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THE EMERGENCE AND GROWTH OF FOR-PROFIT INDEPENDENT SCHOOLS IN THE SWEDISH NATION-WIDE VOUCHER SYSTEM

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Executive Summary

In 1992, Sweden introduced a new and universal voucher system at both the compulsory and the upper-secondary level with the explicit goal of fostering and ensuring greater pluralism in education delivery by stimulating new school entrants. A key characteristic of the Swedish system is there are few restrictions on who is allowed to own and manage a school. For example, no prior experience in education is required and for-profit, incorporated, schools are fully accepted. Prior to approval, however, municipalities are allowed to voice concerns regarding the impact of additional school entry. Yet, in practice, the concerns raised by municipalities appear to have had a limited impact on the approval rate of new schools.

At the end of the 20th century, the number of students enrolled in independent schools (*friskolor*) remained relatively modest (approximately 5 percent), and most new entrants on the Swedish school market were small-scale nonprofits controlled by nonprofit associations or foundations operating a single school. But since the early 2000s, the Swedish school landscape has changed character. First, the number of students enrolling in independent schools started to steadily climb. Second, an increasing number of for-profit schools had begun to enter the Swedish school sector.

Today, for-profit entities dominate the Swedish independent school landscape, including large multi-school corporations. This report seeks to explore some of the reasons Sweden developed an independent school sector dominated by for-profit schools by drawing on prior scholarship and reports as well interview material from Swedish school entrepreneurs, researchers, and prior public representatives that helped create and implement the Swedish voucher program.

This report illuminates there is no single, or simple, factor explaining why Sweden has so many for-profit educational providers. Instead, we point to a mosaic of features that, over the past 30 years, incentivized and shaped the evolution of the independent school sector.

Specifically, the report outlines six key features:

1. The universality of the Swedish voucher system

2. Funding parity between public and private school providers

3. A supportive institutional environment for for-profit school entrepreneurs

4. The (initial) public perception and opposition to the voucher program

5. The nature of the pre-existing independent school landscape in Sweden

6. The drivers and choices made by Swedish school entrepreneurs

When taken together, the above factors helped create and foster an institutional environment presenting multiple incentives for for-profit school entrepreneurs to act, including the opportunity for substantial scale, something that is noticeably different from the school choice milieu in other countries e.g., the United States. As observed by William Baumol,[i] the supply of entrepreneurial agents is more or less constant, instead it is the nature of the institutions in which these agents are embedded that end up being the essential determinants of the type of behavior undertaken by entrepreneurs as well as the outcomes of their entrepreneurial actions. Likewise, scholars have long noted how institutional forces are deeply potent when new forms of organization are emerging,[ii] including informal institutions such as values and norms.

The public perception and opinions regarding school vouchers and for-profit schools appear to have shifted in Sweden over the past decade to become much more critical and skeptical. For example, today there is a much more aminated public debate focusing on the role of independent schools when it comes to critical social issues such as inequality and segregation, and the role of vouchers, and increased school competition, have been introduced as a main explanation for grade inflation. Moreover, the significant growth of for-profit school over the past two decades, and the financial success of many for-profit school entrepreneurs, have fueled arguments and disputes regarding the function and appropriateness of profit-making in welfare service provision. However, when the voucher program was first implemented, it was during a time when the appetite for change and quest for greater diversity among educational providers appears to have been elevated.

[i] William Baumol (1990), Entrepreneurship: Productive, Unproductive, and Destructive, *The Journal of Political Economy 98* (5), pp. 893–921.
[ii] Howard Aldrich (1990), Using an Ecological Perspective to Study Organizational Founding Rates, *Entrepreneurship Theory and Practice 14* (3), pp. 7–24.

Introduction

Sweden and the United States were both early movers in the school choice movement. In the early 1990s a parental choice initiative was launched in Milwaukee Wisconsin, representing the first school voucher program in the United States. In Sweden, a country-wide school voucher program was created and implemented around the same time.

One of the original and principal ideas of a voucher-based school system is to encourage and ensure greater pluralism in education delivery. Enhancing plurality can, to a certain extent, be accomplished by reforming and/or reorganizing already existing organizations. However, greater plurality can also be driven by new entrants, that is, school entrepreneurs founding and building new schools from scratch. This education entrepreneurship component of school reform was heavily advocated by scholars and policymakers in both Sweden and the United States, who envisioned and amplified a pluralistic school market consisting of a variety of educational ventures, including business enterprises, charitable organizations, cooperatives, associations and social enterprises. Consider, for example, the following statement from Beatrice Ask (Svenska Regeringen 1992), who served as the Minister for Schools and Adult Education in Sweden when the voucher program was implemented:

> *The new independent schools will be an important complement to the public educational system. Several of the existing [Swedish] independent schools were initially created with a particular pedagogical or confessional focus. The current educational reform is highly likely to increase the number of schools with these types of foci. But I also hope that the reform will lead to the establishment development of schools with different profiles. This would include parent-based cooperatives, particular curricular foci, or rural schools facing the risk of closure that would receive another chance under a new management.*

Similarly, commenting on the type of schools that would emerge under a voucher plan, Milton and Rose Friedman (1980) foresaw and posited that some new schools would likely be established in the nonprofit sector and others in the for-profit sector, even though they also admit that there is (p. 169) "[…] no way of predicting the ultimate composition of the school industry." Looking back on nearly three decades of data we are now in a position to make some robust and noteworthy observations about the evolution of the two voucher programs. The first is that both the Swedish program and the Milwaukee program have been characterized by a considerable number of new entrants since the voucher policies were first launched. Second, whereas new schools in the Milwaukee program almost exclusively consist of new nonprofit organizations, new schools in the Swedish program (especially after the year 2000) have predominantly been new for-profit businesses (Henrekson et al. 2020). Furthermore, a number of the for-

profit start-up ventures in Sweden have experienced tremendous growth, and scaled into multimillion-dollar conglomerates (Skolverket 2014). There are certainly examples of new nonprofit schools in the Swedish context, and there has long existed for-profit enterprises linked to education in the United States, for example, at the postsecondary level or as providers of various supplementary goods and services in support of schools and their programs. Still, it is incontestable that it is much more common for new for-profit entrants in Sweden to be involved directly in the provision of K-12 education compared to the United States.

The purpose of this report is twofold. First, to provide a historical overview and landscape of the entry of private for-profit voucher schools in Sweden since the implementation of the voucher program in the early 1990s. The report also describes and exemplifies some of the for-profit schools that have been able to scale up significantly over the past twenty years. For this landscape segment, we draw on nationally representative register data on independent schools (friskolor) in Sweden from the Swedish National Agency for Education. We will also analyze archival material including propositions, reports, and evaluations related to the Swedish education system from a variety of sources (e.g., public agencies, academic research, and think tanks). Second, we seek to identify and explore a number of reasons why Sweden developed a school choice market dominated by for-profit voucher school providers. Again, we draw on a rich number of reports and archival data, but also collect information via interviews with school entrepreneurs, school researchers, and prior public representatives that participated in the creation and implementation of the Swedish voucher program.

We want to stress that our goal is not to determine whether nonprofits or for-profit organizations are more or less effective, or if nonprofits or for-profits ought to be the preferred providers of educational services. However, a public charity and a privately owned business enterprise are not the same thing. The two organizational forms have different strengths and weaknesses, and different potential. Thus, we hope this report will contribute a puzzle piece towards a better understanding of what a school choice system with more private for-profit voucher schools looks like. Moreover, we seek to explore some of the reasons contributing to the emergence of multiple, and often large, for-profit providers in the Swedish educational system.

Swedish Public Education and The Swedish Voucher Program

This report mainly focuses on the supply side of the Swedish voucher program, and predominantly looks at developments occurring at the organizational level. In this section we provide a brief background of the Swedish educational system, and outline some of the facets leading to the creation of the Swedish voucher program.

In the postwar period, the most important issue on the political agenda concerning education policy was the creation and implementation of a universal public school system. This proposition had been advocated by both Social Democratic and Liberal politicians and public intellectuals since at least the end of the 19th century. The traditional school system was tied heavily to class, and children of lower and higher classes usually attended different schools. Mostly, these children attended different public schools, but they also attended various private schools. In 1962, following a state investigation initiated by the Social Democratic government in 1957, it was decided in the Swedish Parliament that a comprehensive school system (*grundskolan*) was to be implemented in the whole country. This decision had been preceded by two large state investigations, trials of the comprehensive system in various municipalities, and a heated two-day debate in the Swedish Parliament. The process of implementation was fully completed in 1972 and in the new system all children, regardless of social class, attended the same public schools. The new comprehensive school system clearly reflected Social Democratic ideals of justice, egalitarianism and social integration (Lundahl 2005).

In the decades following the implementation of a universal public school system, the absolute majority of schools in Sweden were operated by the public authorities, except for a few boarding schools, Christian and Jewish schools and schools based on a specific pedagogics such as Waldorf or Montessori. Students were in most cases automatically assigned to the school closest to their homes, giving parents very limited choice regarding which school their children were to attend. However, in the late 1980s and the early 1990s, things changed considerably and Sweden went from having one of most the most centralized and state-controlled school systems in the world to creating a new and highly decentralized system with a much higher degree of choice offered to parents regarding the education of their children.

The reformation of the Swedish school was preceded by a growing public discontent where the comprehensive school system was criticized for being too rigid and inflexible. The shift in public opinion

is often illustrated with the story about the public school in *Drevdagen*, a small rural town in the Dalarna region. The Drevdagen school had long been under a shut-down threat from the local municipality, but parents had vigorously protested the plans to close the school. In 1989, the parents were given permission to take over and operate the school as a tax-funded foundation (*stiftelse*). This was an exceptional event given the very limited number of independent schools receiving state funding at this time. Drevdagen became an important symbol and victory for those opposing the public-school monopoly in favor of greater school choice and independent school options. It also became a symbol of what an independent school could look like, a small scale, idea-driven, and cooperative entity governed from the bottom up by engaged parents and teachers (Werne 2018).

According to Klitgaard (2007), Social Democratic policy proposals during the 1980s emphasized that public schools "should respond more precisely to individual preferences, allow for direct citizen participation and optional choice between public schools". Following this, it was the Social Democratic-led government in power during the late 1980s that took the initial steps in the process to decentralize the school system by transferring the responsibility of the provision of schooling from the state to the municipalities in as well as making it easier for the few existing privately run schools to receive public funding (Lewin 2014; Montin 1997).

The next, and perhaps most radical, change to the design of the Swedish school system came after the formation of a coalition government consisting of center/right parties under prime minister Carl Bildt following the national election in 1991. In the government declaration (*regeringsförklaringen*) after winning the election, the Bildt government explicitly opted for a "freedom of choice revolution [*valfrihetsrevolution*]" to characterize the welfare politics to come. Just a few months after the election, a bill (Svenska Regeringen 1992) was passed in the Swedish parliament that enabled the creation of a school choice program based on a voucher system. The school choice reform was then swiftly implemented for the elementary school level (grades 1–9) in 1992. The subsequent year, the reform was expanded to also include the high school level, (grades 10–12). This reform effectively redesigned the Swedish school system into what might be referred to as a "quasi-market" for education. According to Le Grand (1991, p. 1259) quasi-markets are markets in that "they replace monopolistic state providers with competitive independent ones" but exhibit a number of key features on both the supply and demand side that makes them different from conventional markets. In conventional markets, the goal of the organizations competing in the market is to maximize profits. However, in quasi-markets this is not necessarily the case because a wide array of different actors can participate in the delivery of goods and services with various motives. In the Swedish system, for-profit companies, nonprofit actors (such as

foundations and associations) as well as public agencies can participate in the delivery of education services.

The intellectual seed of the Swedish school choice reform was clearly inspired by Milton Friedman's 1955 essay on the topic of school choice and vouchers (Friedman 1955; Wennström 2016). In this essay, Friedman argues for a separation between the *funding* and *administration* of education. This concept has in later literature on quasi-markets been referred to as the "purchaser-provider split" (Blix and Jordah 2021). Friedman proposed a scheme where the government is providing parents with vouchers that are redeemable for a specific maximum amount per child per year if spent at an "approved" school of their own choice. Parents can also choose to supplement the vouchers using private funds when purchasing education services from the "approved" education providers. The schools providing education services should, according to Friedman, be operated as private enterprises run by for for-profit or nonprofit actors. The role of government should be limited to providing vouchers as well as overseeing the operations of the approved education institutions to make sure that they live up to certain minimum standards.

The overarching design of the new Swedish system for education was indeed very close to the proposal that Friedman describes in his essay, and apart from minor adjustment it remains virtually the same today. In this system, a voucher for each student in Sweden is issued by the government that can be redeemed at any school approved by the National Agency of Education (*Skolverket*). However, all schools must comply with the rules and regulations specified by the school law and adhere to the national curriculum. It is the Swedish School Inspectorate (*Skolinspektionen*) that is responsible for overseeing compliance with these rules and regulations. This is done by regular inspections of all schools. At first, only private schools were subject to inspections but today all schools (private as well as public) are included.

The reform initially required municipalities to distribute at least 85 percent of the average per-student cost in the municipal schools for each student enrolled in an approved independent school. The rate was set at this level since independent schools were not obliged to provide services such as school health care, home-language training, free meals, and transportation. Moreover, independent schools could top-up the amount received by the state by charging tuition fees. When the Social Democrats returned to power in 1994, this percentage changed to 75 percent. However, in 1996, the grants were raised again because of a change in the legislation stating that independent schools should be able to act on the market under the same conditions as their public counterparts (prop. 1995/96: 200). Thus, independent schools

now instead receive exactly (100 percent) the same average amount per student as public schools. However, as the grants were raised the opportunity for schools to charge tuition fees was removed in order for the system to become more equitable (Hicks 2015).

Even if this funding scheme seems quite straightforward in theory, the reality is more complicated. Students receive funding based on the average cost of schooling in the municipality where they live. This is true even if a student attends a school in another municipality with higher costs associated with education (e.g., higher salaries for teachers or higher costs for locales). Schools may receive additional funding for students with special needs as well as for teaching students their mother's tongue (Skollag 2010:800). In addition to municipal funding, schools may also receive grants from the central government through the municipalities. Schools are eligible to receive additional funding for newly arrived students from other countries and if the school is located in areas deemed as vulnerable. Unfortunately, comprehensive data showing how much funding different schools receive per student is not available.

Another minor change to the school system is the implementation of the teacher's license policy in 2010. To obtain a teacher's license, teachers are required to have achieved an officially approved degree in education and complete a probationary period (Blomgren & Waks, 2017; Zancajo et al., 2021). According to the new policy, it is only licensed teachers that can hold permanent positions and are qualified to grade students. The legislation applies to both public and voucher schools. However, according to Heller Sahlgren (2016) this policy has affected voucher schools to a higher degree since they have a lower share of certified teachers.

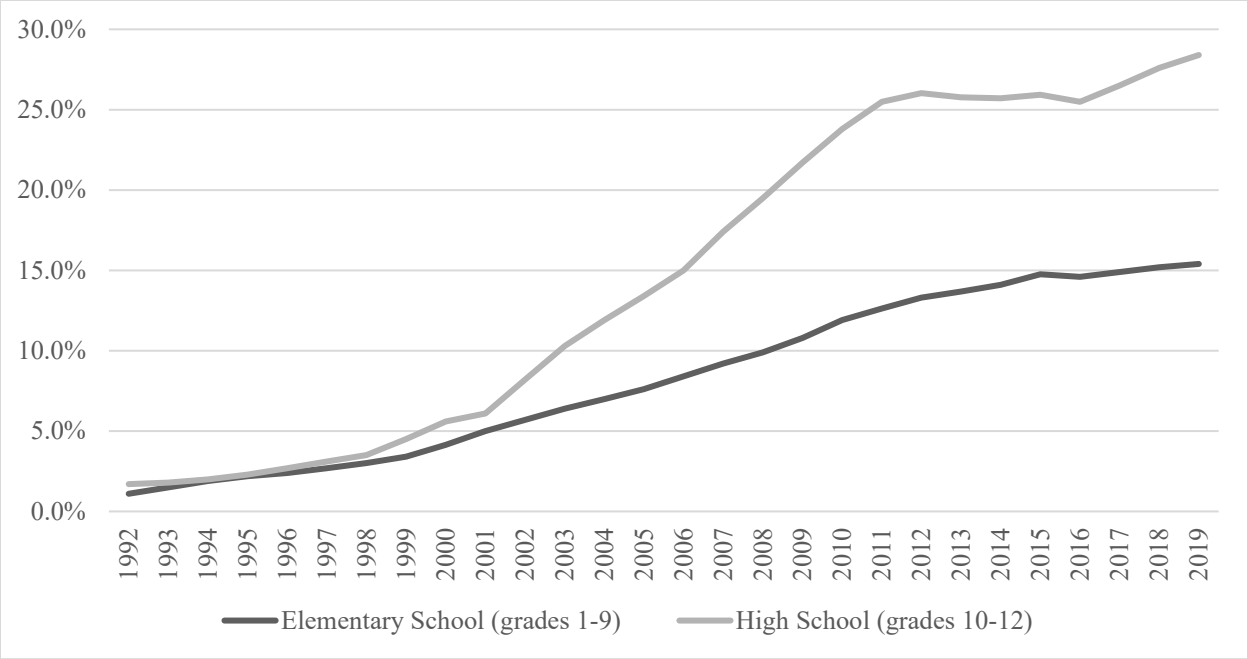
It has now been 30 years since the implementation of the school choice reform. In the next section, we will describe the organizational development that has taken place during those 30 years from a macro-level perspective.

New School Entrants

As noted in the introduction, one primary idea of a voucher-based school system is to encourage and ensure greater pluralism in education delivery, which also includes stimulating new actors to enter the educational field. Figure 1 displays how the number of students enrolled in independent schools remained rather modest in the immediate years following the implementation of the school choice reform. At the end of the 20th century, the percentage of elementary and high school students attending an independent

school had grown to about 5 percent (the number of children in independent pre-schools, *förskolor*, was somewhat higher, reaching above 10 percent in the mid-1990s).

Figure 1. Share of Students Attending an Independent School in Sweden 1992-2019



Source: Swedish National Agency for Education (*Skolverket*)

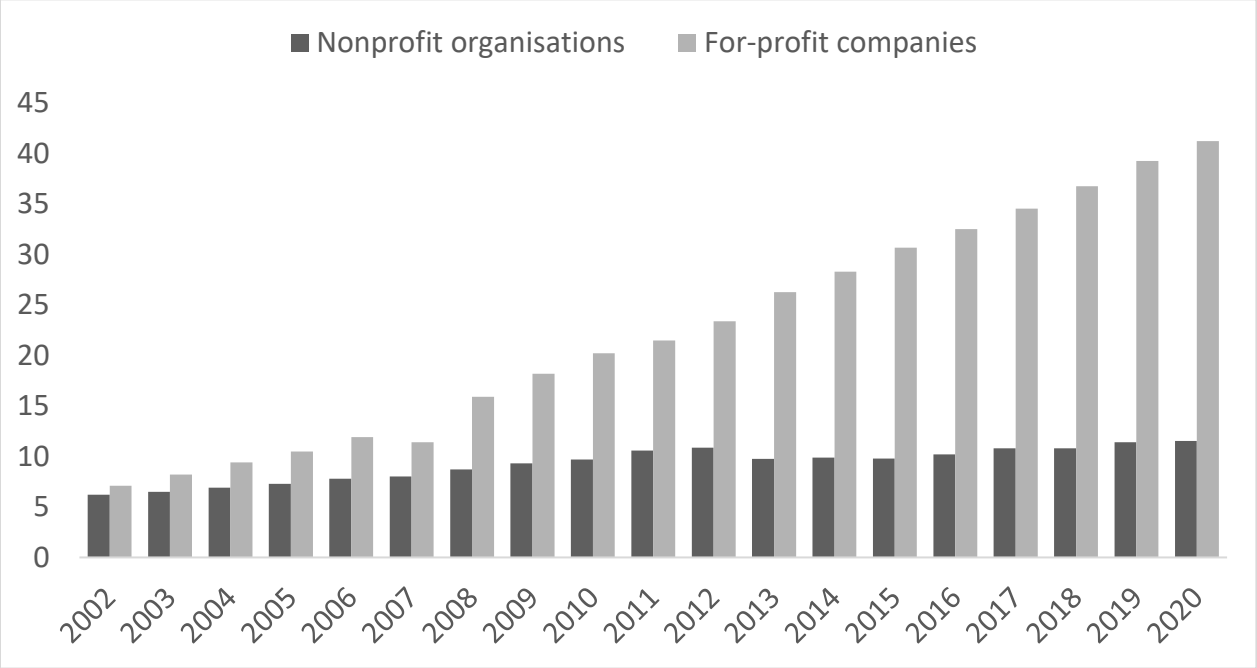
During the 1990s, most of the new entrants on the Swedish school market were indeed the type of small-scale independent schools envisioned by Beatrice Ask. The new schools were predominantly operated as nonprofits controlled by nonprofit associations or foundations, and the vast majority of these controlling entities (commonly referred to as huvudman) only operated a single school (Werne 2018).

Starting after the turn of the century, the number of students enrolling in independent schools starts to grow at a faster pace. As shown in Figure 1, this growth is particularly noteworthy among high school students. In 1999, less than 5 percent of high school students were enrolled in an independent school, a decade later that number had grown to more than 28 percent. It was also during the 2000s that the Swedish independent school landscape starts to change character.

The increased growth rate of the independent school sector is by and large a result of an increasing number of for-profit actors entering the school sector and starting to open new schools. Figure 2 shows municipal purchase of childcare and education (including adult education but not university level

education) from nonprofit organizations and for-profit companies during the years 2002–2020. As seen in Figure 2, the municipalities bought educational services from nonprofits and for-profit companies for roughly equal amounts in 2002. Since then, the amount spent on educational services from for-profits companies have increased by 480 percent. Even if municipal purchases of educational services from nonprofit have almost doubled between 2002 and 2020, municipalities spent almost four times as much money buying services from for-profits compared to nonprofits in 2020.

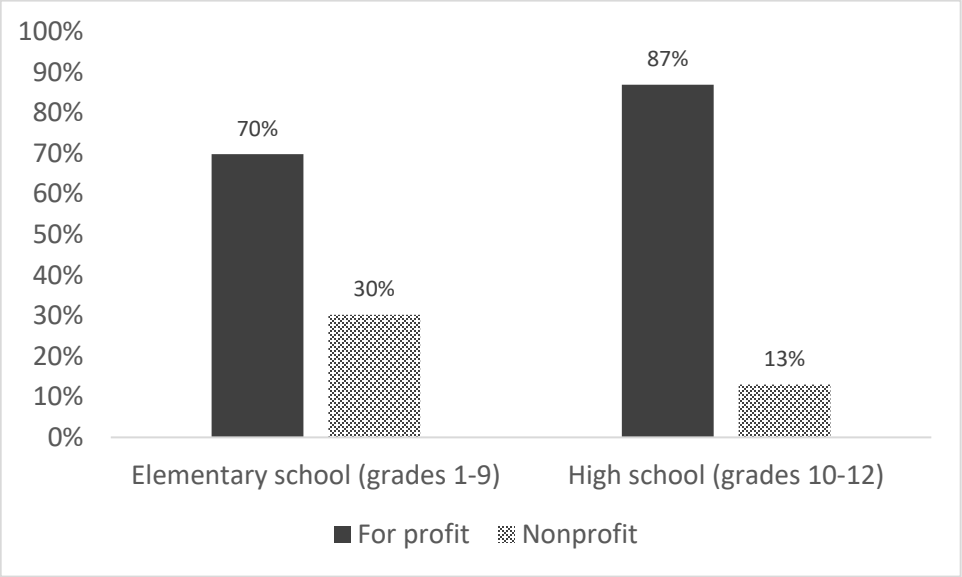
Figure 2. Municipal Purchase of Childcare and Education 2002–2020
(in billions of SEK, $1 ≈ SEK 9.4)



Source: Statistics Sweden; Werne (2018)

The predominance of for-profit actors in the education service sector is also highly visible when examining data on the percentage of independent school students that attend schools operated by for-profit versus nonprofit actors (see Figure 3). In 2019, 70 percent of independent elementary school students and 87 percent of independent high school students attended a school operated by a for-profit actor.

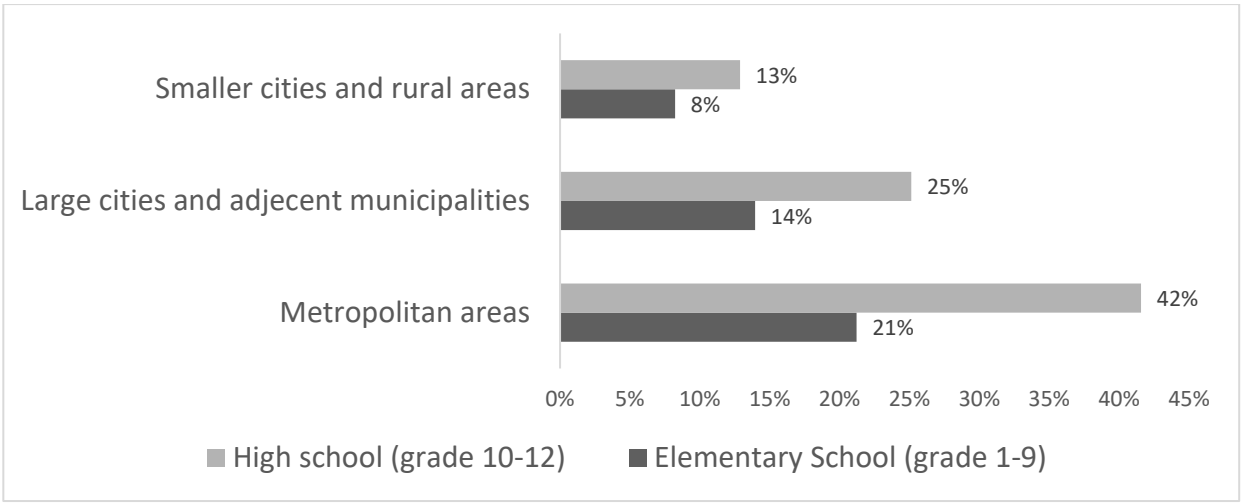
Figure 3: Share of Students in For-Profit vs. Nonprofit Independent Schools in 2019



Source: Swedish National Agency for Education (*Skolverket*)

It is important to point out, however, that the incidence of independent schools varies substantially across different parts of Sweden. In more rural areas, only eight percent of elementary school students and thirteen percent of high school student attend an independent school (see Figure 4). In metropolitan areas the corresponding numbers are 21 and 42 percent. Thus, independent schools can be said to be partially a big city phenomenon, especially at the high school level.

Figure 4: Share of Students Attending Independent Schools in Rural, Urban and Metropolitan Areas in 2019



Source: Swedish National Agency for Education (*Skolverket*)

Voucher School Growth: Three Illustrative Examples

As shown in the previous section, the share of independent schools in the Swedish school sector has gradually increased since the choice reform was implemented in the early 1990s with for-profit actors operating a majority of the independent schools. Another trend connected to the remarkable growth of private enterprise-operated schools is the increase in ownership concentration that has taken place since the early 2000s. According to Sebhato and Wennberg (2017), one important factor driving ownership concentration is the spread of private equity ownership motivated by low risk and stable profitability.

According to the Swedish National Agency for Education (Skolverket 2014), in 2013, one-fourth of all students enrolled at independent elementary schools and more than half of the students enrolled in independent high schools attended a school operated by one of the ten largest school actors. Since then, these shares have been amplified even further. Our calculations show that in the fall of 2019, 42 percent of students in independent elementary schools and 61 percent of students in independent high schools attended a school belonging to one of the ten largest players.

The majority of the largest organizations operating independent schools in Sweden are for-profit enterprises. However, there are two exceptions: first, the Stockholm City Mission operates six high schools enrolling approximately 2,500 students, and second, Viktor Rydbergs Skolor operates three elementary schools and four high schools with a total student body of almost 3,000.

To illustrate the dynamics of market share growth in the Swedish school sector, in what follows we will briefly describe and discuss the three largest players on the Swedish school market, namely: Academedia, the International English School (IES, *Internationella Engelska skolan*) and the Knowledge School (KS, *Kunskapsskolan*). These companies operate a total of 290 schools in Sweden. Together, they enroll 32 percent of students attending independent schools at the elementary school level and 41 percent of independent students at the high school level (see Table 1). Today, two out of the three schools are owned by private equity interest while one (KS) remains a family business.

Table 1: Student Count and Revenue of the Three Largest Firms in the Swedish Independent School Sector

	No. of students (elementary school)	Percent of total (independent elementary school)	No. of students (high school)	Percent of total (independent high school)	Revenue 2019/2020 (Swedish market, million SEK)
KS	11,311	6%	2,215	2%	1,260*
IES	24,773	14%	726	1%	2,832
Academedia	20,420	11%	35,579	37%	7,004
Total	56,504	32%	38,520	40%	1, 096

* KS revenue is for 2018/2019

Note: 1 SEK ≈ $0.1

Source: The Swedish National Agency for Education; KS, IES and Academedia annual reports

The growth of these three companies has taken place both organically by increasing the student body at existing schools and by opening up new facilities, but also by purchasing already existing schools and school groups and incorporating them in current operations. Such acquisition of already existing schools is a far more effective growth strategy than starting new schools from scratch. The average time to apply for permission from the authorities and establish a new school exceeds three years while if one instead acquires an already established school it is up and running from day one (Sebhato and Wennberg 2017).

The Knowledge School (KS)

KS was founded in 1999 by Peje Emilsson and has remained a family business. KS developed its own system for the principles and methods of instruction employed at the schools, which is referred to as the Kunskapsskolan Education (or KED) Program, which:

> *[…] personalize each student's education according to their individual needs and abilities. All resources in the school are carefully designed and organized around the student in a complete and coherent system – the KED Program. Together with his or her personal coach, the student sets personal goals for all subjects.*

A more detailed depiction of the KED Program is outlined on the KS main website (see www.kunskapsskolan.com/thekedprogram). KS currently operates 29 elementary schools and 7 high school in Sweden. In addition, there is more than 70 KED schools or KED-inspired schools that operate

in the UK, the Netherlands, India, USA and the Middle East. The international schools are commonly operated through a franchise model where the schools pay a license fee for the use of the KED program. Initially, KS was funded using private capital of the founder as well as capital from various investors. Since then, growth has primarily been made possible by reinvesting profit and through investments made by Swedish holding company Investor. In 2016, Investor sold its shares in the KS, making Peje Emilsson and his family the sole owner of the company.

The International English School (IES)

The first IES school was founded in 1993 by Barbara Bergström and Joan Wohlner. The core tenet when starting the first school was that command of the English language is imperative for success in the modern world and, therefore, the primary language of instruction at the schools is English. In 1998, they jointly started a second school. However, right after the launch of the second schools, the two owners decided to take separate paths because they had opposing views regarding the expansion of the IES. Wohlner did not believe in large school groups and was content operating a single school. Bergström assumed sole ownership of the second school which would later develop into today's multi-million enterprise.

In 2001, Bergström started a separate company together with two others for the expansion of the IES. In the academic year of 2002/2003, one more school was started and in the fall of 2003 three additional schools were added to the portfolio of the IES. Since then, the expansion of the IES has been steady with an average opening rate of two new schools per year. The expansion has been achieved through a combination of acquisitions of existing schools and the opening of new schools. Today, the IES operates 36 elementary schools and one high school, enrolling more than 27,000 students in total. In 2012, Bergström sold the majority of the ownership to the American private equity firm TA Associates. In 2016, the IES became the second Swedish school enterprise to be introduced at the Stockholm Stock Exchange. However, the firm was delisted in December 2020. Today, approximately 75 percent of the company is owned by the Luxembourg-based investment fund Paradigm Capital. At the time of writing, the founder retains an 18 percent ownership share.

Academedia

Academedia is by far the largest player in the independent segment of the Swedish school market. It is larger than the LS and the IES combined both in the regard to revenue and the number of students enrolled at their schools. Academedia operates 74 schools on the elementary school level and 143 schools

at the high school level in Sweden. In 2019/2020, the revenue for their Swedish elementary and high schools totaled about SEK seven billion (≈ $710 million). In addition to operating schools in Sweden, Academedia also operates pre-schools and adult-education centers in Sweden, Norway and Germany. The total revenue for the company in 2019/2020 amounted to SEK 12 billion (≈ $1.22 billion).

Academedia opened its first school in 1996 and have since grown by opening new schools under different brand names and through a series of mergers and acquisitions. Academedia became the first voucher school company to be listed on the Stockholm stock exchange in 2001 (NASDAQ OMX Nordic Exchange Stockholm, Small Cap). It was delisted in 2010 but then reintroduced to the stock market in 2016. In 2007–2008, Academedia merged with the private equity firm Anew Learning. In 2010, the Swedish private equity group EQT became the majority owner of Academedia after the delisting from the stock market (Sebhato and Wennberg 2017). Academedia operates schools using several brand names which are organized through subsidiaries. These various brands offer different educational programs such as Montessori inspired education or vocational training programs.

Why Did Sweden Develop a For-Profit Dominated School Voucher Sector?

Having offered a brief introduction of the Swedish voucher program, and illustrated the emergence and growth of for-profit voucher schools in Sweden, some turning into million-dollar conglomerates, we know turn to the question why the Swedish voucher school sector has become so dominated by for-profit providers.

This section draws greatly from the responses and reflections from our interviews with several key informants (our methodology is outlined in more detail in Appendix I), including *Lars Leijonborg*, who was chairman of the Liberal Party (Folkpartiet Liberalerna) from 1997 to 2007, and also served as the Minister for Higher Education and Research from 2006 to 2009. He is also the former chairman of The Swedish Association of Independent Schools. *Jonas Vlachos* is a Professor of Economics at Stockholm University, and one of the leading academics when it comes to the Swedish educational school reform and its consequences. *Peje Emilsson* is a one of Sweden's leading school entrepreneurs. He is founder and majority owner of several companies, including the Knowledge School. *Håkan Wiclander* is the current chairman of the board of the advocacy and member organization Idéburna Skolors

Riksförbund (National Association for Nonprofit Schools). He is an active spokesman in the debate against for profits delivering state funded education.

We combined the interview material with archival materials and prior research to create a broad base of information from which we made our observations and conclusions. It is evident that the dominance of for-profit voucher schools in Sweden cannot be reduced to a single factor or single explanation. Instead, the evolution towards a school voucher sector with many for-profit providers must be understood as a result of multiple contributing, and often interlocking, factors. Hence, the goal of this section is first and foremost to introduce the tapestry of contributing factors rather than attempting to determine which factor(s) has been the most essential or impactful.

1. The Universality of the Swedish School Choice Reform

As noted earlier, the impetus for the Swedish school reform must be understood from the perspective of the steps taken by the Social Democratic Party in the 1980s. Specifically, a new political platform was presented at the party congress in 1984, titled *Framtiden i Folkets Händer* (The Future in the Hands of the People) where a significant element was a proposal noting that the welfare policies of the future ought to build more on freedom of choice (SAP 1984). The platform recognizes that, for example, when citizens are automatically allocated to certain schools, it can lead to certain needs and requirement not being sufficiently met. The platform also notices that citizens seldom have adequate possibilities for partaking in the institutions they support via their taxes. To counter this, the ability to choose could be extended as well as the possibilities for schools to develop specific profiles so that parents actually have different choices to consider rather than just geographical location.

However, as commented by Klitgaard (2007), the Social Democrats also wanted to avoid undermining the legitimacy of the welfare state and trust in government, which is why it was essential to make the reforms inclusive and accessible to all citizens. That is, universalism was still considered the very foundation of the welfare state and means-testing and targeting was explicitly warned against since that could potentially damage the broad-based political support of the welfare state. Klitgaard (p. 184) also makes the interesting observation that the Social Democrats viewed extended school choice as a means to limit the creation of private schools since it would satisfy the demand for increased individual freedom within the public school system and thus prevent people from exiting the system. This idea of inclusion and accessibility was clearly embraced by the government consisting of Center/Right parties under prime minister Carl Bildt in 1991, as they implemented a school choice program based on a voucher solution that was universal and open to all families.

To offer a distinct contrast, when the Milwaukee Parental Choice Program (MPCP) was implemented in 1990 it came with multiple requirements and restraints (Witte 2000). For example, families wanting to participate were required to live in the City of Milwaukee and have incomes equal to 175 percent of the poverty line. Participating schools could not be religiously affiliated or have a religious component in their instruction. Participating schools, prior to the time of enrollment, had to indicate the maximum number of choice students they would admit, and total school enrollment could not consist of a majority of choice students. Finally, the MPCP was initially capped at 1 percent of the Milwaukee public school enrollment, which translates into fewer than 1,000 students for the start year of the program. Indeed, MPCP was initially labeled an experiment with a terminal date five years later, although the governor used his veto to eliminate this particular feature. Thus, the initial MPCP was not only limited in scope, but also associated with a number of constraints in terms of student and school eligibility.

The key point is that entrepreneurs are frequently believed to respond to, and act upon, opportunities. Indeed, there is a rich literature pointing to the importance of entrepreneurial opportunities as a vital ingredient for entrepreneurial action (Shane & Venkataraman 2000). The type of universal school choice program created in Sweden unquestionably generates a very different set of opportunities for those wanting to initiate new school activity compared to those operating in a choice program where these start-up opportunities are curbed by various restrictions related to eligibility and scope. For example, the opportunities for a school entrepreneur to garner revenue is a lot greater if you are allowed to target the most socio-economically strong students (Abrams 2016). In other words, Swedish entrepreneurs enjoyed a much more open landscape, rather than isolated pockets, to scan for new opportunities (and potential students).

Moreover, the nature of the "landscape" is also related to a school entrepreneur's proactive behavior. Proactiveness refers to how an entrepreneurial agent relates to market opportunities in the process of starting new activity. By seizing initiative and acting opportunistically, proactive entrepreneurs can gain a first- or early-mover advantage and get a head start on establishing brand recognition. Proactive entrepreneurs also seek to seek to mold the environment to their advantage, and in some instances even create demand (Lumpkin & Dess 1996). Finally, constraints limiting the pool of possible students that can attend a new school entering the system clearly ends up favoring already existing independent providers, which in the U.S. context predominantly means nonprofit schools.

2. Funding Parity

The Swedish school choice system is not only different in terms of its universality. Another major divergence compared to the U.S. is related to the level of per-pupil expenditure. When the Swedish voucher reform was initially implemented, the prior principle of needs testing to grant private schools funding was abandoned and replaced with a policy that entitled parents a voucher representing 85 percent of the average costs of a pupil in public schools. Schools were permitted to charge parents an additional school fee if it was deemed necessary for the operations of the school. Interestingly, the voucher was reduced to 75 percent when the Social Democrats returned to office in 1994, but only two years later the same government completely changed course and decided private schools should be granted public funding per pupil *corresponding* to the costs per pupil in public schools. In connection to this, it was also decided that private schools no longer could charge parents for an additional school fee.

Hence, in Sweden from 1996 onward, private school operators received the same per-pupil allocation as their neighboring municipal school, whereas such parity has not existed in the U.S. (Abrams 2016). It is clear that a voucher system where new schools could count on receiving parity in funding was an essential puzzle piece for entrepreneurs wanting to start new for-profit voucher schools. In particular, the combination of universality and fully funded vouchers creates an incentive for for-profit school entrepreneurs to take action because this combination permits business ventures to do what they are good at, namely, attracting investment capital and use economies of scale. Moreover, as Chubb (2006) suggests, in such a market there ought to be an advantage for for-profit school entrepreneurs as they can acquire financial resources from private capital markets, which are vastly bigger compared to the capital available in the philanthropic sector. This advantage is not just for the start-up phase, but also when it comes to accessing capital necessary to go to scale. Conversely, in systems where the opportunities for for-profit school entrepreneurs to harness private investments are more limited, nonprofit school entrepreneurs ought to be advantaged as they not only can outdo for-profits on price (given the goal of a nonprofit is not to generate a return for investors) but also utilize philanthropy to subsidize and support its operations.

3. Restrictions and Regulations

School entrepreneurs do not operate in a vacuum, but are embedded in an often-complex web of formal institutions, including laws, rules, policies, and accountability demands. Scholars have long observed how the creation, design and altercations of such formal institutions are essential determinants of entrepreneurial behavior. That is, institutions shape and allocate educational entrepreneurial efforts by impacting the incentives and payoffs offered by society to such activities. Specifically, state and local

regulators mold institutional structures for educational entrepreneurial action, encouraging some activities and discouraging others (Minnitti 2008). Accordingly, formal institutions must be taken into consideration when trying to explicate the presence or absence of for-profit voucher schools in a given context.

Starting with the situation in the U.S., formal institutions have long been prompted as an inhibitor to the type of transformation needed to improve the public school system. As Levin (2006 p. 173) noted more than a decade ago, public schools are "[…] highly regulated at all levels of government, and especially by the states. […] From the perspective of school leaders, professionals, and parents, the ability to pursue innovation and change is largely blocked, due to the proliferation of such regulations." The implementation of vouchers, and programs to allocate such vouchers such as the MPCP, have certainly been viewed among school choice advocates as a promising pathway to stimulate more innovation and change. However, voucher programs are still embedded in formal institutions that can have encouraging and/or discouraging effects on prospective school entrepreneurs.

One significant feature that stands out in the case of the voucher program in Milwaukee, is the consistent and frequent tinkering with the formal institutions linked to the MPCP. This tinkering is illustrated in a study by Andersson and Ford (2017), showing how the MPCP moved from being highly restrictive and lightly regulated, to less restrictive and lightly regulated, to today where the program is depicted as being (again) increasingly restrictive *and* highly regulated. Andersson and Ford's study depicts how the changing institutional milieu often had profound impact on the supply-side of new voucher schools.

Aside from the specific content of the different MPCP restrictions and regulations, and their impact on the overall supply of new schools, the recurring changes made to the formal institutions also generates uncertainty. Such uncertainty, not knowing if, when and how restrictions and regulations might change, will have a chilling effect on those trying to plan for the future in the short-term, but also for those looking for long-term investments. Add to this the fact that activities involving a high degree of novelty, such as launching a brand-new school, inevitably involves uncertainty. We believe the type of institutional uncertainty exemplified in the case of the MPCP will be particularly cumbersome for for-profit school entrepreneurs' ability to attract capital, outside the voucher payments and any personal financing, from outside investors that would be looking for a return on their investments in the future. Clearly, donors or philanthropic funders (e.g., foundations) are obviously not indifferent as to whether the money they provide has a significant impact, but they are not looking for financial returns to emanate

from the money they put in. Thus, it is not surprising that the enthusiasm among for-profit school entrepreneurs and investors in Milwaukee has been, and remains, rather tepid.

As discussed earlier, the combination of universality and fully funded vouchers was a key motivating factor for school entrepreneurs in Sweden, and this incentive for action appears to have been further intensified by relatively low institutional entry barriers. According to Peje Emilsson, the rules and regulations initially associated with starting independent schools were rather simple. However, similar to what happened in Milwaukee, these rules and regulations appear to have been adjusted, and extended, over time. For instance, in the mid 1990s a "no harm requirement" was implemented in Sweden, meaning that the opening of a new voucher school should not have a negative effect on the public schools in the area (Heller Sahlgren 2016; Zancajo et al., 2021). That is, the Swedish National Agency of Education can reject applications if a new school is deemed as having a significant impact on public school enrollment in the area. Today, the formal institutional framework guiding the establishment of new voucher schools in Sweden is perhaps best described as stable but also complex.

The increase in complexity of the requirements that needs to be fulfilled is reflected in the increased rejection rate of the applications for opening new schools. According to Hinnerich and Vlachos (2017), between eighty and ninety percent of all applications to start new schools was approved in the years following the launch of the voucher program. In contrast, preliminary to the start of the 2022/2023 schools year, the Swedish School Inspectorate received 223 applications for new schools or expansion of already existing schools. Out of these, 115 were approved which represent an approval rate of 52 percent. As a result, the administrative cost, and other transaction costs, for establishing new voucher schools in Sweden have increased.

This development has favored for-profit school entrepreneurs for two reasons. First, as highlighted earlier, for-profits are more likely to procure sufficient start-up investments needed to cover these initial administrative costs compared to nonprofits. This feature is even more pertinent in the Swedish context, which lacks the type of philanthropic sector and support available to nonprofit educational entrepreneurs in the U.S. Thus, the for-profit school entrepreneurs in Sweden have greater financial muscles compared to their nonprofit peers. Second, for-profit school entrepreneurs have greater control in terms of how to allocate its resources to cover administrative and other transaction costs compared to nonprofits. Researchers have long acknowledged that because nonprofits are fiscal stewards of public funds and private donations, they also have a responsibility to direct expenses toward mission-related activities in an efficient and effective manner. However, this has also created an excessive pursuit

of administrative efficiency that has caused a steady and self-perpetuating practice of cost-cutting, and an unwillingness/worry to devote resources to cover anything considered overhead expenses. This process has been described in the literature as the "nonprofit starvation cycle" (Gregory and Howard 2009). Add to this the possibility for philanthropic funders and donors to designate or restrict the use of funds towards preferred activities, resulting in significantly less financial autonomy for nonprofit school entrepreneurs.

It is worth noticing there are signs that the formal institutional framework surrounding Swedish voucher schools could be about to change. One example is a newly proposed change to the law that would provide increased authority to the Swedish School Inspectorate to, under certain circumstances, force independent schools to close. Another example was a recently voiced idea by the current Minister for Education of Sweden, Anna Ekström, suggesting the Social Democrats would look for ways to let local municipalities veto decisions to start new independent schools in their region. At this point it is difficult to assess how this will impact the creation of new independent schools in Sweden.

4. Public Perception and Opposition

Just as formal institutions have an impact on education entrepreneurship, there are other environmental factors to consider that can influence the likelihood of prospective school entrepreneurs to take action, including what type of school to create. One such factor is the perception of vouchers in the eyes of various stakeholders, including politicians, regulators and voters, parents, teachers, interest groups etc. Such perceptions will go into the risk calculus performed by school entrepreneurs seeking to start new schools. That is, in addition to regulatory risks (i.e., those linked to formal institutions) there are other risks e.g., operational or reputational risks, that can impact the willingness to engage in education entrepreneurship.

For example, when the MPCP was implemented in Milwaukee it was immediately challenged in court. The MPCP was first tested against the Wisconsin constitutional provision that state funds must be used for a public purpose, and thereafter tested based on a First Amendment objection (Witte 2000). Though the MPCP was upheld in both cases by the Wisconsin Supreme Court, it illuminates the type of environment a prospective school entrepreneur must operate in. The deep skepticism against vouchers in the U.S., made explicit via the lawsuits, is however far from new. Just as the voucher idea has been around for more than six decades, so has the opposition to vouchers. One of the most prolific critics of vouchers, Diane Ravitch (2014), notes how the idea of school choice has been "tainted" ever since the Brown vs. Board of Education decision of 1954 as a way to evade desegregation. Ravitch also comments that (p. 207) "[f]or many years, the voucher idea didn't get far, because most Americans were unwilling

to see their tax dollars fund religious or private school. Whenever a voucher proposal was put to a vote, it was rejected by the public at the polls." Vouchers have also been strongly opposed by many teacher unions and other public education advocates on the basis that vouchers take scarce funding from students in public schools and give those resources to unaccountable private schools. In part, this is reflective of a common skepsis for change, as commented by Mehlhorn (2016, p. 79, 80), American K-12 education suffers from a parochial culture that makes this sector highly change-averse, "[…] especially with regard to ideas from the private sector", in addition to creating a voucher sector where "rational actors choose low-risk options." Moreover, some commentors have suggested that for-profit school providers may face even higher perceptive barriers. As Chubb (2006, p. 207) posits, opponents to vouchers "[…] have long viewed private business as both an inappropriate participant in public education – except as a provider of books, computers, and the like – and potential threat to traditional public schools." The result, is that anyone wanting to start a new voucher school in the U.S. must navigate an environment of great uncertainty and risks that erects practical as well as mental barriers to take the plunge.

Looking at the situation in Sweden, concerns and critical voices certainly existed early when the voucher program was implemented. However, the Swedish political climate appears to have been less polarized and unwelcoming to the idea of vouchers in the late 80s and early 90s. Instead, there appears to have been an appetite for change among voters/citizens as well as politicians. For example, when the Social Democrats returned to office in the early 1980s after having been in political opposition for the first time in more than four decades, the party was ready to undertake key reforms that not least included significant changes in the organizing of the public education system. As noted by Klitgaard (2007), Swedish voters had started to develop much more negative attitudes towards the public sector in the late 70s, viewing it as a complex and rigid bureaucracy with limited room for choice and flexibility. As a result (p. 183), "[…] the gap between state activities and citizens had grown, as the activities within the public sector did not properly reflect citizen preferences […]."

Clearly Swedish politicians and voters appear to have been open to the idea of doing things differently in key public domains such as education, although, it appears as if few could predict what the new normal would look like. The people we interviewed for this report confirmed this notion; though many envisioned greater pluralism and that private independent schools would become a more visible type of actors in the Swedish educational landscape, few anticipated just how many students would end up attending these independent school, and no one seems to have foreseen the rise of multi-million dollar for-profit school conglomerates. Hence, while it would be a stretch to say that the idea of school vouchers was welcomed with open arm and without debate among Swedish politicians and voters, there was

certainly a much more liberal climate for these types of ideas to strike a chord and take root compared to the much less sympathetic climate in the U.S. at the time. Moreover, as we noted earlier, when the Social Democratic government double-downed on the education reform by increasing the voucher payment so it corresponded the costs per pupil in public schools, it sent a powerful signal that the public wanted and would support the school entrepreneurs eying the opportunity to enter the Swedish school scene. It also sent a clear message to current and prospective school entrepreneurs that no matter if Sweden had a right- or left-leaning government in power, the school choice and voucher program would be left in place.

It is worth observing that both perception among many politicians and citizens have changed in recent years. However, this change in attitude happened *after* some of the major for-profit voucher school conglomerates had emerged. In fact, much of the critique being voiced today appears to be grounded in a type of "we didn't know this was going to happen/be the outcome of the 90s school reform"-perspective. In other words, while the voucher idea enjoyed support when it was first implemented, the evolution and massive growth of for-profit school were a surprise to many.

5. Few Pre-Existing Private Schools

When the Swedish reform was implemented in the early 1990s there were, relatively speaking, very few preexisting independent schools nationwide. That is, the vast majority of Swedish students were attending a municipal school. There were a handful of very small Montessori, Waldorf, and religious schools, six international schools, and three exclusive boarding schools (Abrams 2016). As a contrast, there were nearly 27,000 private elementary and secondary schools in the U.S. in the late 1980s, enrolling more than five million students (U.S. Department of Education, 1990).

These differences matter for two reasons. First, although the U.S. is a considerably larger nation compared to Sweden, independent schools were already deeply engaged and engraved in the educational landscape across the U.S, long before the first voucher-reform in Milwaukee was implemented. The Swedish independent educational landscape, on the other hand, was more or less a blank slate. Second, the preexisting independent schools in the U.S. context were predominantly nonprofits, often with strong ties to religious organizations. As observed by Salamon (1992, p. 79): "[…] nonprofit organizations are a pivotal part of the American educational system, just as they are of the American health system, with a reputation for quality and independence that helps them provide – both at the elementary and secondary level and at the higher education level – an important measure of diversity and choice."

We have previously argued (see Henrekson et al. 2020) that the predominance of the nonprofit form in the U.S. independent school sector, compared to the Swedish independent school sector, can be linked to three key overarching factors and conditions: (i) the differing attitudes toward the role of the state and the role of religion in the U.S. and Sweden; (ii) the substantial differences in the type and magnitude of pro-nonprofit intermediary actors, umbrella organizations and other – primarily philanthropic – supportive structures focusing on educational issues in the two contexts; and (iii) the contrasts in the pre-existing population of education providers when the reforms were implemented. When these features are linked to some of the other observations made in this report, including the eligibility restrictions and voucher payment levels, they end up serving as tremendously strong pull factors on prospective school entrepreneurs to operate and organize new voucher schools as nonprofit-, rather than as for-profit, entities.

While early U.S. school entrepreneurs could look to decades of experience and know-how from prior school builders in the nonprofit sector, in addition to an already well-established infrastructure for funding and support, the early pioneers and school entrepreneurs in Sweden were forced to more or less venture into the unknown. As we have mentioned earlier, this uncertainty was not just impacting those wanting to start new schools, but was also felt among those supporting and implementing the new voucher program as they had a hard time predicting how it would evolve.

6. Institutional Choice

In order to comprehend why Swedish school entrepreneurs elected the for-profit over the nonprofit form when starting new schools, it is not enough to just point to the relative absence of prior independent nonprofit schools in the Swedish context. We also need to understand how entrepreneurs choose and decide between the dominant organizational forms (e.g., nonprofit or for-profit) available to them. While some scholars have examined the institutional choice (nonprofit vs. for-profit) of entrepreneurs (see for example Child et al. 2015; Addae 2018), we are unaware of any applications in the world of education entrepreneurship.

Some of the answers to the question of institutional choice obviously lies with the school entrepreneurs themselves, and the reasons they had for starting new schools. It is important to note that is difficult to assess motives of school entrepreneurs in general, and doing so in retrospect is even more challenging. Still, we do know that some of the leading Swedish school entrepreneurs (for example Peje Emilsson) had prior entrepreneurial experience from the for-profit sector, which could be a contributing

factor for favoring the for-profit option when deciding on organizational form. Research suggests that personal history can indeed shape what choices the entrepreneur views as available, and sentiments about personal familiarity as a core rationale for sector choice are common among both nonprofit- and business entrepreneurs (Child et al 2015). Moreover, we also know that several of the entrepreneurs that started for-profit schools and school groups are former politicians and bureaucrats, some which actively took part in the design of the voucher system (Larsson 2021). As observed by Child et al (2015), entrepreneurs creating for-profit ventures in spaces where nonprofits also operate often do so for strong symbolic reasons related to what businesses can and should look like. This include demonstrating a different model, or that business can be a force for good, or evidencing these models can work. Hence, one possibility is that the former politicians and bureaucrats were focused on setting an example by creating new for-profit schools in an environment long dominated by public and not-for-profit entities.

Finally, institutional choice may be impacted by the entrepreneur's view of what type of organizational form best "fits" in a particular context. In their comparative study of for-profit and nonprofit entrepreneurs operating in the same field, Child et al (2015) discovered that entrepreneurs favoring efficiency, flexibility, and sustainability are more likely to create for-profit entities compared to nonprofit organizations. They also found many for-profit entrepreneurs viewed nonprofits as daunting to launch, and complicated and expensive to operate. As noted earlier, to date we know very little about the institutional choice of school entrepreneurs, but we believe this is critical a topic warranting additional exploration from scholars.

Conclusion

The Swedish school voucher system dates back three decades, making it one of the most important and intriguing cases for scholars, practitioners, and policy makers to study and understand. One of the original and principal ideas of the Swedish voucher program was to encourage and ensure greater plurality in education delivery. Although the implementation of vouchers attracted a significant number of new entrants, over time, the educational landscape has become dominated by a modest number of for-profit corporations operating multiple voucher schools. As noted in the introduction, we remain agnostic as to whether nonprofits or for-profit organizations are more or less effective as educational providers, or if nonprofits or for-profits ought to be the preferred recipient of vouchers. What is clear, however, is that the number of voucher-based for-profit educational providers is significantly higher in Sweden compared to the United States.

This report has offered a brief historical overview and landscape of the entry of private for-profit independent schools in Sweden since the implementation of the voucher program. We also explored a number of factors contributing to the development of a Swedish school choice market being dominated by for-profit voucher school providers. Here we outline three basic takeaways emanating from the observations made in the report.

Incentives and Institutions are Crucial

New independent schools, no matter if they are nonprofit or for-profit, do not emerge out of nowhere. Every new school has a founder(s) that, at some point, decided to take action and attempt to create a new venture. Specifically, prospective school entrepreneurs will respond to the incentives provided by the system in which they intend to operate, meaning the milieu in which these school entrepreneurs exist matter. According to Baumol (1990), the supply of entrepreneurs is more or less constant across different contexts, and it is the nature of the institutions in which these agents are embedded that end up dictating the outcomes of entrepreneurial actions. As we have illustrated in this report, in order to comprehend the differences (and similarities) between the Swedish and U.S. school voucher landscapes, including why Sweden has so many more for-profit independent schools, one must pay close attention to the formal and informal institutions that mold entrepreneurial action, encouraging some type of activities and discouraging others.

The Swedish school choice system not only offers vouchers covering *all* students, since the late 1990s it has also provided independent private school operators the same per-pupil funding as municipal school. Furthermore, the barriers to entry have been relativity low. Different types of providers (including incorporated for-profit providers) are fully accepted, and the restrictions on independent schools have remained few and did not include competence requirements for prospective school entrepreneurs, such as previous management experience from the educational sector, or any restrictions on the right to pay dividends to the owners of the schools or to sell the school under the same conditions as any other business. These institutional factors, combined with relatively low number preexisting independent schools nationwide, seem to have generated opportunities that attracted and incentivized entrepreneurial action, with many entrepreneurs making the choice to launch for-profit schools.

Substantial Scale Economies

Many proponents of a more market-oriented school sector have pointed to the importance of scale. As noted by Chubb (2006 p. 205), the reason for stimulating more entrepreneurship in the school sector is because: "[w]hat is most important about the new entrepreneurship is that it brings to the very heart of public education – at least potentially – the twin engines that drive innovation, quality, and value in the private sector: profit and scale." However, in order for this to happen Chubb believes more for-profit providers are needed as they will have a "natural tendency" to scale. Scale, in turn, is viewed as generating operating efficiencies, which in turn generates greater revenue, which attracts investors that allow for further scale i.e., by scaling up or scaling deep.

There are ample examples of schools going to scale in the Swedish school sector. Whereas much of the growth among for-profits ventures in the U.S. context appears to have taken place in service provisions to schools (e.g., educational software solutions, textbooks, testing, or instructional programs), some of the most significant scale in the Swedish context has happened among school providers. The scaling and consolidation of for-profit schools in Sweden has, by some scholars, been viewed as evidence that the Swedish school sector has become more market-like. Commenting on the growth and concentration of Swedish for-profit schools into conglomerates, Wennström (2020) notes: "[t]his is not dissimilar to how leading consumer companies win market shares for consumer goods through their many different brands. Indeed, the parallel is quite apt. For although this education market is a "quasi market" […], there is evidence that is behaves much like a regular market, adjusting to consumer demand […]".

While we leave the question whether profit and scale are the engines of innovation, quality, and value in education for others to assess, it is clear that the Swedish for-profit school providers have been able to scale much more compared to its nonprofit peers. Indeed, nonprofits, not just in the school sector, have long been viewed as less prone to scale. The reason, to use Jeffery Bradach's (2003) words, is that the nonprofit sector "is comprised of cottage enterprises – thousands upon thousands of programs, each operating in a single neighborhood, in a single city or town." Nonprofits often lacks the capacity, and interest, bringing their activities to scale. And even for those wanting to grow and expend, Bradach notes, "the funding patterns of the nonprofit sector – small grants, for short durations, focused on program work – conspire against building strong organizations."

Sweden's For-Profit Schools Emerged in an Accommodating Public Policy Landscape

The implementation of the Swedish voucher program appears to have been propelled by an appetite for change, and quest for greater diversity among educational providers, that had taken root in political parties on both the left and right. Likewise, many voters/citizens seemed at least open to the idea of expanding the options for school choice in the period right before and after the implementation of the new program. This is not to suggest that there weren't any critical voices at the time the program was launched, yet there are few signs of any significant, explicit or organized resistance against vouchers or the permission to allow for-profit educational providers. According to Hinnerich and Vlachos (2017), between eighty and ninety percent of all new applications to start new schools was approved in the years following the launch of the voucher program. Furthermore, prior to such approval, all municipalities were indeed allowed to voice concerns regarding the impact of adding new schools to the mix. Despite this option, Hinnerich and Vlachos note, "[i]n practice, the concerns raised by municipalities appear to have had a limited impact on the approval rate of new voucher schools." Thus, in addition to a supportive institutional environment, for-profit providers faced limited opposition from voters, interest groups etc. in taking entrepreneurial action and create new schools.

Today, however, the situation looks rather different as debates regarding inequality, segregation, grade inflation, and the notion of *"vinster i välfärden"* (profits in welfare services) have shifted the perception and opinions regarding school vouchers, and for-profit voucher schools in particular. At the same time, the demands placed on new voucher school applicants appear to have increased as the number of new applications approved have decreased significantly since the start of the program (Hinnerich and Vlachos 2017). We do not want to speculate what is going to happen, but it seems feasible to assume that future for-profit school entrepreneurs will have to operate, and be willing to accept, a very different public and political climate when it comes to the role of for-profit providers in the Swedish school sector.

Implications

Neither entrepreneurship, nor for-profit ventures, are new to the American school system. Every year, schools and states spend billions of dollars on textbooks, educational technology, and instructional programs as well as non-instructional related services such as transportation and food services. Still, the main role played by for-profits has predominantly been to bestow schools with support rather than offering education directly, taking on the role as independent providers teaching students and running schools. This raises the question, what, if anything, can be garnered from the Swedish experience/system where for-profit ventures have long played a central role in providing education?

If we were to identify one key implication it would be this: if the U.S. desires to increase the number of for-profit school entrepreneurs it will require substantial revisions of many formal as well as informal institutions. Overall, the Swedish system has (at least historically) been considerably more liberal compared to the voucher systems implemented across the U.S. Assuming that any rational prospective for-profit school entrepreneur must sense it is possible to operate a school in an efficient manner, and make a profit at the same time, the current formal institutions in most U.S. voucher systems, which typically limits who can participate combined with lower per-pupil voucher payments, would need to be altered in order make this calculus attainable and attractive enough to spur action.

Education is, and will remain, a politicized and highly regulated field, and so to alter formal institutions means focusing on the arena where formal institutions are formed, upheld, and changed: federal, state, and local government. Put differently, changes to formal institutions will not take place without continued and rigorous policy and advocacy work. This is hardly novel advice, but it is essential if the goal/desire is to create a more accommodating institutional framework for for-profit school entrepreneurs.

An additional, and a perhaps more complicated, task is that even if the formal institutions could be aligned to offer greater incentives and/or support for for-profit school entrepreneurs, there would still be informal institutions to address e.g., norms, traditions, beliefs exerting influence and shaping the actions on these entrepreneurs. As Baird and Lautzenheiser (2016 p. 187) observe:

> "First of all, education entrepreneurs need to be mindful of the thorny politics of education. K-12 schooling, in particular, is seen as a public good funded by public dollars. There is a strong undercurrent that resists any attempts at "privatization" or profiting off the back of students – whether that means actual for-profit companies or even nonprofit organizations that operate outside the traditional structure. And public viewpoints matter."

Adding to this view, Katzman and Youngblood (2016 p. 158) bluntly note, many stakeholders "[…] equate for-profit [schools] with bad motives and outcomes," and that stakeholders (e.g., policymakers, parents, educators) indeed are skeptical for good reasons given the often-poor track record of for-profit educational providers. Moreover, informal intuitions are sticky and can be tremendously difficult to change, especially with top-down measures, making them powerful barriers to entry for for-profit school entrepreneurs.

Thus, recognizing there are significant "how-to"-questions that remain unanswered here, any policymaker or advocate of more for-profit school entrepreneurs in the U.S. context must acknowledge and actively seek to reshape the formal and institutional landscape that is currently funneling entrepreneurs to start new nonprofits rather than for-profits. We close by offering a few additional comments on actions we believe could benefit prospective school entrepreneurs.

Over the past decades, new forms for organizing venture activities have emerged, including so-called L3Cs (limited liability low-profit) and Benefit Corporations. An underlying idea of these new forms is to offer entrepreneurs a possibility to forgo profit maximization and instead be held accountable by shareholders and stakeholders by a combination of economic and social benefit. Creating these types of social enterprises would not only address some of the perceived "bad" motives and outcomes linked to for-profit educational providers, it could also help attract different and/or new types of funding. For example, one of the underlying motives behind the introduction of the L3C was to encourage and smooth the way philanthropic foundations could engage in so-called program related investments or PRIs.

In many other areas or industries that seek to increase the supply of for-profit entrepreneurs, start-up training, incubators, and accelerators play a vital role as part of the start-up ecosystem. While some of this already exist in the educational eco-system (e.g., in the area of educational technology), it is equally important to build this type of infrastructure for those wanting to start-up and operate new independent schools. Creating and running a new school is a very complex endeavor, and is not about creating widgets but creating places for impactful learning. Thus, we would like to see start-up training/education and incubation that take a much more interdisciplinary approach to the task of teaching and supporting for-profit (and nonprofit) school entrepreneurs.

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Appendix 1
Methodology

This report is based on a descriptive qualitatively-oriented, research approach drawing on archival material, public data, and information gathered from interviews with key informants. Qualitative inquiry is recognized for its ability to cover relatively unexplored phenomena and to elaborate on existing perspectives by bringing in specific contextual conditions and phenomena that influence particular processes and outcomes. The purpose of this methodology segment is to provide details about the main approach and materials used to compose this report.

Archival Materials

The Swedish school choice reform was implemented three decades ago, and today there is a substantial body of reports, opinion pieces, books, evaluations, and articles covering a broad area of topics directly or indirectly related to school choice issues, produced by public agencies, academics, and various independent organizations, across the political spectrum and with differing perceptions and opinion on the efficacy of school choice. For this report we gathered archival information from a variety of sources, including government propositions, reports, and evaluations related to the Swedish education system by public agencies, reports and evaluations from think tanks, foundations, associations, and policy institutes focusing on school choice issues in a Swedish context, and the academic research focusing on the Swedish school choice system. Given the focus of this report, we emphasized published reports and articles with a macro- rather than a micro-orientation. That is, materials predominantly discussing policy- and organizational phenomena rather than materials investigating, for example, student outcomes. Several of the texts referenced in this report were written in Swedish, and in addition to offering links to these texts (when available), or available English summaries, we also explicitly note in the report when something has been translated from Swedish to English.

Swedish Public School Data

The descriptive quantitative data used in the report were obtained from the Swedish National Agency for Education, Statistics Sweden, the Swedish School Inspectorate and from the annual reports of Academedia, the Knowledge School, and the International English School. The data are publicly available online. For the sake of this report, the data have been processed and analyzed by the authors.

Key Informant Interviews

For the segment discussing why Sweden developed a school choice domain dominated by for-profit providers we again draw on the rich body of archival materials mentioned above. We also collect primary data via interviews with key informants. The key informant method is suitable when a particular construct, or understanding of a particular phenomenon or process, are difficult to obtain from other types of sources (e.g., via a random sample survey or archival data).

A key informant is not elected randomly, and therefore not considered to be a representative member of the sample units in any statistical sense. Instead, they are selected because they are supposed to be knowledgeable on the questions under investigation. Thus, two essential features of key informants are: (i) that they are able and willing to share their share their knowledge with the researcher, and (ii) have/having occupied a role that makes them well informed about the issues being researched. For this report we talked to multiple key informants. All the informants were interviewed via Zoom, and after receiving verbal consent all interviews were recorded (but not transcribed). We were also given verbal consent to use display the names, titles, and background information, and in case of a direct citation we verified the citation with the informant.

Key informants are commonly asked to report their perceptions of constructs and events, rather than personal attitudes or behaviors. As a result, informant reports are subject to systematic biases (and random errors) such as hindsight bias, impression management, inaccurate recalling of past events, memory failure, or memory distortion. We have attempted to mitigate some of these issues by using multiple key informants, and by contrasting statements found in other source materials.

About the Author(s)

Ebba Henrekson is a PhD Candidate at the Center for Civil Society Research at Marie Cederschiöld University and associated to the Stockholm Center for Civil Society Studies at the Stockholm School of Economics. Her research concerns the privatization of the Swedish school system and the organizational development of the school sector since the early 1990s. In particular, she examines the institutional, historical, and political factors that have contributed to a situation where civil society organizations and religious actors have a relatively small share of the school market compared to for-profit actors. Before enrolling as a PhD student, she completed a MSc in Sociology at the London School of Economics.

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