

Education reform through a private equity lens

The industry's value-creating model can help schools prepare the next generation of critical thinkers and innovators

By **Marc Rowan** and **Gil Pereg**

Thursday May 27, 2021 9:43 am

Prior to the pandemic, one of the biggest inhibitors to growth was the availability of qualified candidates. The US economy had reached “full employment”, while the unemployment rate in the UK hit its lowest level since 1975. But at a portfolio company level, investors could appreciate the challenge wasn't merely about finding people, it was in finding candidates with adequate skill sets to fill essential roles - positions upon which growth strategies were often premised.

Even for investors working with long-term capital, addressing the skills gap will be solved over decades rather than years. But PE's model to discern value where others don't, find efficiencies, and allocate capital to the highest impact areas can be co-opted to establish a foundation for educational reform.

This model for change - which is being proven through the Darca Schools in Israel - has even more parallels to a traditional PE strategy. We're identifying and transforming failing schools in urgent need of financial resources across Israel's peripheral communities, not unlike any deep-value strategy. Similarly, the archetype to invest in and transform schools is centred around empowering great leaders, forging an alignment of interest among disparate stakeholders, and innovating the system to meet the evolving needs of key constituencies.

The Darca Schools Network, for the unacquainted, is a nonprofit that, similar to academies in the UK or charter-school programmes in the US, aims to improve education in Israel's underserved periphery. Now in its 10th year, Darca is capitalised through government and philanthropic funding, which together provide resources, accountability and oversight to create a new model - borrowing from PE - others can follow.

It starts with management

Darca was founded on the premise that school principals are the cornerstone of any effort to transform an institution. This is a point that became obvious amid the pandemic as administrators had to react in real time - without a playbook - to conceive, implement and refine a remote-learning environment that can replicate in-person lessons and accommodate a whole range of stakeholders.

But even in a traditional setting, or during normal times, principals are the most important catalyst to motivate teachers to excellence, cultivate healthy student mindsets, and maintain safe and aesthetic school grounds. There is no one archetype that defines a successful principal.

But many of the defining characteristics evident in successful CEOs are just as conspicuous in effective principals - not the least of which include a vision to conceive new solutions to old problems, financial acumen to optimise available resources (and do more with less), and the influence to be a true change agent. Principals aren't merely inspiring teachers and students, they should be continually raising the bar, sharing best practices, and motivating competing schools to keep pace.

Alignment of interests

Without an alignment of interests even the best ideas fall flat. As Darca Schools have grown, our scale also allows us to serve as a buffer to help our principals focus on their jobs, while the larger organisation works directly with education ministries, local municipalities, teachers' unions, parent associations and other constituencies.

From the perspective of these different stakeholders, we're able to find constructive solutions that demonstrate we hear their concerns, appreciate their perspective and can work together to find a compromise. And through synthesising the different stakeholder demands into one clear message, we're able to filter out any noise that would otherwise absorb the headspace and bandwidth of our leaders on the ground.

It also requires efforts to build trust and ongoing goodwill. Darca created a health and welfare fund for teachers - wholly outside of their union contracts - to provide support when the unexpected occurs. Professional development programmes also help teachers advance their careers, while grants for special initiatives create further incentives and allow educators to put enriched skill sets to work.

Rather than feeding into an ingrained sense of opposition, we've re-established a true sense of partnership around shared goals to reinforce trust over time. The stakeholders have changed, but it's no different than forging alignment between LPs, portfolio companies and employees.

Economies of scale

As the Darca Network was rolled out, iterated and ultimately proved its model, we replicated what worked and applied the framework to other failing schools facing similar challenges. It's not unlike a growth strategy for a restaurant or retail concept that has established its brand in a local geography and then aggressively pursues new-store growth in adjacent markets.

Starting from zero, there are now 40 high schools across the Darca Network, serving 22,319 students and employing 2,518 teachers. The most critical metric, though, is a student matriculation rate that improves dramatically every year a school has been under the Darca umbrella, driving Darca to lead with a 92% network-wide matriculation rate in 2020, well above the state-wide averages.

Equally important to policymakers are the efficiencies generated through the model. Darca schools, on average, show an approximately 35% decrease in the level of investment required from “year one” to “year eight”.

The parallels between Darca’s efforts and PE strategies to transform multinational companies is not a coincidence. Our board comprises some of the most distinguished investors and entrepreneurs, with an aptitude to recognise value and build world-class companies. The difference is that rather than growing market share, the goal at Darca is to grow mind share and awareness so others can learn from our experiences and we can, together, prepare students for a rapidly changing world that will demand critical thinking and innovative problem-solving.

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