

Contracting Out Instructional Services: Education's New Frontier (IP-18-1993)

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Issue Paper

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The idea of contracting out instructional services is gaining momentum in Colorado and throughout the United States.

In the 1993 legislative session, Colorado took the lead on the issue; first by enacting a charter schools law, since charter schools may become heavy consumers of privatized educational services. Secondly, the legislature passed House Bill 93-1118, which makes it clear that school districts have full authority to hire private contractors for any service, including educational services.

This paper will show that the trend toward privatization in education is already well underway, to the benefits of education consumers.

The paper then outlines further steps that could be taken by Colorado and other states' to encourage this new wave of edupreneurship.

Bureaucracy is failing us

Colorado's heavily centralized and overly bureaucratic public school system is failing. In *Liberating Schools*, Cato Institute scholar David Boaz notes that a recent survey of 200

major corporations found that 22% of them teach employees reading, 41% teach writing, and 31% teach mathematical skills. Many of these skills should have been taught to students prior to graduation, but even the graduates often need remedial help.

A large number of students, of course, never even make it to graduation. Denver's dropout rate is about 25%, but even the wealthiest school districts have little to brag about. Students are bored with low standards, lower expectations, disruptive classrooms and a plain vanilla (mediocre at best) curriculum. The system exists not to teach students, but to perpetuate the status quo. Rules and bureaucracy have sucked the lifeblood out of the system.

As a result, teachers are not provided with the materials or environment

necessary for teaching, and students are not provided with an opportunity to learn.

Taxpayers are pouring money into the education meat grinder, but increasingly it is being scooped off at the top by rising administrative budgets, and wasted through inefficient work rules and practices. Between 1988 and 1991, for instance, Denver Public Schools instruction expenditures increased modestly (up only 6.1%). The student population changed little during this period. But support staff expenses shot up over 26%, and the cost of business support services rose nearly 21%.

We need to junk the overly centralized system for administering schools which we now have, and replace it with an increasing reliance on contracting out instructional services. This system would give teachers the autonomy to design their own curriculum, parents the opportunity to select from significantly differentiated education alternatives, and taxpayers the efficiency and cost effectiveness of a free market system.

For-profit schools are growing and innovating

Four years ago contracting out was little more than a vague notion in search of an audience. Today it is a reality in school districts all across the nation, including Colorado. Over 100 members now belong to the nascent American Association of Educators in Private Practice, based in Madison, Wisconsin. Over 60 people from 12 different states gathered in August 1992 to compare notes and make plans for the future. At least two venture capital firms were present to look for opportunities to profit from the new ideas and new school programs being discussed by workshop participants.

Berlitz Jr. is one of the companies which is already taking full advantage of today's new opportunities. The company specializes in contracting out foreign language instruction to public and private school systems across the nation. Enrollment in its programs has quadrupled during the past four years, and now includes some students in the Denver Public School system.

Jostens Learning Corporation, another education pioneer, also has clients in Colorado. School District #70 students, in Pueblo, are among those nationwide who have benefited from the \$37.5 million the company spent last year on research and development to expand the company's curriculum base and develop new technologies. Today Jostens Learning Corp. is the eighth largest software developer in the world and possesses state of the art technology in the area of full-motion video and interactive- media.

Education Alternatives Inc. is yet another publicly traded corporation which is trying to capitalize on the opportunity to mix private enterprise and public education. EAI has a multi-year contract to manage several public schools in

Dade County, Florida, and recently signed a new \$140 million contract with the Baltimore school system to operate nine public schools in Maryland.

"Contracting Out" Explained

There is nothing new or radical about contracting out public services to private firms. In *Privatization and Educational Choice* Myron Lieberman estimates that private contracting accounts for nearly 25% of all federal expenditures. Private firms regularly contract with the highway department for highway design and construction, typically at a substantial savings to the state. In school districts, transportation services and food preparation are routinely contracted out to private vendors.

So there is nothing radical about proposing that instructional services also be opened to a competitive bidding process. But the improvements which result from this change, as shown by companies already developing products for the public school market, are radical indeed.

The advantages of the free market system are that it encourages the creation and dissemination of good ideas by assigning property rights to them, and that it holds producers of goods and services accountable by giving dissatisfied consumers the freedom to purchase goods and services somewhere else. In contrast, the problem with the current system of socialized education is that educators lack accountability, and innovation and risk taking are discouraged.

In the early 1970s, limited experimentation with contracting out reading and math teaching programs was made by the Office of Economic Opportunity as a result of a successful teaching contract established between Dorsett Educational Laboratories and the Texarkana school district. Lieberman notes that the one-year experiment created no property rights for successful contractors, however, and therefore contained no incentive to invest capital either in new technology or in curriculum design.

Additionally, the OEO did not anticipate the negative reaction that union teachers had - nor the (in effect) educational sabotage that occurred in some locations when the union interpreted the experiment as an end-run around tenure rules, believing that the school board had initiated the experiment as a way to replace white teachers supported by the union with minority teachers more reflective of the community's ethnic makeup. Eventually the General Accounting Office concluded that because of a number of short-comings in both the design and implementation of the experiment, it is our opinion that the question as to the merits of performance contracting versus traditional educational methods remains unanswered.

In 1991 the Crestone, Colorado, school board wanted to give the idea another

try. The Moffat County School District realized it could profit from the financial opportunity contracting out created for them. Several in-district students who were attending a small private school which cost (at most) \$2,600 per student, were costing the district \$7,400 per student in tax revenues because without the students the District couldn't get its hands on the revenues. By contracting out teaching services for these 20 students the district hoped to pocket the difference between their per student revenue flows and the cost of sending a child to the private school (an extra \$100,000 that could be used to educate other children in the district).

The Colorado Attorney General, however, ruled that a contract to hire out instructional services unlawfully abdicated the District's responsibility to provide an education to students living in the district.

Contracting Out Instructional Services is Working Well Already

Though privatization of instructional services is in its infancy, some interesting trends are already beginning to surface. One of the not too surprising trends is that the now monolithic education industry is being segmented by these new instructional upstarts. Curriculum developers, large and small, are focusing on developing new teaching methods and materials, on introducing new technology into the classroom, and on teaching teachers how to utilize these new curriculum resources.

Other firms are focused more at the building level, and are trying to develop new classroom management techniques, and create improved methods of integrating a variety of curriculum materials (often produced by someone else) into a distinctive classroom design. These companies are forming cooperatives to create new schools targeted to students with unique learning styles or needs.

So far anyway, very few of these market niches have focused on the cream-of-the-crop students. Much more attention is being paid to at-risk students, and students who have already dropped out of school, or who have special needs which prevent them from getting much out of the traditional public school (such as teenage mothers who need a school which can accommodate the needs of their children).

These privately run schools already exist today, in public school systems across the country. What can be done to encourage their development in Colorado?

The market for curriculum developers is growing slowly but tenaciously. In contrast, the market for new teaching cooperatives has been impeded by of school board, politicians who would rather not give up control of the daily policies which determine how the school is run. When Wisconsin passed a

limited voucher program, applying only to 1000 low income students in Milwaukee, the educational revolution gained a foothold. Then in 1991 Minnesota passed the nation's first Charter School law which allows teachers with innovative ideas to form and operate independent public schools, and another market opened up.

Charter schools provide a means for teachers to use new instruction methods, free from many of the rules created by local school districts that stifle innovation in local schools. The charter concept, in effect, allows teachers to fire their local school district central staff and take on those responsibilities themselves. In late 1992 a charter school bill passed the California legislature, allowing the creation of up to 100 new charter schools in that state. These new independent schools constitute an important customer for the curriculum developers. And in 1993, three more states, including Colorado, enacted Charter School laws.

Specific Benefits of Contracting Out Instructional Services

Private vendors are clearly focused on two areas: quality and efficiency. Low quality products will not survive the marketplace. Inefficient producers will be under-

bid. The only way private contractors survive in the long run is to focus on quality and efficiency, and on little else.

La Petite Academy, for example, is a New York Stock Exchange company selling day care services in communities across the nation. The company recently upgraded its Journey program curriculum so that it now involves parents to a greater degree, develops a child's self-esteem, is easier for teachers to deliver, and offers them much more staff support than did the previous curriculum.

A Wall Street investment analyst reported to investors that, while this may seem a 'soft' issue for investors, we expect LPA's (La Petite Academy's) upgraded curriculum to contribute very tangible results: increased enrollments as the children enjoy a better experience at LPA. As the research report illustrates, private company managements are also very concerned with the quality of the product they are offering, because in the long run their customers and their investors demand it.

Education Alternative Inc's Tesseract school curriculum emphasizes a lower student-teacher ratio, continuing teacher education, individualized instruction with more parental involvement, and improved use of technology. These are improvements that teachers have been

requesting for years. Without the clear focus on high quality at an efficient

price, however, government school systems have been unable to deliver to teachers these much needed tools.

To improve cost effectiveness, EAI has joint ventured with companies from outside the educational establishment to take advantage of their special expertise. To streamline and improve the schools' financial reporting, EAI asked KPMG Peat Marwick, the international accounting firm, to join them. To manage the physical plant and facilities, EAI asked Johnson Controls World, a specialist in building systems and management, to fill out the partnership.

Enhancing Accountability

Public school students also benefit from the increased accountability that contracting out often enables. Education Alternatives' Dade County contract, for instance, requires that measurable gains in student test scores be achieved. These are the same test scores which the education establishment universally derides as meaningless when applied to their own product. Private vendors, however, understand that their performance is going to be monitored somehow, and they do not flinch from being held accountable for their results.

Another private vendor, Dialogos International Inc. has taught French, German, Spanish, Italian, Chinese, and Japanese to Wake County Kindergarten-5th Grade public schoolers in Raleigh, NC for the past nine years. Timothy Hart, a foreign language specialist in the district has noted that the longevity of the district's relationship with Dialogos International testifies to the District's satisfaction with the company. We've been using (the company) for nine years, he says, It has outlasted three superintendents.

At Berlitz Jr., accountability is also enforced primarily through contract renewals. The contract terms are short, typically less than a year, and even though money for foreign language programs is often the first target of a budget cutback, Margaret Sapir, Berlitz Jr.'s Managing Director, is able to report that the renewal rate for Berlitz contracts is around 75%.

Putting Teachers in Charge

Contracting out instructional services also benefits teachers by giving them more autonomy in their own classroom. By forming cooperatives, teachers can finally achieve true site-based management (as opposed to the charade of site-based management imposed in Denver's 1990 contract dispute settlement). The cooperative can operate in whatever manner it finds most efficient. If teachers prefer consensus decision-making, great. If they find a more hierarchical lead-teacher approach works better for them, that's fine

too. In either case, the boss is likely to hire an office administrator to manage the school's paperwork, in contrast to the public school system today in which the paperwork, and the chief paper worker, manage the teachers.

Curriculum developers have learned to make their products flexible, so that even teachers using drastically different teaching styles can offer a similar curriculum. In one Hudson County, NJ, vocational-technical school, for instance, Berlitz Jr. integrates its Japanese language instruction with student training in martial arts (in the P.E. department) and Japanese history (in the social studies department).

Though Berlitz's instructional methodology is fixed, the classroom setting in which the instruction is offered can be very flexible. Catholic schools, which emphasize a high homework load, can be well served, but so can Montessori schools, which focus more on interactive learning activities.

Berlitz teachers are trained in classroom management techniques, but Berlitz encourages classroom teachers to sit in on the class. This both helps with classroom discipline and allows the teacher to benefit from the instruction, and to integrate the lessons into the students other studies.

Exploring Better Teaching Methods

Contracting out also empowers teachers to develop new and improved teaching methods. In fact, this survey of edupreneurs leads me to conclude that without a clear and conscious focus on what makes a curriculum vendor's teaching methods or curriculum unique, and on what makes them work, the company probably doesn't have a viable enterprise.

The Berlitz method, for instance, is over 100 years in the making. The Berlitz direct method of instruction eschew translating in lieu of speaking the language immediately and exclusively, so that students are immersed in the language.

On a smaller scale, Larry Wade began a company called Whales In The Classroom in 1985. By 1991 he had developed 40 different instructional programs and was working with about 30 different schools, visiting each 1-4 times during the course of the year. Today the business has expanded to beyond the classroom (or, more typically, out-of-classroom) instruction.

He has also created his own publishing company to develop the curriculum materials. Whales in the Classroom - Volume I was completed in April 1991 and was just recently published. The book is a stand-alone resource for a marine science curriculum and includes a teachers guide and information for home schoolers. Volume II is now being written, with three more volumes

already in the development stage.

Increasingly, Whales In The Classroom is becoming involved in demonstration teaching for district teachers, before-school staff development training, and in developing schoolyard nature areas for each school. Over time Wade's teaching programs have evolved, and improved. His objective has shifted more toward teaching teachers. The quantity and quality of resources available to him has broadened. But he never wavered from his ultimate mission of teaching natural science to elementary school students. He never lost sight of the fact that without his unique and innovative curriculum, he doesn't have a viable business.

Utilizing Teachers' Strengths

One advantage of the market segmentation that occurs when instructional services are contracted out is that teacher talent and school curriculums are better matched. Some teachers love experimenting with different approaches to teaching the same subject matter and are well suited to developing and refining a curriculum. Other teachers find the cut and paste of developing study aides to be a bore, but have an incredible rapport with students one-on-one. Some teachers are born lecturers, but many others are not. Some teachers, like some students, would feel straight-jacketed in a back-to-basics fundamental academy. Others would love the opportunity to work in a highly structured environment.

One of the specific benefits cited by the owner of Whales In The Classroom was the teacher's ability to focus on his or her individual strengths. Larry Wade knew that his strengths did not include managing a classroom and the interpersonal relationships between students.

In addition, Wade says, by repeating the same curriculum time and time again throughout the year, he is able to field test different approaches over time, which allows him to gradually improve the overall curriculum through experience. By specializing in a particular niche, he can develop specialized resources for his 1-hour curriculum that no traditional teacher could begin to match. His special focus allows him access to worms, pond water, and grasshoppers, which an infrequent teacher of this material would not have time to assemble. His curriculum focus better matches his personal interests and talents, and the students are the obvious beneficiaries.

Other teachers have little or no interest in developing study aides, but are extremely talented in nurturing the developing minds inside their classroom. For them, curriculum developers such as Whales In The Classroom provide a wonderful study experience which they can then build on later, in more traditional lessons.

Jostens Learning Corp. spends millions of dollars on developing and refining its instruction materials. Curriculum supplements include teacher study guides, puppets, related board games developed specially for the Jostens curriculum, books, workbooks, physical manipulatives (geoshapes), activity centers, posters, and take-home study/activity books.

Similarly, Berlitz Jr. curriculum supplements include teacher manuals, song tapes, decorations, and suggested activities. Methodological support is provided by the parent company's regional pedagogical supervisors (who are based at the nearest Berlitz language centers). Special training sessions also allow individual Berlitz Jr. instructors to help each other develop solutions to problems they may encounter in the classroom. All of these study aides are developed and refined far beyond the capacity of a single classroom teacher, even a teacher with years of experience.

The refinement is possible because there are economies of scale in designing curriculum and study materials. Expertise requires repetition. It may take one teacher twenty years to learn and understand what the curriculum vendor with twenty clients learns in one year. What is economical for a vendor with several clients to undertake (e.g. the development of Jostens Learning Corp.'s multi-media real-time video technology) is far beyond the financial capability of a single school district, much less a single school.

Maximizing the Potential of Computers

Extensive use of computers is another fairly common theme running through most of the edupreneurial start-ups. Whittle Communications' Edison Project, probably the nation's most talked-about private school venture, and Jostens Learning Centers both use the most modern technology available. Ombudsman Educational Services, founded by Jim Boyle in Libertyville, Illinois, tailors its curriculum to former dropouts and also makes great use of its computer resources to create individualized learning programs for its 800 students (spread across 22 storefront schools in Illinois, Minnesota, and Arizona).

There is a tremendous bias against the so-called drill'n kill electronic page-turners that most people envision when they think of computers in the classroom. Mark Stevens of Jostens Learning noted that his company's greatest marketing challenge is overcoming this bias and convincing educators that an electronic classroom has progressed far beyond that stage.

During the past four years, Jostens' technology has advanced from using Apple II's to using 486-based workstations with full networking capabilities. Today's curriculum features full-motion real-time video applications, interactive media software, and integrated word processing and research.

material resources. Less time is wasted searching through the stacks of encyclopedias and reference manuals for information, and more time is spent reading pertinent entries and articles.

The curriculum base has been expanded to include integrated language arts, math, reading comprehension, life & employment skills training, middle school science, early childhood development, and research-writing. Study materials have been improved and the integration between all of the individual curriculum units has been improved.

Colorado: Where Do We Go From Here?

The enactment of the Charter Schools bill during the recent legislative session will provide an impetus for contracting out teaching services within the government school system. Charter Schools are free to choose from among a myriad of curriculum options. As a result, Charter Schools legislation in Colorado should open the market to private curriculum vendors from across the country.

The Charter Schools and education services laws -- though a good start -- may not be enough. Another obstacle to contracting out teaching services exists in the form of established collective bargaining arrangements between the schools districts and the teachers' union. Today's union contracts typically stipulate the number of days in the school year, the number of hours in the school day, the student-teacher classroom ratio, and the number of parent-teacher contacts. District-wide contracts also place restrictions on courses taken, salary-credit, dismissal policies, and teacher in-service or continuing education requirements. The innovative programs being launched in other states often run afoul of these restrictions as edupreneurs are forbidden to tailor school hours to meet student needs and redesign personnel systems to reward merit and innovation. The creative solutions needed to solve today's problems require more flexibility and more freedom than these union contracts allow.

In many cases, union contracts specifically prohibit contracting out teaching services. The old Denver Public Schools contract, for instance, included language which prevented the Board from contracting out instructional services. Article 20 of the new contract, which is in force through August 1994, could also prove to be a barrier to contracting out teaching services. This Reduction In Force clause gives preferential hiring treatment to any teachers laid off due to contracting student enrollment, and would likely be used by the teachers union to impede the progress of privatization attempts.

School boards renegotiating labor contracts must demand the flexibility to consider this approach when finalizing the agreement. Otherwise the

traditional schools will continue to increasingly fall behind the Charter Schools and the non-government schools in Colorado.

Perhaps the largest obstacle to the spread of contracting out, however, is merely the lack of knowledge and understanding about the contracting out alternative. This is especially true in the government school sector. Berlitz Jr., Jostens Learning Corp., and others have been able to work around existing teacher union contracted work rules, as well as state and federal requirements, with their existing clients. But many public school officials simply don't understand that an alternative exists. In the education process, the first student that these companies have to educate is the administrative decision-makers themselves.

Privatization And Those Left Behind

Both the contracting out alternative and the charter school option will raise a hue and cry from parts of educational establishment about what will happen to the children left behind in the more traditional public schools. The objection is based on the well-founded concern that unequal schools

foster an unfair and unequal society. It is a concern which should be of utmost concern to Colorado's policy makers. However, the self-righteous indignation with which the status quo puts down reform advocates withers under scrutiny.

The fact is that a 25% dropout rate means that 1 out of 4 students in the public system are already being so poorly served by it that they would rather take their chances without a formal education than waste any more time in school trying to get one.

Test scores remain unimpressive, not only in Denver Public Schools but in all of Colorado's major districts. It is an embarrassing reality that the state's poor are already being very poorly served by the status quo, yet again and again the status quo claims to rise purported defense of the poor in opposition to various reform initiatives.

In reality, it is the private sector companies are making the most exciting progress with dropouts and at-risk students.

Ombudsman Educational Services' student-teacher ratio is 5:1 and company founder Jim Boyle charges school districts \$3,000 per student. The school districts which contract with Ombudsman make a profit on every student that Ombudsman takes in. The program is justifiably proud of its 85% success ratio, particularly given its student population of former dropouts.

Traditional school districts are very good at identifying at-risk students who are likely to become dropouts, but their success rate with these students is

only about 50%.

Kathy Harrell-Patterson founded Learning Enterprise of Wisconsin, Inc. to provide basic skills instruction for disadvantaged young mothers and provide day care for their children in the same building. The company uses computer-assisted instruction, low student-teacher ratios, and a self-paced curriculum. She also runs a kindergarten program for the Milwaukee public schools. Once again, her students do not come from the cream of the crop, as school choice critics charge, but from the dropout pool which traditional educators are failing to reach.

Mark Stevens of Jostens Learning notes that the prime markets for contracting out at JLC have been the districts in states such as Kentucky and West Virginia which are lagging in basic skills development. Oftentimes the source of funding for these financially strapped states has been Chapter I money, distributed by the Federal government to further develop the basic reading and math instruction of students who have below average skills.

CONCLUSION

The private sector is responding to the crisis in educational attainment by developing new technologies, innovative approaches, and new curricula.

Colorado needs to embrace the entrepreneurs who are coming up with solutions and stop catering to the monolithic educational establishment which has allowed so many problems to develop and worsen despite ever-growing budgets.

Many teachers, anxious to stop being institutional baby-sitters and return to the profession of teaching, will embrace this opportunity to take back control of their own classrooms. Businessmen are already accelerating efforts to develop state-of-the-art teaching technology and improve curriculum offerings nationwide.

And parents, believe it or not, are quite capable of exercising their powers of choice, if only the market were free to give them a choice.

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