

Welcome the Edupreneurs  
*For-profit education would benefit students and teachers, argues Ross Farrelly*

At the beginning of Pierre Boulle's classic novel *The Bridge Over the River Kwai*, the commanding officer of the British prisoners-of-war, Colonel Nicholson, asks his Japanese counterpart, Colonel Saito, to reconsider his command that the British officers work alongside the other ranks to construct the bridge. Unbeknown to Nicholson, Saito has a deep seated antipathy to anyone questioning his authority. In a paroxysm of rage he beats Nicholson senseless and inflicts a punishing work regime on the rest of the prisoners.

Saito's reaction reminds me, in vehemence if not in kind, of the response of the education bureaucracy whenever the words 'profit' and 'education' are mentioned in the same sentence. Teachers' unions in particular are vehemently opposed to 'edupreneurs', companies which wish to provide service for profit in the education marketplace.

For example, in early 2004, it was announced that two for-profit companies, Springfield Land Corporation and ABC Learning Centres Ltd, Australia's largest private sector childcare provider, would be working in partnership with not-for-profit company, Independent Colleges Australia Ltd to open a new school in Springfield in the southwest of Brisbane. The spokesperson for the Queensland Independent Education Union responded to this news with the comment: 'schools ... should be run for the singular purpose of enhancing the students' education—not with an eye on the profit margin'. Former Victorian Premier Joan Kirner went even further saying, 'Over my dead body', she said, 'schools ... should be run in the interests of children'.<sup>1</sup> In response to ventures similar to the one described above, the Queensland education minister Anna Bligh recently introduced amendments to ensure that such partnerships would be ineligible for government funding, and consequently economically unsustainable.<sup>2</sup>

Even the slightest hint of the possibility of interaction between the private sector and government schools seems to invoke the ire of some teachers' unions. In the lead up to the last election, the Howard Government announced a plan to make reading vouchers available to families whose children had failed to learn to read at school. These vouchers could be redeemed with a certified private tutor. Maree O'Halloran, President of the NSW Teachers Federation, described the plan as 'another attack on public schools' and 'simply preposterous'.<sup>3</sup>

Clearly there is a deeply held assumption here—that education and profit are mutually exclusive—you can't educate children well and make money at the same time. This is an unspoken assumption which runs through much of the debate over school funding in Australia. It is not always all that unspoken. Federal laws explicitly prohibit government funds being used to support for-profit schools.

It is important at the outset to distinguish two separate aspects to this question. The first is the principle or ethics of deriving profit from education. If it can be shown that the very act of deriving profit from K-12 education is somehow inherently amoral, regardless of the consequences, it could not be seriously considered as sound public policy. If it can be shown that there is nothing inherently amoral about deriving a profit from K-12 education, it still needs to be shown that an expansion of edupreneurial activity would raise standards in education. If it seems feasible that the introduction of certain forms of for-profit content delivery in the K-12 education marketplace would be beneficial in terms of both standards and efficiency then it behoves policy makers to take the proposal seriously.

What do we mean by for-profit education? The term is a general one which covers many different approaches to educating children in the K-12 age range. Nevertheless all such enterprises share all or some of the following characteristics in common. For-profit educators have the ability to provide education which meets parental expectations at a cost less than that which parents are willing to pay. They are free to vary the curriculum and teaching methods they wish to offer. For-profit schools may be run by personnel who privately own school premises and/or intellectual property in the form of curriculum and school management systems necessary to provide K-12 schooling. The term implies that the provider of education is answerable to market expectations and either flourishes or flounders accordingly, and that the market has the means to express its wishes, possibly through school vouchers or tax credits.

Edupreneurial companies are presently experiencing substantial growth worldwide. A recent survey of edupreneurs estimated that they constitute approximately 10% of the US\$740 billion education market in the US. Nevertheless, the study found that 'K-12 education is the most difficult sector of the education industry for companies to enter. Government funded competition and regulations make it difficult for companies to make a profit'.<sup>4</sup>

In 1992, Sweden passed laws to promote school choice and ease the entry of independent schools into the education marketplace. Since then the number of independent schools has increased five fold, 30% of which are now run by corporations. Researchers in that country have found that the increased competition has benefited students in both public and private schools.<sup>5</sup>

Since the fall of communism in 1989, the Czech Republic and Hungary have funded both public and independent schools equally on a per-pupil basis. Although most independent schools in these countries have been started by non-profit organisations, the influence of competition in these markets is informative. One in-depth study, which tracked student performance before and after the liberalisation and measured improvement in test scores (rather than absolute measures) found that *all* students in districts with a large number of new independent schools benefited from the competition.<sup>6</sup>

In Brazil a number of large corporations vie with each other to provide K-12 school as well as subsequent university and vocational training. The largest of these, Objetivo/UNIP, has 450 franchises which teach around 500,000 students and an annual turnover of approximately US\$400 million.<sup>7</sup>

In Southern Africa, the private education corporation Education Investment Corporation Limited (Educor) caters for over 300,000 students through primary, secondary and tertiary education, to post-graduate and corporate training. It has an annual turnover of US\$26 million and, is about to be listed on the NASDAQ.<sup>8</sup>

#### *The Ethics of for-profit K-12 education*

It is difficult to see how there is anything implicitly unethical about deriving a profit from K-12 education when we view teaching as a vocation comparable to the practise of medicine, law or accountancy. Teaching is similar to these professions in many important respects. It is a service provided by trained professionals who hold recognised degrees or diplomas and as of this year in NSW will need to be accredited by the NSW Institute of Teachers.

The community recognises that there is nothing wrong in principle with making a profit from the provision of profession services such as medicine, law and accountancy so long as these services are conducted in accordance with the profession's code of ethics and within the relevant legislation. These regulations aim to protect the rights of the consumer and mitigate conflicts of

interest. Therefore, with similar guidelines in place, there is no reason, in principle, why profit could not be derived from K-12 education.

Furthermore, it is generally agreed that many other types of education including private tuition, coaching colleges, professional development, vocational training and some private tertiary institutions may ethically be run on a for-profit basis. This indicates that there is nothing in the nature of education per se which should necessarily exclude it from the for-profit marketplace.

It may be argued that K-12 education is a special case, unlike the services provided by the other professions on a number of grounds. One feature of K-12 education which at first appears to be unique is that it is compulsory for all children. Although this initially seems to distinguish K-12 education from the other professional services, in practice this is not the case. For example, seeking medical advice from a qualified practitioner becomes essentially compulsory when a child falls seriously ill, not through legislation (although one may argue that child abuse regulations would come into play here) but through the instinctive desire of a parent to care for her child. The same goes for seeking legal advice whenever a matter of significant legal complexity is entered into. In theory, employing the services of a legal professional may be optional, but in practice it is unavoidable. Thus K-12 education cannot claim unique status on the grounds of being compulsory.

It may also be claimed that K-12 education is unique in the manner in which it influences a child's life. Second only to his parents a child's teacher has the opportunity to impart deep-seated attitudes and values which can influence the rest of the child's life for good or ill. There is no doubt about the importance of the teaching profession and its impact on the welfare of society, but this argument in fact strengthens the imperative to find the most effective means to educate K-12 students. Since education is such an influential aspect of a nation's character, policy makers are obliged to discover and utilise the most effective means to educate the young, and if for-profit educational enterprises will raise standards across the board, they must be encouraged. This brings us to the subject of the efficacy of for-profit education and its effect on the K-12 education market.

#### *The benefits of for-profit K-12 education*

Since there is nothing wrong in principle with making a profit from K-12 education if it is conducted in accordance with suitable professional guidelines and, if necessary, regulated by minimal legislation, the benefits of such a development in the education marketplace need to be explored. If the benefits of encouraging for-profit education can be shown to be significantly superior to the current system then policy makers need to justify why such reforms are not being undertaken.

In common with any for-profit enterprise, schools which exist only by their ability to ascertain and meet the expectations of the market, which in this case is the parent body, are attentive to and responsive towards changing needs of the marketplace. They are aware that inefficiency and complacency will be reflected in falling enrolments and consequent job losses. The benefits to pupils of such sensitivity is that they are not subject to outdated modes of teaching, progressive fads, irrelevant curriculum or ideologically loaded subject material for any period longer than it takes the market to ascertain the futility of such approaches.

Frederick M. Hess, Director of Education Policy Studies at the American Enterprise Institute, has recently made a strong case for K-12 schools to be subject to market forces rather than top-down government regulation.<sup>9</sup> He argues that unless schools are rewarded for their successes and made accountable for their short-comings, no real progress can be made in school reform. In a system

of top-down regulation, schools are assessed on processes and procedures in the classroom, on the curriculum they purport to teach and on the qualifications of their teachers. Hess argues that to drive improvement, schools need to be assessed not on internal procedures, but on what they produce, that is, on what the children have actually learned. Schools responsive to market forces would be assessed in exactly this way as their reputation would be dependent on the quality of their graduating pupils and on the school's performance in standardised tests. For-profit schools would face meaningful, unavoidable consequences for failing to teach their students adequately, and this may prove to be a significantly better safeguard of students' interests than further attempts at top-down government regulation.

A second benefit of for-profit K-12 schooling is that excellent schools would expand, allowing more parents the opportunity of sending their children to schools which have a proven track record in successful education. Any successful business tends to expand as customers and employees alike are attracted to its culture of excellence and as demand for its product grows. In the current system, a government school may, on account of its excellent leadership, build a fine reputation as a centre of excellence. The students at the school flourish and the waiting list grows. What then? Do other schools start up along the same lines, spreading the influence and expertise of the outstanding leader of the first school? Is that outstanding leader given the incentive and additional financial rewards for making the effort to expand and grow? No. There is little room for innovation in the centrally directed government monopoly.

A third beneficial consequence of for-profit K-12 education is the emergence of quality control and research and development. As companies start chains of schools and compete with each other for business, they would be motivated to maintain tight quality control on their franchisees to ensure the quality and reputation of their brand name. They would also be motivated to invest in serious research and development to discover and implement more effective ways of educating the K-12 student and to stay ahead of the competition. Such research would not be the ideologically motivated exercise in sociology or cultural studies which so often passes as educational research in our universities, but a scientific, evidence-based inquiry into learning styles, content delivery and curriculum development which would stand the test of the market.

### *Objections*

It is worth noting here that privatisation does not necessarily mean competition. It is possible that with privatisation a small number of large corporations could monopolise the industry resulting in little choice for parents. There could be a role for government regulation to ensure such factors as entry into and exit from the market, economies of scale, variety of educational products on the market and susceptibility to the cost of technological change do not make it prohibitively difficult for new participants to enter the K-12 market.<sup>10</sup>

Some commentators object that privately run for-profit schools would fail to inculcate values needed for a free democratic society. In fact, such schools, being answerable to the parent body as a whole and not to a small committee of educationalists, would be more likely to teach the democratic ideals valued by the community.

Another significant objection to for-profit education is that parents will be unable to make an informed choice. This is usually argued from two perspectives, either because school performance cannot be measured and reported accurately in a meaningful and unbiased way, or because parents, even if they did have all the information they needed, would not be able to adequately synthesise it into an appropriate choice to meet the needs of their child. The issue of reporting school performance is certainly a controversial one, but it is defeatist to say that it cannot be done. At the moment information on school performance in Australia is guarded like

the crown jewels and in some cases it is actually illegal to release such information.<sup>11</sup> This would have to change if parents are to be able to make informed choice between competing for-profit schools. Just as there are regulations governing the reporting of publicly listed company performance, so guidelines could be drawn up outlining performance criteria which schools would need to disclose at regular intervals.

On the second issue of parental ability to assimilate school performance data into an optimal choice for their child, we can see that there are a number of factors which would make it highly likely that parents would be successful in this regard. Firstly they would be strongly motivated to choose wisely, especially as the demographic shift in Australia is towards smaller families. As parents choose to have children later in life, they are doing more than ever to ensure their children's welfare and to protect them from harm.<sup>12</sup> Society trusts parents to make informed choices on such complex matters as real estate, retirement funds and medical procedures and there is no reason why they should not also be allowed to assess the relative merit of schools.

A further objection to for-profit K-12 education is that no one would operate schools to educate the disadvantaged. Critics of such privatisation ask why an entrepreneur would open a school in the worst suburb where many children come from broken homes, where English is a second language and drugs and violence are rife. They claim that church or other altruistic groups may do so because they are doing it as a service to the community but the hard-nosed investor would look for a safer and less troublesome way to turn a profit. This objection is based on the fallacy that underprivileged children are the most expensive to educate. This is not the case. Often parents in the higher socio-economic strata are more demanding and insist on specialised courses, individual attention and a greater range of extra-curricular activities for their children. Just as companies provide other goods and services to all strata of society, and do so profitably, so companies will be motivated to compete with each other to provide education for the disadvantaged—and, on account of this competition, the education on offer will be of a higher standard.

### Conclusion

For-profit K-12 education and the resulting competition in the education marketplace will have a number of benefits for both students and teachers which will never be achieved by centralised government control. Schools of excellence will flourish and expand, enabling access to successful education for more families. Research and development into practical, effective teaching will be encouraged. Efficiency will be promoted, bureaucracy minimised and parents will see a greater return for their education dollar. Teaching would be a more attractive career option in which excellence is rewarded and there is scope for innovation. Unfortunately, much of the antagonism voiced towards the concept of for-profit K-12 education is the result of vested interests under threat and fear of the unknown rather than a serious consideration of the welfare of students. It is time for our policy makers to show leadership in this area and start welcoming the edupreneurs.

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Ross Farrelly is a Sydney-based educator and writer. He runs the [educationunbound.org](http://educationunbound.org) website.

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<sup>1</sup> J. Novak, (accessed 16 April 2005), 'Private sector participation in non government schools, developments and reactions', <http://www.onlineopinion.com.au/view.asp?article=3285> .

<sup>2</sup> A. Bligh, 10 May 2005, 'New Laws Stop Commercial Operators Profiting from Taxpayer Funds to Non-State Schools', <http://statements.cabinet.qld.gov.au/cgi-bin/display-statement.pl?id=6583&db=media>.

<sup>3</sup> G. Zadkovich, (accessed 5 April 2005), 'Howard starves public education', [http://www.nswtf.org.au/media/latest/20040520\\_starves.html](http://www.nswtf.org.au/media/latest/20040520_starves.html)

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<sup>4</sup> C. Lips, (accessed 15 April 2005), 'Edupreneurs, A Survey of For-Profit Education', <http://www.cato.org/pubs/pas/pa386.pdf>

<sup>5</sup> H. Walberg, J. Bast, *Education and Capitalism*, (Stanford: Hoover Institution Press, 2003), pp 73, 74.

<sup>6</sup> *Ibid.*

<sup>7</sup> J. Tooley, (accessed 7 April, 2005), 'Should the Private Sector Profit From Education? The Seven Virtues of Highly Effective Markets', <http://www.libertarian.co.uk/lapubs/educn/educn031.pdf> .

<sup>8</sup> *ibid.*

<sup>9</sup> F. Hess, *Common Sense School Reform*, Palgrave MacMillian, 2004.

<sup>10</sup> N. Sanders, 'Would Privatization of K-12 Schooling Lead to Competition and Thereby Improve Education? An Industrial Organization Analysis', *Educational Policy*, Vol. 16 No. 2, May 2002.

<sup>11</sup> J. Buckingham, *Schools in the Spotlight*, (Sydney: Centre for Independent Studies, 2003), p vii.

<sup>12</sup> H. Mackay, (accessed 15 April 2005), 'Hell on two legs - the Tiny Generation', *The Sydney Morning Herald*, 12 April, 2005, <http://www.smh.com.au/news/National/Hell-on-two-legs--the-Tiny-Generation/2005/04/11/1113071914162.html>