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Education Outlook

Business Goes to School: How the Private Sector Can Improve K–12 Education

By Frederick M. Hess

What is the best way for businesses to help fix our education system? Stop backing a system that does not work, insist on accountability, and support entrepreneurs who will shake things up.

Two titans of the new economy—founders of Apple and Dell—clashed at an education conference earlier this year in Texas. Steve Jobs and Michael Dell were discussing technology and school reform when Jobs disturbed the usual pallid comity of these sorts of events. "What is wrong with our schools in this nation," he said, "is that they have become unionized in the worst possible way. This unionization and lifetime employment of K–12 teachers [are] off-the-charts crazy."

Jobs elaborated, "What kind of person could you get to run a small business if you told them that, when they came in, they couldn't get rid of people that they thought weren't any good? Not really great ones, because if you're really smart, you go, 'I can't win.'"

Dell responded that unions were created because "the employer was treating his employees unfairly, and that was not good. So now you have these enterprises where they take good care of their people. The employees won. They do really well and succeed."[1]

Afterward, the nation's two dominant teachers unions, the National Education Association and the American Federation of Teachers, weighed in, lambasting Jobs as misinformed and anti-teacher, while lauding Dell's stance as enlightened. The most telling response came from industry analysts. David Daoud, research manager for IDC, a firm that tracks school computer sales, called Jobs's comments "very surprising. Teachers have been a loyal [customer] base for Apple. . . . If Apple starts losing teachers, you may see an erosion in its market share."[2]

My purpose here is not to celebrate Jobs's courage. After all, Dell was partly right, and teachers unions have sometimes served as a convenient scapegoat for reformers reluctant to tackle the broader dysfunction of K–12 education in America. But America's education failures, which go much deeper than recalcitrant unions, require the same sharp-edged common sense that Steve Jobs offered that day in Texas.

The U.S. Chamber of Commerce put it well earlier this year:

> It has been nearly a quarter century since the seminal report *A Nation at Risk* was issued in 1983. Since that time, a knowledge-based economy has emerged, the Internet has reshaped commerce and communication, exemplars of creative commerce like Microsoft, eBay, and Southwest Airlines have revolutionized the way we live, and the global economy has undergone wrenching change. Throughout that period, education spending has steadily increased and rafts of

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> well-intentioned school reforms have come and gone. But student achievement has remained stagnant, and our K–12 schools have stayed remarkably unchanged—preserving, as if in amber, the routines, culture, and operations of an obsolete 1930s manufacturing plant.[3]

Confronting Hostility and Suspicion

The hostility that greeted Jobs's comments is familiar to business leaders who get serious about school improvement. The education establishment is happy to take corporate America's money and in-kind support but is ultimately skeptical of business. Typical is Alex Molnar, professor of education at Arizona State University, who says, "Entrepreneurship doesn't fit comfortably with education. . . . [F]or-profit education as an institution has not been able to demonstrate that it is contributing to the greater good or making a positive difference in the practical reality of children's lives."[4]

In a sector where the state of Illinois dismisses an average of two out of 95,500 tenured teachers a year, The Teaching Commission demanded that teacher pay be linked to student performance and that principals have more authority to hire and fire.

Some authorities believe that business already exerts too much control over schooling. Alfie Kohn, a best-selling author whose work includes books such as *Education, Inc.*, has written, "There may be some sort of shadowy business conspiracy at work to turn schools into factories, but this seems unlikely if only because no such conspiracy is necessary to produce the desired results. . . . To an extraordinary degree, business's wish becomes education's command."[5]

With such criticism, it is no wonder many business leaders lean toward docility when it comes to education reform. They want to appear good citizens. Jobs's experience illustrates the perils of charting a bolder course.

Still, a few business leaders do more than whine about the failures of K–12 education. They dig in, get specific, and court controversy. For example, in a February 2005 speech to the nation's governors, Bill Gates offered a formulation that could serve as the mission statement for business leaders seeking to improve America's schools. "America's high schools," he said, "are obsolete. By obsolete, I don't just mean . . . broken, flawed, and underfunded—though a case could be made for every one of those points. By obsolete, I mean that our high schools—even when they're working exactly as designed—cannot teach our kids what they need to know today. . . . Today, only one-third of our students graduate from high school ready for college, work, and citizenship. . . . This isn't an accident or a flaw in the system; it is the system."[6]

Lou Gerstner, former CEO of IBM and now chairman of the Carlyle Group, adopted an equally feisty stance when he launched The Teaching Commission in 2003. In a sector where the state of Illinois dismisses an average of two out of 95,500 tenured teachers a year, Gerstner's group demanded that teacher pay be linked to student performance and that principals have more authority to hire and fire.[7]

Earlier this year, Tom Donohue, president of the U.S. Chamber, declared at the launch of a report card on American schooling, "For too long, the business community has been willing to leave education to the politicians and the educators—standing aside and contenting itself with offers of money, support, and goodwill. Not anymore."[8] In a nation that has tripled after-inflation school spending in the last four decades, that leads the world in per-pupil outlays, and whose capital city spent more than $20,000 per pupil last year, the common-sense perspective of critics like Jobs, Gates, Gerstner, and Donohue has been sorely lacking.

Getting Past "Good Citizenship"

Still, eager to be good corporate citizens, business leaders typically get their companies involved in schooling by partnering with well-intentioned education officials, backing local bond issues, arranging for employees to work as mentors, and supplying goods and services to local schools. For example, Citizen Schools of Boston provides tutoring and mentoring to 2,000 middle schoolers, drawing, in part, on volunteers and donations from companies. Corporations like Wal-Mart, ExxonMobil, AT&T, Target, and Coca-Cola provide millions of dollars each year in scholarships to needy students. Such contributions deserve praise, but it is doubtful they will alter the shape of American education. The problem is the system itself.

In policy areas like taxes and regulation, business leaders do not hesitate to support reforms based on self-interested, tough-minded analysis. They regard utopians with appropriate skepticism. It is time to bring that same edgy pragmatism to education.

Business Has Leverage

Businesses contribute about $2.5 billion a year in resources to K–12 schooling. With total public spending over $550 billion in 2006–2007, that sounds like a rounding error, but the money is not insignificant, and it provides leverage.[9] A survey earlier this year by DeHavilland Associates reported that four-fifths of school administrators said they had received support from individual businesses. The proportion was greater than from any other source, including parent organizations, education foundations, and local nonprofits. More than half of the school officials said they had received help from business volunteers—a share surpassed only by volunteers from parent organizations.

Because policymakers have trouble imagining what they have never seen, business can play a critical role in launching and nurturing innovations that would never see the light of day.

Respondents in urban, suburban, and rural communities all ranked individual businesses as their most important partners. When asked with which organizations they would most like to build relationships, education officials ranked local business coalitions first and individual businesses second.[10] It is clear that the business community is at the table and that it has clout. What is less clear is whether that time, money, or influence is being invested wisely.

And it is not just money that business brings. Because policymakers have trouble imagining what they have never seen, business can play a critical role in launching and nurturing innovations that would never see the light of day. One is Philadelphia's School of the Future, opened in the fall of 2006 and created by Microsoft and corporate partners like Gateway and Meru Networks.

The school provides each student with a tablet PC. There are interactive digital whiteboards in the classrooms, software called the Virtual Teaching Assistant that lets students direct the pace of their learning, and a teacher-competency tool that is modeled on Microsoft's own human resources operation. As Philadelphia's school superintendent Paul Vallas has explained, "This isn't Microsoft money. This is Microsoft smarts."[11]

You Can Do It Right and *Still* Get It Wrong

When business leaders do step aggressively into education, they soon see the same two sides apparent in the Jobs-Dell dustup: one calling for accountability and merit pay, the other defending unions and the status quo. It does not take a strong-minded business leader long to decide which camp better reflects her view of the world.

So far, so good, but it is the next step that can be tricky. Given the culture and organization of schooling and its isolation from the broader trends in American life, would-be reformers frequently do not get their reforming quite right. When they talk about testing and accountability, for instance, many reformers reflexively embrace simple-minded schemes that focus on snapshots of student achievement—such as those required by the federal No Child Left Behind Act (NCLB)—rather than angling toward the kind of performance-oriented metrics that characterize the best public and private organizations. The differences are real, and significant.

NCLB evaluates schools almost exclusively upon once-a-year measures of student performance in math and reading—and requires that schools either pass or fail based on whether a particular percentage of children in a variety of subgroups perform at a state-determined level. There is no attention paid to how much students actually learned that year or to whether schools missed their targets by a lot or a little. It is as if researchers evaluated hospitals in Boston and Baghdad based simply on the number of patients that died each month, without regard to circumstances. This is not a formula for stable or effective accountability; indeed, it gives a pass to employees in comfortable situations while alienating those operating in the most challenging circumstances.

Merit-pay proposals generally emphasize lump-sum bonuses based on short-term jumps in student performance—plans more reminiscent of the incentives offered Fuller Brush salesmen or Dean Witter brokers in the 1970s than those intended to attract and retain talented professionals today. Savvy business leaders who get involved in education sometimes find themselves promoting the same kinds of crude organizational reforms that might have been deemed good management practice in their industries a generation ago but would be laughed out of their own firms today.

Consider school vouchers, a notion that enjoys much support from the business community. More school choice—whether through school vouchers (which allow public school students to move to private schools), charters, tax credits for private schools, or more modest arrangements—is a fine idea in its own right, but one that does not yield the deregulation or results that most casual supporters have in mind. Severe government-imposed impediments, such as regulations on curriculum, operations, and teacher compensation, typically remain in place for the schools that liberated students choose under charter or "public school choice" arrangements. Meanwhile, private schools participating in choice arrangements are hampered by the paltry funding of most vouchers, a lack of entrepreneurial energy or promising new ventures, and the ever-present threat of expanded government interference.

Consumers in Moscow in 1975 could choose among scores of grocery stores, but few would argue that this choice yielded a vibrant marketplace. You need to couple choice with opportunities for entrepreneurs to enter the field, obtain resources, recruit talent, compete fairly, and benefit from success.

Both France and the United States have choice-driven market economies, but they vary enormously in entrepreneurial activity. The reason is not consumer choice but dynamic markets, sensible regulation, and aggressive management.

Choice-based arrangements may be a valuable first step to breaking up a lethargic educational monopoly—but they are only a first step.

What Business Has to Teach School Reformers

Pushing to improve educational accountability or productivity is often derided as adopting a "business approach." In truth, there is nothing uniquely businesslike about asking that organizations be nimble and efficient, or that they take calculated risks. These are simply reasonable ways to help adults competently perform their chosen work. Embracing them implies only that we should approach our children's education with at least the same degree of seriousness we reserve for the production of breakfast cereal.

Let us return to Bill Gates's 2005 speech: "Training the workforce of tomorrow with the high schools of today is like trying to teach kids about today's computers on a 50-year-old mainframe," he said. "It's the wrong tool for the times."[12]

Gates had it exactly right—and not just for high schools. Hesitant to contemplate what they see as risky alternatives when dealing with children, education reformers, left and right, pretend that we can somehow anticipate the future and then move there in an orderly fashion. They call for smaller classes, more discipline, and similarly "risk-free" palliatives. Even those who champion proposals like school vouchers or charter schooling typically tout positive studies while minimizing the uncertainty of market-based solutions.

The problem is that our imaginations are usually limited to what has already been tried. Chris Whittle, founder of Edison Schools, has observed, "There was a time in aviation when the propeller was the only way to move a plane forward. Designers could not envision getting beyond a certain speed with a prop. Then came jet engines, and the speed of airplanes doubled overnight."[13]

Real progress is inevitably messy because even expert foresight is often poor, and the best answers can change over time. New solutions require trial and error. Clayton Christensen of the Harvard Business School, coauthor of *The Innovator's Solution*, has reported that, in over 90 percent of all successful new businesses, the founders' initial strategy was not the one that led to success.[14]

In 1861, German inventor Philip Reis created a primitive version of the telephone—but gave up when he could not conceive of any viable commercial applications. Fifteen years later, Alexander Graham Bell had more luck. In 1902, the Wrights were asked how long it would be before someone would build and fly an airplane; they guessed 20 years. In 1903, they were the first to fly.

If it is tough to anticipate which inventions will bear fruit (or when), it may be even more difficult to predict who will succeed. In 1910, there were about 200 U.S. companies producing automobiles. By 1960, just four were left standing. No one could have forecast the winners. A decade ago, who would have guessed that Google and Amazon would become corporate giants, with a market capitalization of $170 billion between them, while thousands of competitors would fold?

Analysts at Univac, once the leader in the computer industry, predicted in 1950 that one thousand computers would be sold worldwide by the year 2000. In fact, 835 million computers were sold between 1981 and 2000. Of course, the analysts had in mind the hulking, room-size machines of their day. The notion that Michael Dell would one day revolutionize the way we buy and use computers by selling them out of his University of Texas dorm room seemed ridiculous—right up until he did.

It is simply impossible to eliminate the risk implicit in entrepreneurial ventures. In fact, it is impossible to eliminate uncertainty in more mature organizations—except at the cost of stagnation. Market research firm BizMiner has reported that 25 percent of all U.S. cookie and cracker makers that were in business in 2002 had failed by 2004; among florists, the failure rate was 24 percent; among men's clothing start-ups, 50 percent.[15]

What Can Business Do?

If industries producing mundane products face such challenges, matters get even stickier when it comes to a complex, knowledge-based sector like education. Policymakers and advocates find it easier to take refuge in airy aspirations than to confront this difficult truth.

Business leaders, however, should know better. They appreciate the risks in making organizations work and the bracing discipline of accountability and competition. This knowledge should not be left on the shelf when business tackles education.

What, specifically, should business do to improve education? Here are five suggestions.

First, business has expertise in areas like performance evaluation, human resources, information technology, and data systems. Donohue noted that in a study earlier this year, "Not a single state could provide systematic data on teacher performance or return on investment. No responsible publicly or privately held firm could operate successfully with such a lack of data. While education policymakers have invested great energy in gathering student achievement data, they have paid inadequate attention to developing the kind of information essential to driving organizational improvement."[16] These are areas where business has decades of hard-won experience. Companies can pass on the lessons to schools.

One development is the benchmarking initiative launched by the American Product Quality Center, which is working with districts across the nation to bring to school systems the attention to process and quality control that characterizes high-performing public and private organizations. Another promising venture is the work of The New Teacher Project to analyze school district personnel policies and human resource departments, devise improvements, and provide solutions.

Second, any vibrant sector requires that strong new ventures have access to venture capital, be able to secure expertise and talent, and have the opportunity to grow. K–12 education directs the vast majority of funds to school systems on a per-pupil basis. As a result, there is little support for new entrants. Even the best new ventures, such as the highly regarded KIPP Academics, have had to search hard for minuscule support. As a result, such innovative schools have grown too slowly.

Not just the lack of resources, but also the lack of networks, mentoring, and a straightforward way to locate potential investors, deter potential entrepreneurs. One attractive model is the San Francisco–based NewSchools Venture Fund, co-founded by venture capitalist John Doerr and staffed, in part, with former high-tech executives and consultants from McKinsey and Accenture. NewSchools offers funding to new providers while tapping its own network to give strategic planning, financial modeling, and fundraising help.

Third, business can get out in front on contentious education reform issues when education innovators themselves cannot. Unfortunately, organizations like Teach For America (TFA) and Edison Schools need to advance cautiously with education authorities in order to preserve relationships and develop new markets. Just consider how multinationals trying to enter China are unlikely to criticize Chinese policy on free speech, and you will get an idea of how difficult it is for TFA to be aggressive with local school boards. Critical leadership—of the sort offered by Jobs, Gates, and Gerstner—is what outsiders often are best equipped to provide.

Fourth, business needs to get tough with school boards, superintendents, and state officials. As it is, too many corporate leaders prefer to avoid conflict that can spark bad feelings or negative publicity. They want education reform, but they want it quiet, collaborative, and calm. Fixing dysfunctional organizations, however, is always messy, and taking back prerogatives from unions is inevitably a bruising struggle.

The business community is a key player in local bond drives and other efforts to provide more dollars for schooling. Business leaders have too often given money, muscle, and support without demanding substantial reform in exchange. It is time to strike a savvier bargain. The price of support should be serious movement on fronts such as merit pay, deregulation, expansion of school choice, and transparency.

Finally, business leaders have experience and credibility on issues like accountability, compensation, and management that can allow them to serve as the voice of reason when would-be reformers champion ill-conceived notions. For instance, one popular reform idea is a dubious proposal known as the "65 percent solution," which has won support from former Florida governor Jeb Bush and other politicians who usually know better. The proposal appears unexceptional, mandating that school districts commit at least 65 percent of their budgets to classroom expenditures, apparently as an alternative to overspending on administration.

The measure, however, is troubling because, in an era when successful schools are finding new ways to deliver education—whether through virtual schooling, supplemental tutoring, or hybrid high school–college programs—it embraces a bookkeeping gimmick that could stifle creative staffing or use of technology. Business needs to take the lead in educating the public and policymakers about the promise and the pitfalls of such measures that claim to advance businesslike virtues.

Business leaders have a choice—not only of what they do, but also of how they do it. Many find it more comfortable to duck the Steve Jobs approach and play down the degree to which American schooling must change. But if these leaders imagine that additional resources, more testing, hasty merit-pay programs, and genial collaboration with school administrators will equip America's children for the twenty-first century, they are dead wrong. And all of us, together, will pay a high price for that tranquility. The problem, as Gates said, is the system itself. Timid approaches are not enough.

AEI editorial assistant Christy Hall Robinson worked with Mr. Hess to edit and produce this Education Outlook.

Notes

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