, the vendor becomes a de facto district staff-development office in that it provides instructional materials and ongoing technical assistance to teachers seeking to improve their practices. Moreover, vendors are assuming this role in high-priority content areas.

NCLB is helping to drive district demand for content-specific programming. Under the law, accountability is measured by students' performance on standardized tests in reading and mathematics. With federal funds tied to improvements in these areas, districts have a much greater incentive than in the past to concentrate resources in these areas.

Districts that have failed to make AYP are steadily becoming important consumers of content-specific programming. In 2002, because only 36% of its 430,000 students met the reading standard, Chicago paid \$84,000 to a vendor of an online literacy curriculum. Similarly, Las Vegas, a city that has reported a significant percentage of students failing to make AYP in mathematics, is paying \$1.1 million for instructional software.

DEPARTURE FROM PAST PRACTICES

In sum, over the past decade, the landscape of educational privatization has altered significantly. First, established practices are giving way to the emergence

of new products and services. Districts' contracting out for technological services is no longer limited to basic data-processing functions and the very basic scoring of standardized tests. Today, the majority of products and services that fall within the new educational privatization rely on new technologies, Web-based and offline. These resources include new learning technologies to help districts diagnose and remediate skill gaps, administer tests, and provide interactive Internet-based professional development. They also include new management tools aimed at improving organizational efficiency by helping administrators at different levels exchange data more efficiently and make better use of outcome data for program planning.

Second, educational privatization is typically thought of as freeing educational services from government regulations or creating new markets as alternatives to government-delivered services.¹⁵ However, as described above, changes in the field of educational privatization have made firms more, rather than less, dependent on government support. At the same time, these changes have made the public sector more dependent on private firms for products and services. Suppliers like selling technology to districts because they are virtually guaranteed future contracts. In the world of technology, upgrades are always available, and new products and services can be marketed as necessary add-ons.

Companies involved in the new educational privatization view the mandates of NCLB as central driving forces in the growth of their industries and explicitly market their products as helping educators comply with NCLB mandates. Several firms have renamed products to be more consistent with the language of NCLB and have linked their websites directly to the U.S. Department of Education's website. Also reflecting the law's influence, the new educational privatization has further elevated the role of standardized tests and test-preparation materials. In addition to integrating technology, the majority of products and services today are designed to help districts comply with the scoring and reporting requirements of state tests and to avoid possible sanctions for poor performance.

Third, under the new educational privatization, vendors and districts share partial responsibility for critically important aspects of public school governance, including agenda setting, monitoring and interpreting outcomes, and providing professional development. Today, districts are paying outside vendors to assist them in the overall design and operation of accountability reforms. Firms that once simply developed tests now

also play an important role in designing interventions for failing students and schools. Firms that once simply provided raw test-score data now make decisions that shape how schools and districts will interpret that data. Firms that once served students with severe emotional and behavioral needs now are responsible for educating students whose only "special need" is better performance on standardized tests. Firms that once specialized in unique kinds of programming (e.g., driver education, foreign language instruction) have become major sources of professional development and instructional materials in such critical subject areas as reading and mathematics.

These combined developments reflect fundamental changes in the field of educational privatization. New forms of interaction and cooperation between school systems and the private sector have created new products and services and altered the use of old ones. To a much greater extent than we have seen in the past, federal policy — through mandates, sanctions, and incentives — has been a crucial driver of the growth and change in educational privatization.

FUTURE RESEARCH

Future research on educational privatization must focus on three critical areas: 1) empirical data on national trends, 2) the impact of privatization on inter-organizational behavior in local settings, and 3) effects of privatization on the capacity of local communities to improve instruction.

First, empirical work is needed to document and describe national and regional patterns in the new educational privatization.¹⁶ The education industry now includes a network of industry analysts who support outside vendors with market analyses. Much of this research focuses on the activity of suppliers as they seek to obtain a competitive edge. But very little trend analysis is being done on the demand side of the education industry. Part of this has to do with district-level financial reporting practices that make it difficult to discern what instructional services districts are buying and how their spending priorities are shifting. District contracts with outside vendors could offer additional insights. However, districts generally report and archive vendor contracts by a key code or vendor name, making it difficult to identify patterns in contracting by function.

Second, policy researchers must pay more attention to the effects of educational privatization on local school

governance. The research is either silent or superficial on how educational privatization can open doors for outside vendors to exercise political influence over the design and administration of local accountability reforms. What new forms of collaboration and domination now exist in district contracts with vendors? What new tensions are emerging across districts as educational privatization gains a foothold as a policy strategy? For example, unlike districts, providers of supplemental educational services are not required to hire highly qualified teachers, nor are they prohibited from refusing students on the basis of language or cognitive abilities. How are districts and vendors managing these tensions? More data are needed on the legal structures and mechanisms in place that either support or prohibit shared governance and accountability between districts and vendors.

Third, research on these issues can inform local understandings of how to ride the wave of change while minimizing the potential risks. Research on policy processes and effects at the district level can lay a stronger foundation for better analyses of the effects of educational privatization on school communities. To date, much of the research constitutes evaluation studies conducted at considerable distance from the steady work and day-to-day realities of urban school reform. There is great potential for the new educational privatization to help schools and students. But closer analyses of the new educational privatization from the vantage points of teachers, students, and parents will surely provide new and important perspectives that could differ substantially from those currently offered by the academic or policy-making communities.

As teachers, local administrators, and state-level administrators work to implement NCLB, it is becoming increasingly clear that federal policy has become an important driver of educational privatization. And the focus of that law on raising student achievement by means of testing, data analysis, and supplemental services has brought an influx of new services and products from the private sector. It remains unclear whether the services and products provided by the private sector will have a positive effect on student achievement or on the management of schools and districts, but the opening of the educational marketplace to an ever-expanding array of private vendors will continue to have a dramatic impact on school systems.

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2. We draw here on the term and definition developed by Joseph Murphy, *Privatization of Schooling: Problems and Possibilities* (Thousand Oaks, Calif.: Corwin Press, 1996).

3. For a fuller description of the study and its findings, see Patricia Burch, "The New Educational Privatization: Educational Contracting and High-Stakes Accountability," *Teachers College Record*, in press.

4. Murphy et al., op. cit.

5. Marc Stein and Eric Bassett, "Staying Ahead of the Curve: A Value Chain Analysis of the K-12 Assessment Market," Eduventures, Inc., Boston, 2004.

6. Murphy et al., op. cit.

7. Stein and Bassett, op. cit.

8. Samuel Flam and William Keane, *Public Schools/Private Enterprise: What You Should Know and Do About Privatization* (Basel, Switzerland: Technomic, 1997).

9. Murphy et al., op. cit.

10. Gail Sunderman and Jimmy Kim, "Increasing Bureaucracy or Increasing Opportunities? School District Experience with Supplemental Education Services," Civil Rights Project, Harvard University, retrieved 12 November 2004 from www.civilrightsproject.harvard.edu.

11. While providers of online curriculum advertise one-to-one instruction, in virtual classrooms, the "live" teacher may be networked to more than 10 students simultaneously.

12. Sylvan was bought by Educate, Inc., in 2003.

13. Sarah Carr, "Millions for Tutoring; Effect Unknown: Law Compels MPS, but Doesn't Measure Outcome," 28 August 2005, www.jsonline.com/news/metro/aug05/351671.asp.

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