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## Buying Smart in Thin Markets:

*District Tactics to Improve the Quality  
and Quantity of Autonomous Schools*

*Stephen B. Page and Katharine Destler*

*ncsrp working paper # 2008-3*

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## *District Tactics to Improve the Quality and Quantity of Autonomous Schools*

**DRAFT**

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### **Managing School Performance: A Working Paper Series from the National Charter School Research Project and the Doing School Choice Right Project**

This paper is part of a collection of nine working papers that provides research-based practical guidance to authorizers across the whole range of authorizer practices, from building supply and selecting applicants, through oversight and support, to intervening in and closing failing schools. Developed through CRPE's "Providing Public Oversight" research initiative in partnership with Public Impact.

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Performance pressures have become acute for public schools since the United States Congress passed the No Child Left Behind legislation of 2001 (NCLB). NCLB mandates that states declare performance standards to assess student learning annually, and sanction schools and districts in which students repeatedly fail to meet the standards (Stecher et al. 2003).

As the NCLB sanctions for “failing schools” have taken effect, many districts with substantial numbers of poorly performing students have stepped up efforts to improve academic performance. A number have found improving managerial or instructional practices in failing schools difficult, however. Some find themselves “stuck” politically, often due to opposition from teachers’ unions, school boards, or parents’ organizations who resist change. Some are “stumped” intellectually, in that they lack ideas about how to improve performance in existing public schools.

Whether they are “stuck” or “stumped,” administrators in a number of large cities have begun to look beyond traditional neighborhood schools and sought out non-governmental providers of schools in an attempt to offer parents and children new options and to improve academic performance. Some of the new providers are management organizations that operate schools in multiple districts. Others are community-based organizations or entrepreneurial principals and teachers seeking more flexibility over school personnel, budgeting, and curriculum than is available in traditional, district-run schools.

What makes these schools distinct from traditional district schools is the high level of autonomy with which they operate, and the fact that they are held accountable for academic performance. Levels of autonomy and accountability vary, and districts refer to these schools by different names (e.g. charter schools, contract schools, or simply “new” schools). For the sake of simplicity, we refer to these schools throughout this paper as “autonomous schools.”

Districts typically oversee autonomous schools in one of two ways. Most authorize new providers as charter schools, working within existing state laws. Some also work with new schools under charter-like contracts, the rules of which are set forth by the district itself. Regardless of who provides them or exactly how these schools are overseen, autonomous schools represent both opportunities and challenges for school districts. On one hand, they hold the potential to increase curricular diversity and school quality in communities hungry for both. On the other, they raise a variety of new concerns for districts about the capacity, responsibility, and reliability of providers.

To tap into these opportunities and mitigate these concerns, district authorizers need to act as “smart buyers” (Kettl 1993) when they select providers of autonomous schools and design, negotiate, and monitor contracts with them. Buying smart is challenging under the best of market circumstances. Buyers and vendors rarely know exactly what the other is doing, and often their goals diverge (Pratt and Zeckhauser 1985). For example, even though districts and schools both seek to advance student achievement, a poorly performing school will seek to survive regardless of its impact on overall academic performance in the district.

Contract-management capacity is therefore essential for school districts: They need contract managers with experience and expertise in policy, politics, and communication; negotiating, bargaining, and mediation skills; and oversight and auditing capabilities (Kettl 1993; Van Slyke 2003). But contract management is only part of the challenge. Fifteen years after the first state legislation was passed, charter school growth has been steady but slow. Moreover, the number of high-quality providers in most communities has not kept pace with demand. (Harvey and Rainey 2006; Hill 2006). In such a thin market, even authorizers with contract-management capacity face additional challenges on the supply side as they seek out new providers. In some districts (New Orleans is the most extreme example), the problem is quantity: districts don’t have

enough schools. In most cases, the problem is both quality and quantity—they may have options, but they don't have enough to set high standards for school performance.

In order to buy smart under these conditions, school districts need tools to build the supply and quality of providers. In short, they need to “manage the market” (Brown and Potoski 2004) to build up the supply and quality of non-governmental providers of schools. Market management presents special challenges when suppliers are scarce and precise service characteristics are hard to specify in advance and measure in hindsight (Brown and Potoski 2004; Gereffi et al. 2005).

For reasons we discuss below, the public education market faces exactly these characteristics today. Suppliers of autonomous public schools are scarce (Hill 2006), and disputes remain about what educational quality means, how it should be measured, and what constitutes “good-enough” performance (Watson and Destler 2008). These disputes complicate efforts to draw up transparent contracts and hold schools accountable. Furthermore, the relative dearth of supply and the high costs of school closure (Kowal 2008) suggest that recruiting outside providers of autonomous schools is insufficient to ensure an adequate supply of quality schools. In addition to recruitment, districts must develop strategies to improve the quality of prospective or existing providers of autonomous schools who may be “good” but not “great.”

To identify potential ways to address these challenges, this paper identifies tactics that school districts can use to influence the factors that shape the supply and quality of providers of autonomous schools in thin markets. It examines school districts that have developed autonomous schools to identify what tactics they use, how they apply those tactics in practice, and which tactics they might tap more extensively in the future to manage the supply side of the market. The findings from the study show that the tactics the paper identifies are useful in practice, and that many school districts have additional, untapped tactics available to them to manage the supply of autonomous school providers. The paper concludes with directions for future research on applications of the tactics in the education field and other policy areas.

## **I. A Strategic Framework for Influencing Supply and Quality**

In principle, a district that combines traditional and autonomous schools can foster a blend of competition and collaboration among schools, which in turn may generate innovations in curriculum and pedagogy that improve student performance. Lessons from the private sector, for instance, suggest joint contracting (simultaneously contracting for services and providing them directly) and managed competition as strategies to improve performance (Goldsmith and Eggers 2004; Osborne and Plastrik 1997). The burgeoning literature on government contracting suggests specific strategies that public officials can use to manage information, increase competition, and build partnerships with vendors, all of which can enable joint contracting and managed competition (e.g., Goldsmith and Eggers 2004; Brown and Potoski 2004; Van Slyke 2006).

Following this guidance, a school district might decide to oversee a sizeable contingent of autonomous schools by contract or charter but maintain a pool of traditional district schools that it operates directly. The autonomous schools could help the district generate new ideas and new practice about teaching and management. The traditional schools, meanwhile, could help the district scale up new ideas quickly or maintain production if one or more autonomous schools had to shut down.

While such a system may make sense in theory, implementing “joint contracting” has proved difficult in education. One reason is that school districts face constraints that contradict the prescriptions of much contracting theory. Most research on market management, for example, assumes a threshold of available supply (e.g., Brown and Potoski 2004; Goldsmith and Eggers 2004). When outside supply is scarce and routes to better performance uncertain, as is the case in public schooling, the theory of transaction costs

indicates that producing services in-house is likely to be more viable and more effective than outsourcing (Whitford 2006; Williamson 1979; Gereffi et al. 2005). From this perspective, “smart buyers” are those who chose to forego buying in favor of producing services themselves.

Undaunted by this prescription – or perhaps desperate enough to ignore it – a number of school districts have recently chosen to contract with providers of autonomous schools. While this approach entails considerable uncertainty, it has precedents in other policy domains such as defense and mental health. In those fields, governments chose to contract out the delivery of public services even when outside supply was thin and of dubious quality, either due to an ideological faith in the market or in an attempt to improve on public sector delivery approaches.

In the following sections, we draw on economists’ understanding of the factors that shape market competition to explain why the development and quality of autonomous public schools have been problematic. Next, we outline tactics that school districts might use to enhance the quality and availability of autonomous schools when both are limited.

### **A. Influences on the Supply and Quality of New Schools**

In traditional school districts, district officials control the supply of schools centrally. When a neighborhood’s population of children grows to the point where it needs a new school, the district plans, funds, and operates that school. If the population of school-age children declines in a neighborhood, likewise the district is responsible for the decision to close the local school.

Autonomous schools, by contrast, are not planned or operated by school districts. Districts can enhance their supply and quality only indirectly, by managing the market strategically through payments, regulations, recruitment, technical assistance, and other interventions. Until quite recently, however, most districts’ policies and practices have served to suppress, rather than cultivate, autonomous schools. The supply of autonomous schools has been limited historically for several reasons, including:

- **School district monopoly**  
At a general level, the lack of a public sector “market” for autonomous schools has pushed entrepreneurs launching new schools to create them as private schools. Despite recent governmental interest in charter schools, vouchers, and district contracting, many prospective founders remain wary due to doubts about districts’ long-run commitment and ability to serve as stable, reliable contracting partners (Hill 2006).
- **Inadequate resources**  
Many districts offer more support services, per-pupil funding, and regulatory consistency to district-run schools than to autonomous schools, skewing competition for students and creating obstacles to sustainability for providers of autonomous schools (Hill 2006; Orr 1999).
- **Burdensome regulations and limited autonomy**  
In some cases, state regulations and district policies limit schools’ autonomy over hiring and budgeting, and some districts have failed to deliver promised payments or supports (Hill 1999; 2006).
- **Limited human talent pool**  
Both districts and prospective school operators identify the lack of quality school leaders and teachers as a significant constraint on charter school growth (SOURCE). Many capable and entrepreneurial principals and teachers currently work in traditional district-run schools. A number of these individuals may be loath to transgress the norms and expectations of their colleagues in district-run schools by working in non-unionized schools. Others may simply prefer the stability that the district-run system provides.

- Limited economies of scope and scale  
The small size of new schools, especially during their face during their start-up periods, may render them unable to withstand major financial risks, such as those stemming from temporary under-enrollment or enrollment of costly-to-serve children with disabilities (Hill 2006).
- Insufficient physical plant  
The cost and limited availability of facilities in many communities, especially dense cities, can create substantial start-up costs for providers of autonomous schools (Hill 1999; 2006).

As this list shows, districts hoping to tap autonomous schools to improve overall academic performance clearly face challenges. District officials need to pay special attention to factors that shape the availability and quality of supply in any market. Theories of institutions and economic competition (e.g., Porter 1979; Williamson 1979) identify a number of considerations that influence decisions by suppliers about the quantity and quality of services they intend to provide. Those most relevant to the market for autonomous schools include **buyer demand** (how many autonomous schools does a district “need”? How interested are parents in sending their kids to those schools?), **barriers to entering the market** (how hard is it for prospective suppliers to open new schools in the district?), **costs of production** (how much will it cost to educate the students in a district, and to what extent are those costs covered by a district’s per-pupil funding), and **the uncertainty associated with fulfilling the terms of the contract** (for example, what is the likelihood that political winds will shift and a district will cut funding or cease authorizing new charter schools?).

In the above list of barriers to the growth of autonomous schools, for example, inadequate district funding and insufficient physical facilities have obscured demand, raised entry barriers, and increased production costs for prospective schools. Equally problematic, they have fostered uncertainty about revenues, hiring, budgeting, competition, regulatory enforcement, and risk management. In combination, these factors prevented or discouraged existing and prospective suppliers of autonomous schools from expanding production.

## **B. Tactics to Build the Supply and Quality of Autonomous schools**

The challenges of overseeing a system of autonomous schools are substantial. However, school districts are not alone. School districts are not the only entities to work in environments with barriers to entry, high production costs, and uncertainties related to demand and contract terms. Organizations overseeing contracts in both the public and the private sector often must work to mitigate the challenges of thin markets. Both the economics literature and best practices in public and private sector management suggest tactics that districts can use to nurture the supply and quality of prospective schools. For simplicity’s sake, we cluster the tactics into four categories.<sup>1</sup>

1. Districts can reduce some of the uncertainty that autonomous schools face fulfilling contract requirements by **streamlining regulations**. Tactics in this category include:
  - a. Waiving district policies or state regulations to allow greater flexibility in hiring, budgeting, and curriculum (lowers barriers to entry; reduces uncertainty);
  - b. Altering charter or contract regulations that limit growth or innovation, such as eliminating charter school caps or evaluating schools in non-traditional ways (lowers barriers to entry; reduces uncertainty); and
  - c. Clarifying and stabilizing the regulatory requirements, authority, and competitive forces that affect providers’ costs of operating schools (reduces uncertainty).
2. Districts can reduce the barriers to entry and the production costs that autonomous schools face by **building the capacity** of prospective and current providers. Tactics include:

- a. Reaching out (as through RFPs) to target and cultivate promising prospective providers (lowers barriers to entry);
  - b. Offering application and start-up assistance (e.g., funds or information) to providers (lowers barriers to entry);
  - c. Providing ongoing support to enhance the quality of existing autonomous schools (lowers production costs); and
  - d. Incubating new ideas and sharing knowledge to diffuse information and foster learning about promising innovations in curriculum and administration (lowers production costs).
3. Districts can signal their demand for quality schools to prospective suppliers by **rewarding quality**. Tactics include:
- a. Selecting providers with demonstrated experience or strong community/parent ties (decreases uncertainty for providers);
  - b. Choosing providers who share district values related to educational quality, school administrative autonomy and capacity, the role of autonomous schools within the district, and other key issues (decreases uncertainty for providers);
  - c. Providing bonus funds and public recognition to schools that meet quality standards, measured in terms of outcomes rather than processes (increases demand for quality);
  - d. Rewarding landmark innovations and other lasting contributions to the field with premier facilities or the chance to operate at scale (increases demand for quality);and
  - e. Providing information about school quality – both by educating parents about what constitutes a high quality school, and by publishing report cards that distinguish schools based on important indicators of quality (increases demand for quality indirectly).
4. Districts can improve financial predictability and operational flexibility for providers by **reducing risks** related to enrollment revenues and production costs. Tactics include:
- a. Publicizing district willingness to contract with autonomous schools (lowers barriers to entry);
  - b. Providing attractive – or at least sustainable – and consistent per-pupil and facilities funding to autonomous schools (reduces financial uncertainty for providers);
  - c. Marketing new schools to parents and children (increases demand indirectly);
  - d. Regulating or subsidizing input prices, such as teacher salaries, textbooks, and facilities maintenance (lowers production costs);
  - e. Redesign contract provisions and other policies over time, to address unforeseen contingencies, suggestions from providers, and insights from experience (reduces uncertainty); and
  - f. Developing policies or mechanisms to share the financial risks that providers face in serving children with severe disabilities (reduces financial uncertainty for providers).

These tactics offer a menu of strategies available to supply-building districts, rather than a “how-to” guide. Schools and school districts are not businesses; furthermore, they may have different constraints or resources than other government agencies. To investigate whether and how the tactics are useful for managing the thin market in public education, the paper turns to examine ten cities that have experimented with autonomous schools in the hopes of improving academic performance.

## II. Research Design and Methods

Our research examined ten school districts in large cities experimenting with autonomous schools. Our sample included cities where a local governmental body (usually the school district) had formal authority to oversee and manage charter schools, and where local leaders expressed interest – at least at one point in time – in harnessing autonomous schools to improve academic performance. Table 1 shows the cities in the

study, the governmental body (and any alternate organizations) charged with school oversight, and the type of autonomous schools permitted by law.

**Table 1: Cases in Study**

<b>City</b>	<b>School Oversight Body</b>	<b>Types of Autonomous Schools</b>
Chicago	<ul style="list-style-type: none"> <li>Office of New Schools, Chicago Public Schools</li> </ul>	charter schools, contract schools, in-district semi-autonomous schools
New York City	<ul style="list-style-type: none"> <li>New York City Department of Education</li> </ul>	charter schools, contract schools, in-district semi-autonomous schools
Milwaukee	<ul style="list-style-type: none"> <li>Milwaukee Public Schools</li> <li>City of Milwaukee</li> <li>University of Wisconsin-Milwaukee</li> </ul>	charter schools
Washington, D.C.	<ul style="list-style-type: none"> <li>Public Charter School Board</li> </ul>	charter schools
New Orleans	<ul style="list-style-type: none"> <li>Louisiana Department of Education Recovery School District</li> <li>Orleans Parish School Board</li> </ul>	charter schools, in-district semi-autonomous schools
Indianapolis	<ul style="list-style-type: none"> <li>Office of the Mayor</li> </ul>	charter schools
Philadelphia	<ul style="list-style-type: none"> <li>Philadelphia School District</li> <li>School Reform Commission</li> </ul>	charter schools contract schools
Los Angeles	<ul style="list-style-type: none"> <li>Los Angeles Unified School District</li> </ul>	charter schools, in-district semi-autonomous schools
San Diego	<ul style="list-style-type: none"> <li>San Diego Unified School District</li> </ul>	charter schools, in-district semi-autonomous schools
Miami	<ul style="list-style-type: none"> <li>Miami-Dade Public Schools</li> </ul>	charter schools

On the assumption that buying smart is easier in markets where more prospective providers are available to enrich both the quality and supply of autonomous schools, we selected cities that varied in the amount of local talent available. We measured local talent in terms of a city’s overall population, the history of and capacity for innovation among local educators, and the number of community-based organizations with the potential to offer autonomous schools. Of the cities in our sample, six ranked high in terms of local talent (Chicago, Los Angeles, Miami, New York, San Diego, and Washington, DC); two ranked medium (Milwaukee, Philadelphia); and two ranked low (Indianapolis, New Orleans).

To gather data, we reviewed documents and interviewed district officials<sup>2</sup> as well as current and prospective providers in each city. Our document reviews and interviews sought to understand the contextual factors that helped or hindered new school creation, the strategies and tactics districts used to develop the supply of new schools, and how those strategies and tactics have changed over time. We then coded the data we gathered in order to identify whether, how, and why the districts we studied used the tactics in each category in the strategic framework presented above in Part I.

### III. Findings

The findings from our research appear in the tables that follow. Following the format of the framework from Part I, each table is organized around a category of tactics for building the supply or quality of autonomous schools.

#### A. Streamlining Regulations

As the framework in Part I above suggests, one way for districts to lower barriers to entry and transaction costs for providers of autonomous schools is to streamline and revise their own regulations. Table 2 summarizes which districts in our sample used tactics in this category. Not surprisingly, as row A shows, all the districts gave greater managerial and curricular **flexibility** to their autonomous schools than to their traditional, district-run schools; five also offered autonomy to some traditional schools (indicated by “+” signs). For example, New York, Chicago, San Diego and Los Angeles all defined a process by which successful schools could opt out of district-mandated professional programs, and in some cases, district-wide hiring policies.

Five cities in our sample reduced **restrictions on the growth** of autonomous schools by eliminating or finding ways around caps on the number of school charters that can be issued (row B1). For example, New York City officials recently succeeded in lobbying the state legislature to raise the cap on charter schools; Chicago, unable to achieve similar success in Illinois, has actively pursued policies to work around the cap by allowing the city’s original charter schools to open multiple campuses and inviting charter-like “contract schools.” Chicago’s contract schools are similar to charter schools, though contracts are direct agreements between the school district and the autonomous school, rather than agreements defined by state law.

**Reducing restrictions on innovation** by autonomous schools has proven difficult in practice. While all the districts in our sample granted curricular autonomy to charter schools, their academic and financial standards for renewing schools’ charters were relatively narrow, focusing almost exclusively on quantitative measures such as test scores. At least one charter authorizer expressed concern that standards based on test scores alone could diminish innovation. She argued that focusing evaluation standards overwhelmingly on the “adequate yearly progress” standards mandated by NCLB excessively limited schools’ flexibility in meeting the needs of more disadvantaged students. Several of the districts in our study did consider multiple test measures (e.g. both absolute score cutoffs and student growth or “value-added” targets). Nonetheless, heavy reliance on test data can limit curricular innovation by narrowly defining the outcomes for which schools are accountable.

Finally, as row C shows, most districts took steps to **stabilize and clarify their application and renewal criteria** for autonomous schools. For example, the National Association of Charter School Authorizers helped New Orleans’ Recovery School District revise their application requirements to emphasize four key components—a clear educational model, a detailed description of the curriculum, evidence of professional development, and a demographically and experientially diverse board. The clarity of these criteria lowered the uncertainty surrounding the application process for both district officials and prospective school operators.

**Table 2: Streamlining Regulations**

	Districts Using Tactic	Example of “Buying Smart”
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<p><b>A. Promote flexibility</b></p> <p>Allow greater flexibility in hiring, budgeting and curricular decisions</p>	<p>All in Study</p>	<p>Perceiving benefits to the site-based autonomy awarded to their autonomous schools, cities like Chicago, New York City and Los Angeles decided to extend greater curricular and budgetary autonomy to select district schools (called Performance Schools in Chicago, New Schools in New York and Pilot Schools in Los Angeles).</p>
<p><b>B1. Reduce restrictions on growth</b></p> <p>Eliminate caps or other rules that hinder school development</p>	<p>5</p> <p>Chicago, New York, D.C., New Orleans and Indianapolis</p>	<p>Often restrictions on growth are imposed at the state level. New York City successfully lobbied to have its cap raised; Chicago has worked around a state-imposed charter cap by creating an alternate system of “contract schools.”</p>
<p><b>B2. Reduce restrictions on innovation</b></p> <p>Craft criteria that evaluate schools in multiple non-traditional ways</p>	<p>None</p>	
<p><b>C. Clarify/stabilize regulations</b></p> <p>Create transparent and stable criteria for charter applications and renewals</p>	<p>8</p> <p>New Orleans, New York, Milwaukee, D.C., Chicago, Los Angeles, San Diego and Indianapolis</p>	<p>After Hurricane Katrina hit, the National Association of Charter School Authorizers helped the New Orleans Recovery district revise its selection criteria for charter schools. The new system emphasizes transparency to attract promising candidate from both inside and out of the state.</p>

This overview shows that all the districts in our study took at least modest steps to streamline their regulations. Chicago, Washington, D.C., Indianapolis, New Orleans, and New York took more substantial steps than the other districts in our sample. Through a combination of charter legislation at the state level and creative managerial practices at the district level, most have been able to create a transparent system that allows, at least in principal, for the supply of new schools to grow in response to demand. Some districts, such as Chicago and New York City, went a step further, providing avenues to deregulation for other schools in the district. Alternately called pilot schools, performance schools or simply “small schools,” these programs vary significantly in the level and kind of autonomy they provided. Many retain components of union teacher contracts such as salary scales; some offer waivers of work rule requirements and teacher tenure. Most offer at least some level of curricular autonomy, within the constraints of state-imposed standards. Nevertheless, some cities struggle with regulatory barriers beyond their control. Chicago, for example, faces a state-imposed cap on the number of charters it can grant. In Philadelphia, renewal of contract schools is up to a state-appointed School Reform Commission, whose performance criteria have been less than transparent. In the middle were cities like Los Angeles, San Diego and Miami, who had eliminated some regulations, often in conjunction with statutory guidelines from the state, but had not created their own infrastructure and/or procedures to attract new schools.

**B. Building Capacity**

We argued in Part I that many district managers have turned to autonomous schools not just to provide options for parents but also to improve academic performance. Because educating students is a complex

task and school quality is important for academic performance, districts may need to invest in the capacity of providers of autonomous schools in order to help them overcome the barriers to entry and production costs they face. Table 3 documents the tactics the school districts in our sample used to build capacity.

**Table 3: Building Capacity**

	Districts Using Tactic	Example of “Buying Smart”
<p><b>A. Outreach</b></p> <p>Issue RFPs and/or target providers for particular needs</p>	All in Study	Perceiving benefits to the site-based autonomy awarded to charter schools, cities like Chicago, New York City and Los Angeles decided to extend greater curricular and budgetary autonomy to select district schools.
<p><b>B. Application assistance</b></p> <p>Offer basic startup support (money or information)</p>	<p>7<sup>1</sup></p> <p>Chicago, New York, Milwaukee, New Orleans, Miami, Indianapolis, and Philadelphia.</p>	Chicago’s district worked with the Renaissance 2010 Fund, a civic organization, to provide a series of workshops for prospective school founders. The district also provided formative feedback on applications and allowed applicants to “revise and resubmit” their applications along the way.
<p><b>C. Ongoing support</b></p> <p>Offer technical assistance to schools in operation.</p>	<p>1</p> <p>Washington, D.C.</p>	D.C.’s Public Charter School Board offered a range of workshops and clinics on topics ranging from school governance to curricular development.
<p><b>D1. Incubate new ideas</b></p> <p>Provide planning resources or systems to develop promising approaches.</p>	<p>4</p> <p>Chicago, New York, New Orleans and Indianapolis</p>	Indianapolis has taken a systemic approach to the development and diffusion of new ideas. The Mayor’s office established a private partner organization, The Mind Trust, which awards competitive two-year fellowships to “education entrepreneurs” who want to research and develop new approaches.
<p><b>D2. Share Knowledge</b></p> <p>Create informal or formal systems so schools can learn from one another</p>	<p>3<sup>1</sup></p> <p>New York, D.C. and New Orleans</p>	New York’s Center for Charter Excellence facilitates information sharing between established charter schools and new schools in need of advice on curriculum, governance or managerial matters.

As row A indicates, most districts took steps to build system capacity by **reaching out** to would-be autonomous schools, whether through general open information sessions (e.g., Philadelphia) or more precise RFPs (e.g., Chicago). As row B shows, most also provided basic levels of **startup assistance**, either directly or in conjunction with third-party organizations like charter associations. Startup assistance varied

<sup>1</sup> Local charter associations provided application assistance in D.C., Los Angeles and San Diego and oversaw knowledge-sharing systems in Philadelphia, Los Angeles, and Miami.

both in scope and in intensity. At the most basic level, most cities offered general application guidance and answered questions from applicants. Several cities also offered workshops to help prospective school founders develop sound financial plans and management structures. Individualized guidance (such as reviewing draft applications), when it was offered, generally came from third-party organizations (see Destler 2008). Beyond basic application assistance, most districts eschewed offering **ongoing support** to schools in operation, as the dearth of check marks in row C shows. Only one city, Washington, DC, provided any substantive support of this kind, offering leadership training, governing board referrals, and, in a few cases, strategic planning assistance. To **incubate promising new ideas**, four cities offered planning grants or office space to particularly strong applicants (see row D1). Finally, as seen in row D2, three cities—New York, D.C. and New Orleans— have begun to use formal or informal systems for **sharing knowledge** between schools. School districts are not the only source of support for autonomous schools, however. In some cities in our sample, alternate organizations—charter school associations or other non-profits—played important capacity-building roles independent of the school district.<sup>3</sup>

When it came to building capacity, we found significant variation in our sample. Just over half of our districts engaged in multiple tactics to boost provider capacity, while a significant minority—Philadelphia, Los Angeles, San Diego and Miami—have taken a more hands-off approach. These data on capacity building need to be understood in the context of time: When the districts in our study first launched their efforts to attract providers of autonomous schools, none paid attention to capacity. Our interviews suggest that this decision stemmed from an implicit belief that the traditional public monopoly in the provision of schooling masked a pent-up and ready supply of quality providers. To boost the quantity of quality schools, most district officials assumed, they simply had to open the gate. Over time, however, recognition of thin market conditions led many districts to consider capacity issues, albeit somewhat unevenly.

Even after they recognized the capacity of the providers of autonomous schools as a problem worthy of intervention, districts' investments in capacity encountered four obstacles:

1. The districts themselves faced capacity constraints. Given limited staff and funding, some districts, such as Miami and San Diego, chose to focus their resources on school evaluation rather than quality improvement.
2. Even in districts that displayed active strategies to build the capacity of autonomous schools, such as New York and New Orleans, a tension has persisted between improving the school system at large and helping autonomous schools. Many district personnel continue to view the success of autonomous schools – even those authorized by the district itself – as a sign of the district's failings. This perception is reinforced by media comparisons of charter schools and district schools. Hence when trade-offs arise between directing resources and attention toward traditional district-run schools, on the one hand, and autonomous schools, on the other, many district staff favor the former over the latter.
3. Some of the districts in our study expressed a philosophical objection to intervening too heavily in the market for autonomous schools, even in a thin market. The more districts intervened in individual schools, the harder it was to hold schools accountable for their own performance. This concern was expressed directly by officials in Washington, D.C. and Chicago. In D.C., officials sought to work around this dilemma by forging close ties with charter associations and other third-party providers.
4. Capacity building, like other district policies, is subject to political pressures. Two districts that we studied—San Diego and Miami—engaged in substantial efforts to build the capacity of autonomous schools for a time, until leadership changes at the school board and charter school office shifted priorities elsewhere.

### C. Rewarding Quality

In addition to streamlining regulations and building capacity, smart buyers create incentives for vendors to deliver services or products that meet threshold quality standards. As we argued in Part I, district policies that reward quality can increase demand and reduce uncertainty for providers of autonomous schools. Table 4 demonstrates that some tactics for rewarding quality were much more common than others in the districts in our sample.

**Table 4: Rewarding Quality**

	Districts Using Tactic	Example of “Buying Smart”
<b>A. Select for quality</b> Choose providers with proven capacity or community knowledge	All in Study	Local knowledge is particularly important in Chicago, where community members sit on the evaluation team and help make recommendations about which schools should open.
<b>B. Seek out common values</b> Consider compatible organizational cultures when awarding contracts	All in Study	Some districts further emphasized the importance of culture and a positive working relationship by interviewing prospective school principals as well as the founding team.
<b>C. Bonus Funds</b> Offer additional funding for high achievement on outcomes	None	
<b>D. Reward landmark innovations</b> Offer proven providers premier facilities or chance to replicate	5 Chicago, New York, D.C., New Orleans and Philadelphia	Successful providers, like the Cesar Chavez School in Washington D.C., and the Noble Street Charter in Chicago, were rewarded by their host districts with the opportunity to replicate locally.
<b>E1. Publicize general information about school quality</b> Publish reports on school performance	All in Study	All the districts provided at least basic information about charter schools, in part because NCLB requires school report cards.
<b>E2. Publicize targeted information about school quality</b> Provide targeted resources to help parents choose schools.	4 New York, New Orleans, Miami and Indianapolis	In Indianapolis, the Mayor’s office has a searchable index that lets parents find schools according to criteria that they consider important.

As rows A and B of Table 4 show, the application procedures and screening criteria of the districts in our sample universally emphasized quality: All the districts **selected for quality** by considering prospective providers' experience or community knowledge when they reviewed applications. Most cities defined quality broadly, seeking out providers capable of learning, practicing transparency, and improving school performance. All our districts also favored providers with cultures compatible with their own educational **values**. One district official, for example, looked for providers that were "passionately indignant" about redressing the poor quality of education that impoverished children often receive. Four districts—Chicago, New York, New Orleans and Indianapolis—further emphasized school culture and alignment between espoused mission and concrete practice by interviewing prospective principals as well as school founders.

Other approaches to rewarding quality appeared less consistently in our sample. No districts offered **bonus funds** for providers that met or exceeded outcome standards, as noted in row C. Only half **rewarded landmark innovations**, by giving proven high-quality providers assistance with facilities or opportunities to replicate schools and operate at scale (row D). In Chicago and Washington, D.C., successful schools such as the Noble Street Charter and Cesar Chavez schools have replicated locally. In Philadelphia, contract schools were given the opportunity to open multiple schools from the beginning. And in New York and Philadelphia, where space is at a premium, there is some evidence that proven providers have an advantage when facilities become available.

As rows E1 and E2 highlight, districts adopted tactics to boost demand for quality in the market unevenly. While all the cities in our sample **published general information about school quality** in the form of annual reports on charter performance (often mandated by NCLB and/or state charter law), only a few **targeted specific information to parents**. For example, both New Orleans and Indianapolis produced school guides for parents that included both suggestions about how to select schools and detailed information about each school's mission, requirements, and academic results. Miami received a federal grant in part for a program that counsels parents to make more informed choices; however, the program has yet to be fully implemented.

Taken together, these data suggest that districts do not reward quality as extensively as our framework suggests they might. One possible reason is the political costs to districts of doing so. The four cities in our sample with the most performance incentives in their contracts with autonomous schools—Chicago, New York City, New Orleans and Philadelphia—all faced public criticism and resistance both from teachers and from the public at large. Two factors made adopting performance incentives particularly challenging for school districts: disputes over the definition of quality, and political norms that favored equity and opposed "privatization" of public services.

1. Lack of consensus about exactly what constitutes quality made rewarding it difficult. For example, though most districts sought providers with both prior experience and community ties, these two "quality" measures often conflicted. Charter management organizations such as the Knowledge is Power Program (KIPP) or Green Dot Schools tended to bring extensive experience in other cities, but lacked knowledge of specific community leaders and needs. In contrast, many local applicants were long on community ties and short on experience. Districts had to weigh these two qualities against one another; the ultimate value of one or another often depended, to a degree, on the level of indigenous local talent. Cities like Washington, D.C., and Chicago could draw from a more highly-educated, civic-minded base of potential local providers than cities like Milwaukee or New Orleans; perhaps as a result, they placed a greater emphasis on community ties than on large-scale experience.<sup>4</sup> Similarly, the limited extent of rewards for landmark reforms may have reflected the relative youth of the field. Other than a couple high-profile national names (e.g. KIPP and Green Dot), the field may not yet know who the landmark innovators are.

2. Furthermore, differential incentives for quality such as bonus funds or landmark rewards for autonomous schools risked political opposition. In general, differentiated payments for providers that meet quality standards may run counter to norms of equity in public education, particularly if bonus funds go to schools with more affluent students. More specifically, citizens already wary of schools run by alternative providers cried foul when public officials appeared to offer “sweetheart deals” to private organizations. Philadelphia encountered this reaction when the district offered compensatory pay to providers that took over schools with particularly low student achievement.

#### **D. Reducing Risks**

By reducing the financial risks that prospective providers of autonomous face, districts can decrease uncertainty, barriers to entry, and production costs. Table 5 shows the extent to which the districts in our sample created new structures or altered their practices to reduce risk. As row A indicates, all but one district **publicized their willingness to contract** for the provision of autonomous schools. Philadelphia, the exception, was initially an active solicitor of autonomous schools early on, but pulled back in part due to financial constraints. The district invited charter school applications every year but was unable to fund the schools it approved on a consistent basis.

Money is a severe constraint for many districts: As row B demonstrates, only half the cities in our study offered **attractive funding** to prospective providers.<sup>5</sup> Beyond per-pupil allotments, many of our informants cited the cost of facilities as a significant barrier to entry for prospective providers. To respond to this challenge, Chicago and New York City offered facility-sharing arrangements to some prospective providers.

Half of the districts **publicized autonomous schools to parents** (see row C). As row E shows, all the districts **redesigned their contracts** in response to feedback from potential and actual school providers. For example, Washington D.C.’s Charter School Board has sought to make its evaluation criteria flexible so that schools for at-risk students, such as the Maya Angelou School, are not penalized for working with challenging students. Other risk-reducing tactics in our framework—such as **subsidizing inputs** (row D) and **sharing the financial uncertainties of serving children with special needs** (row F)—did not appear in our sample.

**Table 5: Reducing Risks**

	Districts Using Tactic	Example of “Buying Smart”
<p><b>A. Publicize willingness to contract</b></p> <p>Offer contracts and funding for new alternative schools</p>	<p>9</p> <p>Chicago, New York, Milwaukee, D.C., New Orleans, Indianapolis, Los Angeles, San Diego and Miami</p>	<p>Virtually all the districts in our study showed they were “open for business” by awarding and funding new charter schools every year.</p>
<p><b>B. Provide attractive funding</b></p> <p>Provide an adequate combination of per-pupil funds and facilities</p>	<p>4</p> <p>New York, Milwaukee, D.C. and New Orleans</p>	<p>Washington D.C. arguably has the most favorable charter school law in the country. Established by Congress, D.C. offers high levels of per-pupil funding, low charter terms (so that schools can qualify for real estate loans), and facilities funding as well.</p>
<p><b>C. Publicize schools to parents</b></p> <p>Advertise schools to parents and media to boost demand</p>	<p>5</p> <p>Chicago, New York, Milwaukee, New Orleans, and Indianapolis</p>	<p>High profile initiatives such as Renaissance 2010 in Chicago and ___ in New York have placed autonomous schools at the center of systemic reform. As part of that process, both Chicago and New York have publicly celebrated some of their landmark performers.</p>
<p><b>D. Regulate/ subsidize input prices</b></p> <p>Standardize costs and provide assistance for key school inputs</p>	<p>None</p>	
<p><b>E. Redesign contract and policies</b></p> <p>Revise contract and other policies based on stakeholder feedback.</p>	<p>All in Study</p>	<p>Washington D.C. has sought to make its evaluation criteria flexible so that schools for at-risk students are not penalized for working with challenging students.</p>
<p><b>F. Share risks of serving key student populations</b></p> <p>Help schools pool resources to educate students with severe disabilities</p>	<p>None</p>	

On one hand, then, some districts in our sample took key steps to manage the risks that contract instability and regulatory requirements create for providers of autonomous schools. The districts that adopted the most tactics in this category—New York, Milwaukee, D.C. and New Orleans—provided ample funding and demonstrated support for charter schools through both their policies and their public rhetoric, sending the message to potential providers that they are reliable partners.

On the other hand, unstable funding and inconsistent political support from the district created risky environments for providers of autonomous schools in other cities, such as San Diego and Philadelphia. The risk took several forms: The need for adequate facilities was one of the most significant risks that potential providers faced, and proved one of the most challenging for districts to address. Limited space-sharing agreements in several cities in our sample faced resistance from traditional, district-run schools already housed in existing buildings. Financial constraints also restricted the capacity of many districts to help providers manage risk. Other districts that sought to provide additional funding for risk reduction such as Chicago, were foiled by state funding regulations.

Finally, some risk-reduction tactics in our framework—standardizing input prices and sharing risks related to serving special student populations—were absent even in the most ambitious districts. One reason may derive from the norms of the charter school movement itself. Schools that pride themselves on their autonomy are unlikely to accept standardized prices or services, even at the expense of some reduction in risk.

#### **IV. Discussion**

Our study identified a number of tactics that pioneering school districts are using to reshape prospective providers' willingness and abilities to supply autonomous schools that meet the districts' standards of quality. Table 6 shows how the districts compared in terms of the tactics they chose to employ. The efforts of the districts in our sample to build the supply and enhance the quality of autonomous schools fell along a continuum: New Orleans was the most active; Philadelphia was the least active. Certain tactics, such as the promotion of flexibility, are an integral part of any charter school reform, and thus were adopted universally. On the other end of the spectrum, one quality-improvement tactic—the provision of ongoing support—was only adopted by a single city—Washington, D.C., and a few tactics appeared in none of the cities in our sample. Many other tactics, such as sharing knowledge, rewarding landmark innovations, and incubating new ideas, were adopted by approximately half of the cities in our sample.

Based on these findings, this section highlights patterns, challenges, and opportunities regarding districts' potential to act as smart buyers of autonomous schools, given the limited availability and quality of autonomous schools in most local education markets.

**Table 6: Overall Use of Tactics to Increase the Supply and Quality of Alternative Schools**

		Nola	NYC	Chi	D.C.	Indy	Mil	Mia	L.A.	SanD	Phi I
Streamlining Regulations	Promote autonomy	✓+	✓+	✓+	✓	✓	✓	✓	✓+	✓+	✓
	Reduce growth restrictions	✓	✓	✓	✓	✓					
	Reduce restrictions on innovation										
	Clarify/stabilize regulations	✓	✓	✓	✓	✓	✓		✓	✓	
Building Capacity	Outreach	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Application assistance	✓	✓	✓	*	✓	✓	✓	*	*	✓
	Ongoing support				✓						
	Incubate new ideas	✓	✓	✓		✓					
	Share knowledge	✓	✓		✓		*	*	*		*
Rewarding Quality	Select for quality	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Seek out common values	✓+	✓+	✓+	✓	✓+	✓	✓	✓	✓	✓
	Bonus Funds										
	Reward landmark innovations	✓	✓	✓	✓						✓
	Publicize basic quality information	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Provide extensive quality information	✓	✓			✓		✓			
Reducing Risks	Publicize willingness to contract	✓	✓	✓	✓	✓	✓	✓	✓	✓	
	Provide attractive funding	✓	✓		✓		✓				
	Publicize schools to parents	✓	✓	✓		✓	✓				
	Regulate/ subsidize input prices										
	Redesign contract and policies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
	Share risks of serving key student populations										
	<b>Total Score (out of 21)</b>	<b>17</b>	<b>17</b>	<b>14</b>	<b>13.5</b>	<b>13.5</b>	<b>11</b>	<b>9</b>	<b>8.5</b>	<b>8.5</b>	<b>8</b>



*\*Tactic performed by a third-party organization*

## A. District Behavior Varied over Time

The distribution of overall activity in Table 6 masks trends over time in our sites. Our research revealed that districts' trajectories of smart buying activities clustered into three broad types: increasingly ambitious initiatives, passive initiatives, and counter initiatives.

Five cities in our sample—New Orleans, New York, Chicago, Indianapolis, and Washington, DC—engaged in **increasingly ambitious initiatives** to create new schools, find and nurture new providers, and enhance the quality of existing autonomous schools. These cities share three factors that likely influenced their trajectories: institutional structure, market demand and policy learning.

First, in none of these cities were autonomous schools overseen solely by a school district in the traditional sense. New York, Chicago, and Indianapolis all have mayors who have played an active role in school reform broadly and charter schools more specifically. In Indianapolis, the Mayor's office, not the school board, is the statutory authorizer of charter schools. In Washington, D.C., charter school oversight is provided by an independent public board, and in New Orleans, most schools are overseen by the state. Non-traditional oversight may provide these five cities' initiatives extra momentum and some cushion against political resistance.

In virtually all of these cities, furthermore, demand for new schools is quite high, even relative to other cities in our sample. New Orleans, whose already-struggling schools were destroyed by Hurricane Katrina, is the most dramatic example of urgent demand. In New York, Chicago and Washington, D.C., public consensus that existing schools are failing may have increased demand, thus providing support to both policymakers and providers of autonomous schools. As one charter school advocate noted, a "really bad school system" and "desperate parents" can be significant drivers of the development of autonomous schools.

Finally, some growth in supply building resulted from learning by districts. As we noted before, many districts initially paid little attention to school recruitment or quality, assuming that an ample number of quality providers would be willing and ready to serve. As districts with high demand found that growth of autonomous schools was slow and quality uneven, some engaged in direct efforts to recruit new providers and all tightened their initial selection criteria.

The remaining cities in our sample all initially undertook smart buying efforts, but then either gradually drifted toward more **passive initiatives** over time (Milwaukee, Philadelphia), or went through changes in leadership and administration that led to **counter-initiatives** to limit the growth of new schools (Los Angeles, Miami, and San Diego). For example, in Philadelphia, new school growth was actively promoted in the early 2000s—the city not only authorized charter schools, but (under the direction of a state reform committee) invited management companies to take over multiple schools that had had chronic underperformance. Public resistance towards many of these new schools, leadership changes at the district level and general financial troubles have led the city to scale back its efforts, choosing not to turn any more schools over to private providers and only authorizing a limited number of additional charter schools. The story is similar in the other cities, with the possible exception of Milwaukee, where strong growth of charter schools and voucher schools may have satiated existing demand.

As noted in the research design section, the cities in our study varied in their level of human capital. While this variation did influence the sources of supply tapped by each district (for

example, whether they sought out nationally-recognized models or attempted to cultivate local providers), local talent did not appear to dictate the overall number of supply-building tactics used by a city. Among the most active cities in our study were both cities with high levels of indigenous human capital, such as New York City and Chicago, and cities with limited human capital, such as New Orleans. Similarly, less active districts including both those with high human capital (Los Angeles) and more limited indigenous talent (Philadelphia) This suggests that perceived public demand, and political will to address that demand, were more important than supply in driving a city’s response. One public official in Chicago, for example, noted that press, by focusing attention on the school district’s most egregious failings, had paved the way for the city’s more dramatic reforms.

## B. Patterns and Challenges in the Adoption of Supply-Building Tactics

Table 7 summarizes the extent to which the cities used the tactics in each category. Frequencies are reported both by city and overall.

**Table 7: Summary of Tactics used by Each District**

	Nola	NYC	Chi	DC	Indy	Mil	Mia	L.A.	SanD	Phil	Overall Avg	%
<b>Streamlining Regulations</b>	3.5/4	3.5/4	3.5/4	3/4	3/4	2/4	1/4	2.5/4	2.5/4	1/4	2.6 out of 4	65%
<b>Building Capacity</b>	4/5	4/5	3/5	3/5	3/5	3/5	2/5	1/5	1/5	2/5	2.6 out of 5	52%
<b>Rewarding Quality</b>	5.5/6	5.5/6	4.5/6	4/6	4.5/6	3/6	4/6	3/6	3/6	4/6	4 out of 6	67%
<b>Reducing Risks</b>	4/6	4/6	3/6	3.5/6	3/6	4/6	2/6	2/6	2/6	1/6	3 out of 6	50%

This summary reveals two interesting points. First, in their work with autonomous schools, districts in our sample were more likely to adopt strategies to streamline regulations and reward qualities and reward quality than to build capacity and reward risk. On average, the districts used approximately two thirds of the tactics in the former two categories, and only half of the tactics to build capacity and reward risk.<sup>6</sup> Further inquiry is necessary to discover whether this pattern stems from the relative ease of adopting certain tactics to reward quality and reduce risk, the relative difficulty of adopting certain regulatory streamlining and capacity-building tactics, or our particular approach to measuring districts’ initiatives. One possibility is that streamlined regulations and the rewarding of quality are more closely aligned with the original principles behind charter school legislation and the norms of charter school overseers. For example, beyond the financial considerations, many authorizers resist investments in capacity or risk reduction because they believe such investments undermine their ability to close schools or issue performance sanctions when necessary.

Next, there was greater variation between districts in the streamlining of regulations and the building of capacity than there was in the other two categories. The “passive” and “counter-

initiative” districts adopted nearly as many tactics to reward quality or reduce risk as did the “increasingly ambitious” districts. Further inquiry is necessary to discover whether this pattern stems from the relative ease of adopting certain tactics to reward quality and reduce risk, the relative difficulty of adopting certain regulatory streamlining and capacity-building tactics, or our particular approach to measuring and analyzing districts’ initiatives.

Beyond these distinctions, similarities across the initiatives we studied suggest three challenges to districts’ current efforts to increase the supply and quality of autonomous schools. First, school **choice alone does not generate a supply** of high-quality autonomous schools. As we noted above, a number of the districts in our sample announced they were open to working with providers of autonomous schools only to discover that few providers were interested in taking up their offers. This finding suggests that district officials who find themselves “stuck” or “stumped” may find at least some of the tactics in our strategic framework helpful to boost the supply and quality of autonomous schools.

Second, while district officials may find our tactics helpful, **smart buying comes at a cost to the district** itself: Districts must develop the capacity to carry out the tactics in our list. At a minimum, the essential elements of the capacity to buy smart in thin markets include:

- staff expertise and judgment in assessing and working with providers of autonomous schools and in negotiating legal statutes and political pressures related to autonomous schools;
- clear and comprehensive application and renewal criteria and processes; and
- financial resources to assist providers with facilities, start-up costs, and risk management.

Regardless of the particulars, our findings confirm that districts that manage the market incur transaction costs of their own (Brown, Potoski, and Van Slyke 2006: 326).

Third, districts may face a **trade-off between building supply and improving quality**: Tactics that enhance supply—especially those that streamline regulations, build capacity, or reduce risk—may undermine district efforts to uphold quality standards. Likewise, key tactics that enhance quality (e.g., selecting for quality and common values) will limit the supply of prospective providers that meet districts’ threshold standards. The difficulties that our districts faced in securing agreement on standards of quality—in particular, the relative importance of familiarity with local community issues and proven experience in other cities—further complicates this challenge. Under these conditions, differential rewards for quality such as bonus funds and rewards for landmark innovations are politically unsustainable. To buy smart in thin markets, therefore, school districts must take mindful steps to increase both the supply and the quality of autonomous schools simultaneously. This balancing act requires careful recruitment and screening to net more capable suppliers in the first place, as well as technical assistance to increase suppliers’ capabilities.

### C. Opportunities

Along with these challenges, our findings reveal opportunities for districts that want to buy smart in thin markets. Here we identify two in particular.

First, if the supply of autonomous schools grows more robust over time, districts might consider modifying or abandoning key smart buying tactics in order to emphasize quality enhancement and to avoid over-subsidizing providers. Should these circumstances materialize, districts can pare back the use of certain capacity-building and risk-reduction tactics in particular, in order to **customize the support they offer and the risk they share based on providers’ experiences and capabilities** at different points in time (Goldsmith and Eggers 2004: 140-2). In terms of customizing support, when districts first undertake to increase the supply and quality of

autonomous schools, they might stress incubation of new ideas over the sharing of best practices, precisely because new ideas are likely in short supply, and best practices unknown. If practical knowledge and agreement on what constitutes quality in autonomous schools develop in light of local experiences, districts may shift tactics toward sharing proven practices and rewarding landmark innovators. To customize risk, districts might consider helping providers manage a broader range of risks than they currently do, such as those related to serving children with severe disabilities.

Second, some obstacles that the districts in our study encountered present implicit opportunities to **adapt smart buying tactics to suit local contexts**. The political opposition to chartering and “privatized schools” that limited some districts’ initiatives, in particular, may be surmountable or alterable in the medium- or long-term. To overcome union resistance and legal limits on the number of authorized charter schools, for example, cities such as Boston, Chicago, and New York created semi-autonomous schools (often called “performance schools” or “pilot schools”) that enjoy curricular and managerial autonomy while retaining unionized teachers. Our interviews also suggested that the public promotion of charter schools in Milwaukee and Indianapolis has rendered them seem less foreign—and potentially less objectionable—over time, as public norms have shifted.

## V. Conclusion

As school districts face pressures from parents and from state and federal officials to find educational options for children seeking to escape failing schools, they must identify ways to overcome the problems associated with the thin market in autonomous schools. The strategic framework in this paper distinguishes four categories of tactics that may help districts cultivate the supply and quality of autonomous schools: streamlining regulations, building capacity, rewarding quality, and reducing risks. The individual tactics themselves derive from a mix of economic theory and recent research on charter school development.

Our research on ten school districts that pioneered efforts to attract providers of autonomous schools demonstrates that districts are in fact using many of the tactics in the framework, though some tactics remain under-utilized for various reasons. Our findings also show that some districts are using more tactics than other districts. On the whole, the districts using more tactics face particularly dire problems in the supply and quality of their traditional district-run schools (e.g., Chicago, New Orleans), or benefit from especially forceful leadership (e.g., New York). Most of the districts using fewer tactics overall undertook initial efforts to build the supply and quality of autonomous schools that later declined due to leadership changes, political resistance, or market obstacles.

Capacity, both at the district level and at the school level, is a clear constraint to the development of autonomous schools. Our data indicate that many districts clearly grasp the challenges surrounding the capacity of autonomous schools, and have adopted several tactics, such as providing application support and offering school facilities or other amenities, in order to reduce the costs providers face in planning and starting new schools. In many cases, however, a district’s ability to “buy smart” and support autonomous schools was limited by its own capacity.

Many of the cities we studied face ongoing challenges related to finances, politics, and norms. For example, districts with high levels of per-pupil funding and the ability to offer amenities or reduce risk appear to have an edge when it comes to developing new school providers locally or recruiting proven providers from other areas. Well resourced districts are also better equipped to

invest up front in the quality and success of new providers, whether by offering substantive advice and feedback during the application phase or by developing resources to help parents choose schools, thus making the demand market more robust and more discriminating when it comes to school quality. Political constraints took the form of public suspicion of charter schools as the "privatization of education," and normative difficulties stemmed largely from the assumptions and principles of the charter school movement (e.g. districts' hesitance to build schools' capacity). These sorts of difficulties imply that districts and public leaders that want to make the most of autonomous schools need to devote significant financial and political capital to their efforts.

Finally, flexibility may be an asset when it comes to the design of oversight and the evaluation of autonomous schools. Several of the most active districts offered providers multiple routes to autonomy, allowing not just charter schools but also contract schools and semi-autonomous schools. To the extent that a tradeoff exists between reducing risk and preserving organizational autonomy, districts that enable providers to choose one of multiple bundles of freedoms and services may be able to expand their pool of potential suppliers. On the back end, preserving flexibility in renewal practices, as Washington D.C. has sought to do, can prove critical to bringing in autonomous schools willing to work with nontraditional students.

One limitation of this study is the lack of objective outcome measures to assess whether the strategies used by districts have in fact resulted in increased supply. At this point, our evidence of a tactic's usefulness is based on self-assessments from officials and on the extent of diffusion across districts.

Future research therefore might build and improve on this study in several ways. Additional study of districts' efforts to develop and charter autonomous schools can investigate whether the thin market problems of provider supply and quality are surmountable over time in the education field, and—if so—whether some tactics are more effective than others at combating them. Research could also explore whether the tactics in our framework for building the supply and quality of providers offer leverage for government purchasers in other policy domains characterized by thin markets, such as social services.

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<sup>1</sup> The specific tactics (though not the categories) listed here draw in part on Behn and Kant (1999); Goldsmith and Eggers (2004); Brown and Potoski (2004). We recognize that some of the tactics logically and empirically fall under more than one category; for the sake of parsimony, we list each tactic under the category that it addresses most directly.

<sup>2</sup> Our informants in Washington, D.C., came from The Public Charter School Board (PCSB), a public body that oversees charter schools in the District, and is distinct from the D.C. Public School District and Board of Education. Public Charter School Board members are nominated by the Secretary of Education and selected by the Mayor. The Board of Education absolved itself of all charter school oversight in 2006, voluntarily transferring authority to the PCSB.

<sup>3</sup> Some districts, like New York City, carefully cultivated partnerships with third-party organizations to build school capacity. In other cases, third-party organizations acted largely on their own. For example, both the California Charter Association, and Friends of Choice in Urban Schools, a Washington, D.C.-based organization, provided substantive application support independent of the district. For more information, see Destler (2008).

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<sup>4</sup> While we did not find evidence that districts explicitly rebuffed overtures from nationally recognized providers, some, like Chicago, noted that the strong emphasis on community input in the selection process had created a barrier to entry for some national providers.

<sup>5</sup> We set a low bar here, deeming funding in a district “attractive” if neither district officials nor school operators identified funding levels as a hindrance to new-school development.

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<sup>6</sup> Many districts did seek to build capacity and reduce risks within their own traditional, district-run schools, but few extended these services to autonomous schools.

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