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SCHOOLS? A FRAMEWORK FOR
INSTITUTIONAL CHOICE**

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Who Will Turn Around “Failing” Schools?
A Framework for Institutional Choice

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I. Introduction

In the past decade, states across the country have developed strict new accountability policies. One key consequence of these policies has been the identification of schools where student performance falls short of acceptable standards. This has created an urgent new problem for state governments, because the public identification of “failing” schools imposes an obligation to turn these schools around.¹

The passage of the federal “No Child Left Behind” legislation has increased the urgency of the states’ policy problem. The new law requires that all schools and students meet state standards of “proficiency” by 2014, and further requires that all schools make “adequate yearly progress” (AYP) toward this goal in the intervening years, not only in the aggregate but for identified sub-populations (poor children, racial minorities, students with special needs) as well. Under the guidelines established by NCLB, the number of “failing” schools is set to increase dramatically.

States have addressed the task of turning around “failing” schools in a variety of ways. Some have taken over schools or school districts, or assigned control to municipal governments. Some have sent teams of experts into “failing” schools to provide assistance, or encouraged districts to award control over “failing” schools to private companies. Some states have tried more than one approach, typically on an *ad hoc* basis.

¹ There is a great deal of disagreement about how to characterize schools where performance consistently falls short of acceptable standards. These schools are variously identified as low-performing, under-performing, in need of improvement, and so on. In this paper we have chosen to identify them as “failing,” to acknowledge the lack of a generally agreed-upon terminology.

Under NCLB, schools that fail to make AYP will be subject to a series of increasingly intrusive interventions, which culminate with dramatic changes in school governance. The required governance changes may include a takeover by state or municipal officials, the transfer of administrative control to a private-sector education management organization (EMO), or the re-opening of a persistently “failing” school as a charter school. The problem with the NCLB interventions is that they are unlikely to succeed in turning around “failing” schools. Each of the strategies required by NCLB has been implemented in several states, but none has worked consistently to improve student achievement (Brady, 2003). There is little reason to hope that these strategies will achieve better or more consistent results when they are implemented on short timelines under the threat of federal sanctions in thousands of schools across the country.

Turning schools around is harder work than the NCLB policy mandates acknowledge. We have known for three decades that some schools are unusually effective in raising the achievement of otherwise disadvantaged children. We have also learned a great deal about what makes these schools effective (Edmonds, 1979; Jerald, 2001). Summarizing 30 years of research on the characteristics of highly effective schools, Taylor (2002) concludes that effective schools have:

- a clearly stated and focused mission,
- a safe and orderly climate,
- high expectations for students, teachers, and administrators,
- opportunities to learn and high levels of student time-on-task,
- instructional leadership by all administrators,
- frequent monitoring of student progress, and

- a positive home/school relationship.

Despite more than a generation of robust findings on the attributes of effective schools, however, the process through which previously ineffective schools become effective remains mysterious. The wide range of attributes that characterize unusually effective schools suggests that turning a “failing” school into an effective one is a complicated task, under the best of circumstances.

We cannot simply rely on “failing” schools to turn themselves around. Though many schools have actively and skillfully engaged in whole school reform (with models such as Accelerated Schools, Comer, and America’s Choice), there is no reason to believe that most “failing” schools have the knowledge or capacity to pull themselves up by their bootstraps, even when faced with state sanctions (US Department of Education, 2001). As Elmore and Burney (1997a) have noted, “if schools knew what to do they would be doing it.”

At the same time, the distance between the agencies of state government and individual schools creates serious impediments for direct state intervention (Wong & Shen, 2001). School improvement is a local and idiosyncratic process, requiring the active engagement of local educators if it is to succeed. Standardized strategies must be adapted to the unique circumstances of individual schools. States cannot possibly acquire the context-sensitive information they would need to monitor and support educational change in the dozens and perhaps hundreds of schools that will be designated for intervention under NCLB.

Successful strategies for improving teaching and learning in “failing” schools will therefore require the involvement of intermediary institutions. Recent work has

emphasized the role of the school district in supporting instructional improvement (Elmore & Burney, 1997a; 1997b; Hightower, 2002; Spillane, 2001). The district is not the only candidate for this role, however, and under many circumstances it may not be the best candidate. Other possibilities include regional educational service agencies (ESAs), for-profit education management organizations (EMOs), universities, and local governments.

In this paper we assess the comparative advantage of various intermediary institutions in addressing the challenge of turning around “failing” schools. Our analysis frames the question as one of “institutional choice” (Clune, 1987); which intermediary institutions are best suited to support improvement in teaching and learning in “failing” schools? Our theoretical analysis highlights capacity, scale, and trust as the key determinants of the relative efficiency of different intermediary institutions. We establish an evaluation framework based on these elements, and then illustrate its application by drawing on previous research to assess the relative merits of different intermediary institutions that might be called upon to turn around “failing” schools.

II. Theoretical Framework

Our analysis of institutional choice takes efficiency as its normative criterion. Efficiency is measured by the ratio of useful output to total input in a production system. In schools, for example, efficiency can be defined in terms of the quantity of desired educational outcomes (mathematics achievement, high school graduates) produced for a

given outlay of resources.² The relative efficiency of different policies and practices turns on their ability to bring about improvements in these outcomes while reducing (or at least not increasing) costs. Efficiency is the dominant evaluation standard in the field of policy analysis, but it is especially pertinent for educational policy, given widespread concern about inefficiency in public schools' use of resources.

Despite nearly forty years of research, economists remain far from the goal of specifying the most efficient production process for schooling (Coleman, 1965; Burtless, 1996; Hanushek, 2002). If the educational production function were known, the selection of intermediary institutions to assist "failing" schools would not be problematic. Policy-makers would simply choose those institutions most likely to implement the practices that were known to be most efficient. In the absence of detailed knowledge about the educational production function, however, policy-makers must adopt a different approach. We argue that their choice of intermediary institutions to improve performance in "failing" schools should turn on the relative ability of different institutions to strengthen key organizational attributes that have been established in the economics literature as efficiency enhancing.

This approach draws on Harvey Leibenstein's (1966) seminal theory of X-efficiency. Leibenstein argued that employee effort, information flows, and other organizational features of firms have far greater significance for efficiency than the allocation of inputs at the margin. Employee and employer behavior is governed by conventions, habits, and moral imperatives that generally place firms within rather than on their production frontiers. X-efficiency is attained through organizational changes that

² Equity turns on the extent to which improvements in educational outcomes are greatest for low-income families. Since poor children are disproportionately enrolled in poorly -performing schools, any reform that improves the efficiency of these schools is also likely to enhance equity.

increase the intensity and coordination of employee effort, rather than changes in the capital-labor ratio or plant design. Leibenstein's insights have been reinforced by extensive theoretical and empirical work by economists employing principal-agent, information, and institutional economics to analyze firm efficiency (e.g., Alchian and Demsetz, 1972; Williamson, 1985; Coase, 1998). Henry Levin (1997) argues that the concept of X-efficiency is especially relevant for strategies to improve the provision of public school services.

The economics literature highlights four characteristics of X-efficient firms. They have: (1) clear, measurable goals, (2) a collective commitment to attaining organizational goals, (3) ready access to information on their performance and (4) the capacity to evaluate this information and implement changes as necessary.³

As in other productive organizations, the establishment or enhancement of these attributes in "failing" schools is likely to improve efficiency. The question for policy-makers, then, is how do alternative intermediary institutions rate in their ability to foster these attributes? The answer depends both on the characteristics of the intermediary institutions and on their relationships with the schools themselves. Our analysis models organizational efficiency as a function of three primary factors: capacity, scale, and trust.

Capacity

The relative efficiency of different intermediary institutions in improving the performance of "failing" schools depends first of all on their capacity to guide and support change. The capacity of different intermediary institutions can be assessed along

³ The attributes of X-efficient firms and unusually effective schools (see above) are—not surprisingly—parallel.

two key dimensions, which we characterize as *technical expertise* and *local knowledge*. On the one hand, intermediary institutions must have expert knowledge and successful experience working with practitioners to diagnose, reflect on, and remedy problems of teaching and learning. On the other hand, intermediary institutions must have a firm understanding of local contexts, and the flexibility to adapt their responses to a school's distinctive circumstances.

Technical expertise in the core areas of teaching and learning is a necessary condition for the success of any intermediary institution's efforts to improve "failing" schools. The task of turning these schools around requires improved performance in what Elmore (1996) calls the "instructional core." Successful intermediary institution must have the capacity to change the way teachers and students interact around subject matter (Stein and D'Amico, 2002). Change in the instructional core requires teachers and principals to learn something new, and to change their professional practice. Intermediary institutions must have expert knowledge to guide and support this change.⁴

Technical expertise is translated into effective capacity only when it can be adapted to a school's local conditions. The capacity of successful intermediary institutions will therefore include *local knowledge* of a school's students and personnel, its history of curricular and instructional reforms, and relevant social and political forces within the district and community. Standardized approaches to school reform will not work unless they can be adapted to respond to the specific circumstances and needs of each individual school.

⁴ Lack of capacity is the main reason why schools cannot generally reform themselves. Their available expertise is fully deployed and insufficient to the tasks at hand: "If schools knew what to do, they would be doing it."

Both forms of capacity—technical expertise and local knowledge—reside in the specialized knowledge of professional staff. The acquisition of this knowledge is costly. Intermediary institutions that employ staff who already possess this information will have an efficiency advantage over those that do not.

Scale

The relative efficiency of different intermediary institutions in improving the performance of “failing” schools depends on the *size* of the institution and the number of schools and students it serves, and also on the geographical dispersion or *proximity* of the schools.

Two distinct sources of scale economies are associated with the size of an organization’s operations. First, intermediary institutions that serve many schools can lower average costs by spreading fixed start-up costs, primarily those associated with acquiring capacity (knowledge), over more client schools. Second, as Adam Smith noted long ago, a primary determinant of a firm’s productivity is its division of labor, which is limited in turn by the extent of its market. An intermediary institution that serves many schools can enhance its overall organizational productivity by hiring experts to perform specialized tasks in concert (e.g., data analysis, instructional training, leadership preparation, parent-school liaisons). Small organizations, including schools and most school districts, cannot employ specialists in these and other essential areas because the local demand for their services is too small to justify the additional expense.

Previous research on scale economies in education indicates that average pupil costs tend to be minimized at a district enrollment size of about 6,000 students (Andrews,

Duncombe, Yinger, 2002). Nearly 90 percent of U.S. school districts enroll fewer than 6,000 students, which suggests that for most districts there is considerable potential scope for scale economies, especially in the areas of administrative and instructional support services.⁵ These are the services that intermediary institutions could provide to “failing” schools.

Beyond reasonable boundaries scale economies will almost certainly begin to decline, and ultimately turn negative. If there were no diseconomies of scale, the optimal approach to the problem would require that state or even federal agencies respond directly to the needs of all “failing” schools. In fact, however, increasing size leads to the standardization of services, which precludes adaptation to the specific circumstances of individual schools.

Scale interacts with geography. *Proximity* matters. Operating in a geographically bounded area allows institutions to minimize travel and communication costs, and to accumulate knowledge about local circumstances. They can take advantage of local networks to share information and resources, to identify common problems, and to develop common strategies for addressing them. Agencies providing services to a geographically scattered set of clients will in contrast face higher opportunity costs associated with key personnel’s travel time. They will also face difficulties in acquiring useful local knowledge and building trust among the schools and teachers with whom they seek to work.

Trust

⁵ In contrast, there appears to be little scope for economies of scale in the provision of instructional services (primarily classroom instruction), beyond very small districts.

There is growing recognition of the critical role trust plays in well functioning organizations (Coleman, 1990; Williamson, 1993). Nobel economist Kenneth Arrow (1974) describes trust as a “lubricant”, greasing the way for efficient operations in organizations. Trust promotes effective communication, cooperation, and adaptability, which are the foundations for productive relationships in organizations. By facilitating an open exchange of information and teamwork, trust promotes the disclosure, diagnosis, and correction of problems before they are compounded.

As trust declines the cost of doing business increases. People must engage in self-protective actions and continually guard against the opportunistic behavior of others. Rules proliferate as an inferior and often counterproductive substitute for trust as a means to keep participants in line. The loss of trust may be especially damaging in organizations where efficient performance relies on employee discretion and judgment, including schools.

The literature on trust suggests several predictions about circumstances that are likely to influence the level of trust within or between organizations. First, trust is strengthened when parties have ongoing relationships in which their interactions demonstrate benevolence, support, and concern. Second, people have less incentive to act in a trustworthy manner when there is uncertainty about the durability of their relationship. Third, trust is easier to establish and maintain where the parties share congruent values (Sitkin and Roth, 1993). Once people have evidence that leads them to perceive incongruence in values, distrust is likely to emerge. Fourth, trust is easier to establish and sustain when a party has a good reputation, especially among peers. Reputational networks can initiate cycles in which trust is strengthened or undermined

through stories that are told and retold. Fifth, trust is more difficult to establish when parties do not enter into a relationship freely, but rather under pressure or compulsion. Sixth, organizational trust is promoted when the behavior of those in authority positions is characterized by (a) consistency, (b) integrity, (c) concern, (d) open communication, and (e) a willingness to share control (Tschannen-Moran and Hoy, 2000).

There is growing evidence that trust is important not only for the smooth functioning of schools, but also for increasing student achievement. Schools where administrators, teachers, and parents trust one another and rely on one another to achieve common purposes are likely to perform better than schools where these conditions are absent (Bryk & Schneider, 2002; Hoy, 1992; Tarter et al., 1995; Goddard, et al., 2001). In contrast, establishing or maintaining trust may be a serious challenge in schools that are (or have been designated as) “failing.” When teachers and administrators feel threatened, or accountable for problems beyond their control, they may be reluctant to cooperate with one another or external partners to make necessary changes in employee work routines or personnel.

The importance of trust to the improvement of student achievement in “failing” schools can scarcely be overstated. Significant improvements in school performance will require changes in how the school is organized, and in how teachers work. These changes may include cutting jobs for teachers and other staff; altering the way administrators share power with teachers and parents; adopting new materials and teaching practices; and figuring out creative ways to engage students and parents respectfully. If student achievement data are to be transformed into teaching knowledge, there must be a trusting learning environment for practitioners (Petrides & Guiney, 2002).

In short, trust may help schools do the same work better, but new and more challenging work cannot be done in the absence of trust.

III. Applying the Criteria for Institutional Choice

In this section we evaluate five intermediary institutions on the criteria of scale, capacity, and trust as these pertain to assisting schools to improve teaching and learning. These institutions are school districts, state and local governments, universities, private sector education management organizations (EMOs), and education service agencies (ESAs).

School Districts

School districts are the most likely candidates to do the work of turning around “failing” schools. These schools fall under the direct authority of district administrators, who are consequently in a strong position to amend rules, change procedures, and redistribute resources in order to turn them around. Many large districts employ specialized professional staff with the expertise and local knowledge to provide effective assistance.⁶ The available evidence nevertheless suggests that relying on school districts to bring about improvement in the performance of “failing” schools is unlikely to bear much fruit.

Recent scholarship has documented the ways some districts have helped to turn around “failing” schools through instructional improvement (Elmore & Burney, 1997a, 1997b; Hightower et al., 2002; Spillane, 2001). Scholars highlight the cases of Community District #2 in New York City and San Diego as evidence that districts can act

⁶ Most districts, however, are too small to provide this type of support.

as “agents of instructional change” (Elmore & Burney, 1997a; Hightower, 2002). In these two districts the central office was downsized and reorganized and money was reallocated, with the goal of building capacity to support improved instruction. Principals were retrained, and teachers were assigned to work with peer coaches. The San Diego reforms are still young, but the changes in Community District 2 have produced improvements in student achievement (Elmore & Burney, 1997b). In addition to these large urban districts, Wechsler (2001) and Snyder (1998) have described successful efforts in two smaller districts to create communities of learners and to build support structures that enable those communities to improve teaching and learning

This small handful of success stories stands in contrast to a large body of research that argues that districts are generally ill prepared to support improvement in “failing” schools (Cohen & Hill, 2001; Spillane, 2000). The available evidence suggests that few districts have the capacity to implement the kinds of deep reforms that led to improved performance in Community District #2 (Desimone, Porter, Birman, Garet, Yoon, 2002).⁷ Most lack the technical expertise needed to bring about lasting improvements in teaching and learning, either because they are too small to hire specialists or because they do not know how to assemble appropriate expertise. In addition, according to Massell and Goertz (1999), “only a few [districts demonstrate] a deep commitment to professional learning,” which is a prerequisite for improved instruction (Cohen, 1990; Cohen & Hill, 2001).

⁷ The success of the reforms in Community District #2 hinged on the ability of the superintendent to gather outside experts to train teachers within the district, and also on the opportunity to reassign teachers and administrators to other schools and districts in the New York City system. Most school districts can only envy the conditions that supported these reforms.

Struggling schools are often in struggling districts, which are characterized by a long history of failure (Tyack & Cuban, 1995). In these districts, it is extremely difficult to build the trust that would be necessary to improve instruction. Educators in schools perceive district administrators as adversaries, instead of reliable partners who are prepared to engage in shared decision-making. District administrators in turn are reluctant to decentralize authority to schools (Resnick and Glennan, 2001), which prevents local educators from making the kinds of systemic changes that might improve teaching and learning.

Rich (1996) and Hess (1999) argue that local politics creates incentives for districts to engage in behavior that is antithetical to improving teaching and learning. Hess notes the pressure on school districts “to initiate a great deal of activity,” whether productive or not, as evidence of energetic and committed leadership in the face of intractable problems. “Policy churn” takes the place of improved performance. One key outcome of “policy churn” is the erosion of trust and commitment among teachers and other system professionals, who cease to believe that new policy initiatives will persist long enough to make a difference for students and schools. Rich argues that “school cartels” made up of administrators, activists, and union officials resist efforts to change “governance, institutional structures, and personnel.” Instead, they steer policies in directions that are unlikely to disrupt established routines, and equally unlikely to improve teaching and learning.

In summary, school districts are the most obvious candidates to assume responsibility for turning around “failing” schools. The strategies that school districts could adopt to accomplish this goal are increasingly well known, but their track record in

improving performance in these schools is poor, for several reasons. Most districts are too small to offer effective assistance, and few are able to marshal the breadth and depth of technical expertise that is needed to bring about lasting improvements in teaching and learning. In other cases, the best efforts of district administrators are undermined by political turbulence, or by long histories of “policy churn,” broken promises, and a consequently deep distrust on the part of local educators.

State and Local Government

Lacking confidence in school districts’ efforts to turn around “failing” schools, several state governments have sought to shift administrative control of local education systems from school boards to other agencies. On the one hand, some states have taken over school districts themselves. The first state takeover occurred in 1989 in Jersey City, N.J. In the years since, states have taken over other school districts including Compton, California; Hartford, Connecticut; Lawrence, Massachusetts; and Newark and Paterson in New Jersey. On the other hand, states have assigned administrative control over the education system to mayors in cities including New York, Chicago, Boston, Cleveland, Baltimore, Detroit, and Oakland. Efforts to improve the performance of “failing” schools by shifting administrative control have achieved only limited success, for a number of reasons.

State takeovers

In some important respects, the agencies of state government are strong candidates for turning around “failing” schools. They have the authority to demand change, and the power to reallocate resources to support (or punish) specific schools and

school districts. They have demonstrated success in establishing political and fiscal stability and integrity in troubled districts (Wong & Shen, 2001). In addition, many state education agencies can marshal an impressive stock of technical expertise on issues ranging from curriculum design to professional development (Massell, 1998). They operate on a scale that allows them to employ specialists, and to spread the costs of technical assistance over large numbers of clients.

At the same time, however, direct interventions by state agencies to improve performance in “failing” schools face a number of critical obstacles. First, state education agencies typically serve hundreds of districts and thousands of schools, most of which are geographically distant from the capital. They consequently have little local knowledge of schools and communities. Under these circumstances, political and bureaucratic exigencies make it difficult for them to tailor their interventions to the specific local needs of individual schools and districts. Second, state interventions in local school districts are almost invariably triggered by crisis, so school districts rarely enter into a relationship with the state freely or as a partner. The consequent lack of trust may require state officials to overcome deep local resistance in order to establish the legitimacy necessary to assist “failing” schools.

Even if these obstacles can be overcome, the capacity of state education agencies to provide assistance is declining because of a decrease in manpower and an increase in policy demands. Research in eight large states found that three departments of education had experienced 25-50 percent cuts in personnel over the last decade, and that none of the eight states had added staff in order to cope with new accountability and assessment requirements (Massell, 1998). Given severe budget shortfalls and the new burdens

imposed by NCLB, few states are likely to have sufficient capacity to provide effective direct assistance to “failing” schools.

Mayoral control

An alternative candidate for assisting “failing” schools is the mayor. In contrast to state education agencies, mayors are geographically close to the schools. City boundaries are often coterminous with school district boundaries. Mayors have deep local knowledge, and their familiarity with local actors and their understanding of local politics can be useful in building trust among local educators. Many urban school districts are large enough to support the employment of specialists in key areas of need.

The most obvious barrier facing mayors, however, is their lack of knowledge about schools, teaching, and learning. Staffed by non-educators, mayors’ offices do not possess the expertise that is essential for improving student performance (Kirst, 2002). Mayors control a variety of city resources, including such things as parks and recreation resources and housing and health programs. They can marshal these resources in ways that support schools and enhance administrative efficiency, but the kinds of resources that would be needed to significantly improve academic achievement are not in the mayor’s office. To bring about deep changes in the way schools operate mayors must either build this technical capacity from scratch, or else rely on other agencies—including current school district personnel—to provide expert knowledge.

An additional problem with mayoral takeovers is that most mayors—like most school boards—are deeply embedded in a turbulent political environment. The political turmoil that is often associated with a mayoral takeover of local schools can present

serious obstacles to accomplishing the academic improvement that would justify the takeover (Kirst, 2002; Wong & Shen, 2001). In cities including Detroit, Compton, and Lawrence mayoral takeovers of the local school system generated a great deal of political opposition. Partly as a result, seven years elapsed in Compton before student achievement scores improved at all. In the four years since the mayoral takeover in Detroit, test scores have fallen steadily. Many mayors serve less than seven years, and it may consequently be difficult for them to sustain the political and technical support needed to bring about lasting improvements while bearing the burden of continued “failure” in local schools.

Universities

Universities are another intermediary institution that might be nominated to provide assistance to “failing” schools. Universities often have a rich stock of highly specialized technical expertise embodied in their faculty and staff, which could be deployed to assist relatively large numbers of schools. Many universities have a history of working with districts to train pre-service teachers, and many local educators are alumni. These prior interactions should help to establish a reservoir of trust between universities and public school educators.

There are a number of serious problems that universities must overcome if they are to assist “failing” schools, however. First, the reservoir of trust between colleges of education and public schools is often extremely shallow. Distrust often arises from disagreements about technical expertise (Lanier & Little, 1984). University faculty may be tempted to portray themselves as more knowledgeable than educators in the schools,

and to regard classroom teachers as needlessly committed to low expectations and routinized instruction. For their part, K-12 teachers and staff often characterize university faculty as prisoners of the ivory tower, lacking the knowledge and skill to teach effectively in the increasingly complex world of public education. Two decades of experience with professional development schools make it clear that universities have a difficult time supporting improvement in teaching and learning (Valli, Cooper, Franks, 1996).

Universities also have less useful capacity than may at first appear. The expertise that resides in universities is often different from the expertise necessary to carry out the work of improving “failing” schools. Only a small part of the research conducted by university faculty is directly relevant to immediate problems of teaching and learning. Some faculty members may have taught in K-12 schools at some point, but few are expert teachers and even fewer have participated in the arduous process of turning around a “failing” school (Lanier & Little, 1984). Moreover, there are few institutional incentives that would encourage university faculty to choose to work with “failing” schools.

Education Management Organizations

EMOs are another potential intermediary institution to assist “failing” schools. NCLB designates EMO management as one of the possible governance changes required for schools that fail to meet their AYP targets for five consecutive years. The EMO industry has grown in recent years. By fall 2002 there were roughly 50 companies managing over 400 schools in 23 states plus the District of Columbia. The individual

companies that comprise the for-profit school management industry are heterogeneous. Some offer a menu of specific services from which contracting schools can select (e.g., bookkeeping and payroll, operations and maintenance). Increasingly, however, companies offer whole school designs including curriculum, instruction, assessment and management practices that are implemented with little variation in all of a company's schools.

The K-12 for-profit education contracting market is composed of two distinct segments: charter schools and school district contracting. Charter schools are the largest segment, representing over three-quarters of all EMO-managed public schools. Most EMOs are very small firms operating exclusively in the charter sector. About two-thirds of all EMOs manage one to three charter schools. Entry into the district-contracting market segment has to this point proven to be much more difficult. Only four companies currently manage traditional public schools, and a single one—Edison Schools—operates over 80 percent of the district schools that are managed by for-profit firms.

Some of the differences in contracting arrangements in charter versus traditional public schools are relevant in anticipating the prospects for EMOs to successfully turn around “failing” schools. In charter schools, firms typically enjoy greater autonomy to hire and fire teachers, set salaries, and implement their programs. District contracting, however, presents much more difficult administrative and political constraints. EMOs typically must work with elected school boards, existing school employees and their unions, and offer a full complement of educational services. These features restrict EMOs' flexibility and raise the cost of managing district as compared to charter schools. Thus far no EMO has been able to turn a profit operating traditional public schools. The

record suggests that in order for private management of traditional schools to be profitable, EMOs will either have to receive more generous funding than regular public schools, or they will need the authority to implement the sort of cost-cutting strategies feasible in charter schools.⁸

Regardless of whether private management of public schools becomes profitable, EMOs might still fulfill a more modest role of providing advice and assistance to “failing” schools. As with the case of mayoral and state takeovers, EMOs may hold promise for bringing about improvements in school financial management and administration.⁹ It is at least unclear whether EMOs possess an advantage over school districts in their knowledge of how to improve student learning. The available evidence remains limited, but it indicates that improvement in student achievement in EMO-managed schools is about the same as in comparable district schools (U.S. GAO, 2002; Miron & Applegate, 2000).

EMOs vary dramatically in their capacity to guide instruction. A handful of large EMOs have fairly substantial capacity. In most EMOs, however, this capacity is very thin. Among EMOs that operate more than a few charter schools, competition to attract clients centers on efforts to differentiate their programs from those of other schools and EMOs. Developing innovative instructional practices that generate superior student achievement would be one product differentiation strategy, but it is difficult and risky. Most EMOs, therefore, rationally elect to adopt existing instructional programs that are commercially available, and concentrate instead on marketing. This strategy requires

⁸ In Philadelphia, now the site of the nation’s largest private contracting experiment, outside contractors receive higher per pupil funding than the rest of the city’s public schools.

⁹There have been questions, however, raised about improprieties in the financial disclosures of EMOs themselves. See, for example, Henriques and Steinberg (2002b).

firms to establish brand and product identity, which necessitates relatively uniform operations and services from school to school (Levin, 2001). Standardization limits their ability to respond to distinctive local conditions.

Whether EMOs can develop the capacity to turn around “failing” schools therefore remains an open question. If they can do so, however, they will likely be able to benefit from scale economies. Already there are at least ten EMOs that manage ten or more schools. Wide geographical dispersion of the schools managed by an EMO, however, could diminish the potential for efficiency gains.

The establishment of trust may pose the greatest challenge for EMOs in their efforts to turn around schools. EMOs enter contracting relationships with public schools as a business venture. They do not ordinarily enjoy longstanding relationships with a school’s personnel that could serve as the basis for establishing trust. To the contrary, distrust could arise from educators’ concern that EMOs’ profit motive is not congruent with the values that guide their work. The spread of EMO-management successes stories could eventually help with the formation of trust, but thus far reputational networks among teacher union members and community groups seem mainly to be disseminating horror stories of contracting arrangements gone bad (Henriques & Steinberg, 2002a; Walsh, 2001). Uncertainty about the durability of the contracting relationship is also likely to hinder the development of trust. Finally, the difficulty of establishing trust will almost certainly increase significantly in those instances where state officials orchestrate contracting arrangements without the participation or consent of school employees.¹⁰

¹⁰ This circumstance could arise, for instance, when a state takes over a school (or district) and turns it over to an EMO to manage. The Inkster School District in Michigan offers one prominent example where the district entered into an EMO contracting arrangement under strong compulsion from the state. In that case,

Education Service Agencies

Educational service agencies (ESAs) are public entities that are created by statute to provide educational support programs and services to local schools and school districts within a given geographical area.¹¹ At least 37 states have ESAs in operation. Known by different names in different states (e.g., intermediate school districts, regional educational service agencies, intermediate units, service cooperatives, educational service districts), ESAs typically correspond to county or, in rural areas, multi-county boundaries. Although they have been around for many years, ESAs have recently assumed a growing role in the educational system as demands on public schools have increased. They represent another potential intermediary institution to provide assistance to “failing” schools.

ESAs provide services to local schools that are too costly or specialized for individual districts to efficiently provide for themselves--services for which economies of scale are operative. By obtaining services through ESAs, districts can share overhead costs rather than fund duplicative programs. Given their scale of operation, ESAs also can often hire highly trained and experienced specialists in their service areas. In addition, ESAs are generally less constrained than local school districts by tradition and established practice and more flexible and entrepreneurial in defining their roles.

There are more than 530 ESAs in the U.S., with more than 100,000 employees. These ESAs cover approximately 80 percent of the nation’s public school districts and an

the lack of trust and good will between the contracting parties produced debilitating struggles and a dramatic deterioration in student performance on state assessment tests. (See Hall, 2002).

¹¹ Information on ESAs in the U.S. was obtained from the database of the Association of Educational Service Agencies.

equivalent percentage of students. All ESAs that are created by statute have governing boards. States vary in their procedures for ESA board member selection, but nearly all follow one of three options: election by the general public, election by LEA board members, or ESA boards composed of LEA superintendents. The three main sources of ESA revenue are local property tax levies, state appropriations, and fees for services provided.

The size of ESAs varies from state to state, and within states. Metropolitan area ESAs tend to include more school districts, while rural ESAs encompass larger areas but fewer districts. About one-third of ESAs include ten school districts or less. Another third of ESAs serve 11-20 school districts, and the remaining third serve more than 20 districts. In terms of student enrollment, most ESAs (70 percent) have 10,000 to 100,000 students in their catchment area. About 17 percent of ESAs have fewer than 10,000 students, while another 13 percent have more than 100,000 students in their catchment areas.

Provided they possess the necessary expertise, ESAs' greater size is likely to afford significant scale advantages over local districts in supplying specialized support services for "failing" schools. In addition, since ESAs are defined geographically, they enjoy an efficiency advantage over states, universities, or EMOs by virtue of their proximity to all the schools they serve.

The efficiency of ESA intervention is also likely to benefit from a relatively high degree of trust. Many local schools have longstanding and mutually beneficial relationships with their ESAs. These relationships encompass a wide range of services beyond those specifically related to assistance for "failing" schools. If school personnel

have a favorable opinion of ESA services in areas such as special education or staff and curriculum development, then they are more likely to give the ESA the benefit of the doubt and respect its competence to assist with their school's academic improvement. Given their ongoing role within the public education system, ESAs also are more likely than other intermediary institutions to subscribe to organizational values that are consonant with those of public schools. Finally, the ability of ESAs to maintain trust is facilitated by the fact that there is less uncertainty about the durability of their affiliation with a district or school. One way or another, the ESA and public schools will have to work together in the future, so they have a mutual incentive to act in a trustworthy fashion to enhance the effectiveness of future interactions.

The key question regarding the efficiency of ESAs in turning around “failing” schools centers on their capacity. At issue is not their local knowledge, which is generally broad and deep, but rather their technical expertise, which is unevenly distributed across ESAs and not adequately tested with regard to the specific task of assisting schools to improve student achievement. ESA staffs typically have extensive connections with local districts, and ESA administrators occupy an ideal position to gain a comprehensive view of the educational, financial and political circumstances of districts within their catchment areas.

The verdict is out, however, on ESAs' technical knowledge. Available evidence suggests that a wide range of ESAs may possess considerable capacity.¹² Some ESAs have extensive and expanding capacity to assist districts with instruction, instructional

¹² According to an AESA member survey in 2000, roughly 73 percent of the ESAs have at least 50 full-time employees. In addition, 527 of the nation's 530 ESAs currently provide “staff development and/or curriculum development services”. The extent to which this translates into effective capacity for the specific tasks of improving student achievement in “failing” schools, however, is unclear.

support and administration. Yet there is considerable variation across ESAs in their technical capacity. In Michigan, for example, this capacity is greatest in metropolitan area intermediate school districts, where staffing and expertise rival or exceed that of the Michigan Department of Education for the provision of services needed by “failing” schools. Indeed, a consortium of metropolitan area ISDs in Michigan enjoyed considerable success recently in helping “failing” schools to attain state accreditation. The technical capacity in other ESAs is very thin, however. For now the potential contribution of ESAs to improving student achievement in “failing” schools remains theoretical and untested, for it entails formal responsibilities that most ESAs have yet to assume.

IV. Comparative Institutional Advantage

Who will turn around “failing” schools? Which intermediary institutions are best suited to marshal and deploy the mix of pressure and support that is uniquely appropriate to the task of improving teaching and learning in individual schools? This is the central policy question posed by NCLB, and it has received little systematic attention.

Table 1 summarizes our assessments of the relative efficiency of alternative institutions. In our view ESAs show particular promise for accomplishing the goal of turning around “failing” schools. ESAs currently vary significantly in the technical expertise they can deploy, but this is at least equally true of all of the other candidate institutions. Moreover, ESAs appear well situated to develop and extend existing technical capacity. On the other criteria—local knowledge, size, proximity, and especially trust—ESAs seem likely to perform quite well. Other institutions show some

promise also, but their potential effectiveness is contingent on overcoming additional critical obstacles. This suggests that the productivity increase associated with an investment in the technical capacity of ESAs will be greater than for an equivalent investment in the capacity of any of the other intermediary institutions.

Table 1. Assessment of Institutions by Evaluation Criteria

Evaluation Criteria	District	State	Mayor	University	EMO	ESA
Capacity	●	●	○	●	●	●
Technical expertise	●	○	●	●	○	●
Local knowledge	●	○	●	●	○	●
Scale	●*	●	●*	●	●	●
Size	●	○	●	●	●	●
Proximity	●	○	●	●	●	●
Trust	●	○	●	●	○	●

Key

- = meets criterion in most areas
- = meets criterion in some areas
- = meets criterion in few or no areas
- * for large districts

The primary value of Table 1 is in the framework for institutional choice that it provides. By identifying the strengths and deficiencies of various intermediary institutions, it provides a basis for state policy makers to formulate more realistic strategies for turning around failing schools. For example, any credible proposal to use mayoral takeovers of schools to improve academic performance ought to account for how this strategy would overcome municipal officials' nearly complete lack of expertise on issues of teaching and learning. Strategies that rely on state takeovers or EMO contracting should specify how these agencies will overcome problems of trust and local knowledge.

V. Further Considerations for Policy Design

Beyond the intrinsic efficiency of particular intermediary institutions, three additional considerations should inform policy choices about how to turn around “failing” schools. First, the state must establish a policy framework that provides assistance to all eligible schools. Second, the state must ensure that the cost of assisting “failing” schools is appropriately and equitably shared. Finally, the state must take steps to minimize perverse incentives, including problems of moral hazard and adverse selection. Each of these additional considerations reinforces the conclusion from Table 1 that ESAs represent an especially promising candidate for providing assistance to “failing” schools.

Who Receives Assistance?

In keeping with the spirit of NCLB, a state’s policy framework for turning around “failing” schools must provide assistance to all schools needing assistance, to ensure that no schools are left behind. Voluntarism will not suffice. The state must be able to assign responsibility for turning around every school, not just those with which intermediary institutions agree to work. This is an impediment to the effectiveness of EMOs and universities, because they fall outside the direct administrative authority of the state. State officials cannot require EMOs or universities to work with schools that they do not wish to take on. In contrast, every school, in principle, could fall within the jurisdictional responsibility of an ESA, at least in principle.

Who Pays for Assistance?

Many, perhaps most, schools identified as “failing” will be located in school districts where poverty is concentrated. These districts face the greatest challenges, and their ability to pay for additional support services is limited. Leaving the financial responsibility for turning around “failing” schools with local school districts simply perpetuates these inequities. Payment for these services by state governments would enhance equity, but centralization undermines the efficiency that is gained through local political oversight.

One solution to this problem would be to split the financing burden between the state and ESAs. States could finance and perhaps coordinate the development of ESA technical expertise, supporting professional development for ESA personnel regarding the best practices for assisting failing schools. Such training would benefit from scale efficiencies and the sharing of information on implementation experiences. ESAs could finance the incremental operating costs of providing service to “failing” schools within their jurisdictions. Financing a substantial portion of support service costs through ESAs would promote both equity and efficiency by sharing the tax bases of multiple local districts while retaining local pressure for efficiency in the use of funds.

How Can Incentives Be Aligned with Policy Goals?

State policies aimed at turning around “failing” schools must also guard against the creation of perverse incentives, including those associated with what economists call moral hazard and adverse selection. With respect to moral hazard, district administrators overwhelmed by the challenge of turning around many schools may welcome state intervention that shifts responsibility for the most difficult schools to other agencies.

Indeed they may try to create a situation where performance in schools they continue to manage surpasses that in schools receiving assistance from intermediary institutions.

When administrators expect outside intervention, they may rationally focus their efforts on improving those schools with the greatest prospect of meeting state standards, while neglecting the worst schools for years before handing them over to other parties. A moral hazard problem arises because there is no way for others to accurately observe administrators' actions, or to know with certainty whether observable actions are detrimental to the interests of specific schools.

The adverse selection problem arises because district administrators have better information regarding the true quality of a school (or the obstacles to its improvement) than other agencies. Intermediary institutions including EMOs and universities that contract to provide assistance to specific schools must therefore assume that the schools they are being contracted to manage are "lemons." The suspicion that they are assuming responsibility for the most challenging schools will lead them to increase the price that they demand for providing assistance, and to limit the number of schools with which they work.

State policy can be designed to diminish these sources of inefficiency. On the one hand, policy should be devised so district administrators share some of the risk associated with efforts to improve all of the schools in their district. They should not get off the hook entirely, once an external institution becomes involved with a particular school. On the other hand, long-term contracts can mitigate moral hazard problems by introducing benefits for not exploiting short-term informational advantages, and for promoting the accumulation and sharing of information that reduces uncertainty. A state policy

requiring ESAs to establish partnerships with districts to turn around “failing” schools could satisfy both of these conditions. Such a policy would also create an incentive for ESAs to provide assistance to troubled schools before circumstances became desperate.

VI. Conclusion

The persistence of “failing” schools serving disadvantaged children is the great failure of the American public school system. The central accomplishment of the continuing “standards movement” in educational reform has been to focus the attention of policy-makers and educators on these schools. The passage of NCLB reflects a national acknowledgement of this failure, and a commitment to improve the performance of schools that fail to meet state standards.

Under the traditional institutions of local control the problem of school performance and school “failure” was left to school boards and local school districts. With the introduction of state standards and strengthened accountability measures, however, the problem of increasing student achievement in “failing” schools is no longer a local problem. The states have assumed an obligation to turn these schools around, in order to comply with their own promises to ensure success for all students. The key question, of course, is how to accomplish this goal.

Serious efforts to meet the goals of NCLB in improving the performance of “failing” schools must rely not only on threats and sanctions, but also on effective external support. The framers of NCLB implicitly acknowledged this, with the designation of alternative governance arrangements under which various external organizations may assume control over schools that persistently fall short of AYP targets.

The problem with the external organizations identified in the Act, however, is that none of them has a particularly strong track record in improving student achievement. The expectation that student achievement in “failing” schools will improve as a consequence of the governance changes required by NCLB amounts to nothing more than wishful thinking.

In this paper we have attempted to move beyond wishful thinking, by addressing the question of how external support for “failing” schools should be delivered, and by whom. We suggest that the answer ought to be sought in an assessment of the relative efficiency of alternative intermediary institutions. Our evaluation framework for institutional choice identifies three main determinants of efficiency: capacity, scale, and trust. We apply these criteria to the available array of institutions, in an effort to explore which one(s) show the most promise for the difficult task of making ineffective schools effective. Our analysis of the literature recommends skepticism with regard to the likely success of some familiar choices among intermediary institutions, including school districts, mayors, universities, and EMOs. In contrast, ESAs appear to have significant advantages as we assess the candidates for the task of turning around “failing” schools. Since ESAs have strengths that could compensate for weaknesses observed with each of the other institutions, there also may be benefits to joint arrangements between ESA and other intermediary institutions to assist schools.

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