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Education Outlook

The Future of Educational Entrepreneurship

By Frederick M. Hess

The most intriguing reforms in K–12 education today are entrepreneurial ventures like the New Teacher Project, the KIPP Academies, and New Leaders for New Schools, which command notice for their efforts to reimagine schooling. In The Future of Educational Entrepreneurship: Possibilities for School Reform, *I collaborate with a team of analysts and reformers to examine what it will take to create conditions in which new problem-solvers can help transform K–12 education.*

The history of school reform is a tale of clashing recipes and absolutes. For conventional reformers, it is a question of professional development, instructional leadership, curricula, and "best practices." While championing these remedies, advocates have overlooked the enormous difficulties inherent in trying to turn around established organizations. For those skeptical of district-based reform, the proffered remedy is typically parental choice or market competition. Advocates of this approach have given short shrift to the challenges of deregulation and the institutions and resources needed to foster a vibrant educational sector. These opposing camps suffer from a shared shortcoming—a failure to recognize that transformation will require consciously refashioning the world of schooling into a world that encourages and supports change.

Established Organizations Are Hard to Change

Experience offers scant reason to believe that traditional districts are poised to deliver breakthrough improvements. After all, it is hard to point to any field in which systematic measures have produced substantial gains across thousands of entities. More typically, radical and disruptive improvement is the province of new entrants creating a coherent organization that faithfully delivers a particular innovation at scale. Rather than expecting new practices or routines to be injected successfully into thousands of districts or tens of thousands of schools, it may be more plausible that successful ventures will require a fresh start and a clean slate.

Particularly telling on this count are school "turnarounds." Unlike most reform efforts, which focus on incremental improvement of familiar institutions, turnarounds seek to take schools from bad to great within a short period of time. While enthusiasts regard turnarounds as a ready answer to the challenges posed by No Child Left Behind (NCLB), overhauling established organizations is far tougher than many suggest. Indeed, the hope that we can systematically turn around most troubled schools is at odds with what we know about turnaround efforts in the corporate world. Arthur D. Little and McKinsey & Company, two leading consulting firms, have studied "Total Quality Management" at hundreds of companies and concluded that only about one-third achieved their hoped-for results.[1] Scholars of corporate reengineering report a success rate for Fortune 1000 companies as low as 20 percent.[2] As MIT's Peter

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Senge has noted, "Failure to sustain significant change recurs again and again despite substantial resources committed to the change effort . . . [and] talented and committed people 'driving the change.'"[3]

School Choice Is No Miracle Cure

Skeptics of internal reforms and those dubious of more aggressive tactics to turn around schools naturally look outside conventional districts for solutions. Typically, this camp argues for choice-based reforms—like school vouchers or charter schooling—that will allow families to seek better schools, facilitate the emergence of more effective alternatives, and cause competition to press districts to improve.

If turnaround advocates place too much faith in upending sluggish institutions, choice-based reformers place too much faith in the presumption that simply allowing families to choose their child's school will foster a dynamic sector. School choice is no elixir. Most proposals to promote choice have paid little attention to ensuring that systems are underpinned by efficient support services, effective quality control, and a stable political and regulatory environment. More optimistic accounts overlook the fact that the entrepreneurial education sector lacks the wealth of human capital, venture capital, internal quality control, and accompanying infrastructure that characterize other dynamic sectors. Those counting on new schools to deliver quality consistently, on average schools to improve on their own, or on lousy schools to shut down have found the process much less automatic than they had hoped.

The Missing Dimension: The Supply Side

Against this backdrop, an armful of upstart organizations are pioneering some of the most intriguing initiatives and successes in education today. Teach For America, Achievement First, the Mind Trust, TeachU, High Tech High, SchoolNet, Green Dot Public Schools, Aspire, and others are commanding laurels, even as the uneven track record of charter schooling and the failures of many new ventures highlight the hit-and-miss promise of entrepreneurial reform.

What will it take to maximize the chances for entrepreneurial problem-solvers to deliver real and lasting benefits in K–12 education? While the honor rolls mentioned above give the impression of a robust supply of dynamic organizations, existing innovative activity pales beside the larger K–12 enterprise. The sixty-odd KIPP schools, the 4,800 teachers recruited each year by the New Teacher Project, and the 150 principals trained annually by New Leaders for New Schools are dwarfed by the nation's 15,000 school districts, 90,000 schools, and 3 million teachers.

In sector after sector, solving new problems—or more effectively addressing stubborn ones—has been the province of new entrants. Thus, the challenge is not simply promoting best practices or loosening regulations but encouraging new ventures that can solve problems more effectively. Just as school improvement does not simply or miraculously happen without attention to instruction, curriculum, and leadership, so a risk-averse, bureaucratic sector will not casually become a fount of dynamic problem-solving. As successful entrepreneurs seek to avoid the humbling fate that has befallen many initially promising reforms, they must offer more than passion and philanthropy. Helping this generation will require a supply-side strategy.

Nurturing a More Dynamic Sector

Supply-side reform recognizes that vibrant markets possess talented employees, investors willing to identify and nurture promising ventures, a stable and hospitable policy environment, and incentives that recognize and foster quality. Such an atmosphere increases the odds that ventures succeed and ensures a growing base of useful knowledge, rather than producing a series of one-hit wonders. While supply-side reform requires attention to policies that govern everything from teacher licensure to charter schooling, it is more useful here to address less frequently discussed challenges and opportunities.

The Need for Talent. Making education a magnet for talent requires rethinking assumptions about hiring and tapping into previously unconsidered sectors. While ventures like Teach For America, the Broad Residency in Urban Education, and the Academy for Urban School Leadership have made strides in attracting nontraditional candidates to education, more emphasis must be placed on exploiting networks that enable entrepreneurs to recruit talent, collaborate with mentors, and discover business opportunities.

Capitalizing on the dynamics of today's workforce requires taking advantage of the intrinsic appeal of K–12 education. As Christopher Gergen and Gregg Vanourek, founding partners of New Mountain Ventures, have

noted, "Education organizations begin with an inherent advantage: the mission of education is closely aligned with the values of rising generations . . . eager to engage in meaningful work and make a difference. In that sense, talent recruitment teams in education are beginning on the 'fifty-yard line.'"[4] School reformers need to take better advantage of that opportunity and revisit assumptions about recruiting midcareer professionals, creating part-time positions, and finding ways to leverage expertise. Citizen Schools and the Big Picture Company, which both have devised systematic school-based programs for engaging local professionals, provide intriguing examples on this front.

Of crucial importance are the networks and relationships that enable enterprising individuals to collaborate, find capital, discover opportunities, seek mentoring, and share knowledge. Research on startups shows that about 80 percent of successful firms are launched by individuals with experience in or adjacent to a relevant industry.[5] There is a reason that KIPP and Teach For America have played a crucial role in seeding the education sector with individuals poised to launch new ventures—they recruit dynamic educators, provide them with a supportive and engaging culture, and forge strong links between members and alumni. The limited number of such opportunities and networks, however, has kinked the pipeline. The challenge is to nurture these networks and work to expand and diversify them, especially in particular locations and with specific kinds of talent.

Similarly, varied opportunities exist in vibrant sectors, but there is a lack of prospects for young educators to develop managerial skills, exploit new instructional tools, and gain insight into questions of school system design. One response would be to create hybrid positions that allow teachers to remain in the classroom while building skills and gaining experience supervising adults, leading teams, designing curricula, or developing accountability systems. This would reduce the incentive for energetic, capable, young teachers to decide by their midtwenties whether to pursue school leadership or leave the sector. It would also enable educators to gain seasoning, connect with like-minded peers and mentors, and get a taste for alternate K–12 career paths—all standard-issue opportunities in other thriving sectors.

The Role of Financial Capital. Education has been massively outstripped by other sectors in efforts to attract private investment and generate investor enthusiasm. On average, venture capitalists funnel just $64 million annually into pre-K–12 businesses, paling in comparison to the $7.2 billion poured into entrepreneurial health care organizations. The result is an inhospitable environment for nascent ventures seeking seed funding or support for expansion. Addressing this shortcoming requires looking for new sources of capital and structuring investments in ways that maximize social returns.

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One way to encourage capital investment is to create incentives that reward outsized results. It is difficult, to say the least, to determine how to support disruptive innovations, but a modest first step would be to identify the demands that might inspire entrepreneurs to create a supply. An education X Prize—which offers large rewards for game-changing accomplishments—would be a promising approach to whetting the entrepreneurial appetite and spurring public interest. This model has leveraged enormous private investment in other sectors, and former X Prize Foundation president Tom Vander Ark has estimated that a $10 million education X Prize would stimulate twenty or thirty times that amount in private investment.

Another tactic for jump-starting investment in the sector entails the targeted use of public funding. Joseph Keeney of School Choice Investments and Daniel Pianko of Knowledge Investment Partners have suggested that the Department of Education, or a consortium of states and districts, attempt to mimic In-Q-Tel, the federally sponsored firm that invests alongside private venture capital firms to enhance national security. In-Q-Tel—which identifies promising companies that have the potential to provide the CIA with intelligence technology—invests through debt, equity, and pay-for-development of specific initiatives and then provides targeted firms with the strategic expertise they need to expand. There are various modifications that would help make the In-Q-Tel model fit education. One would foster investment funds targeted at particular services such

as high-need areas or enabling technologies (e.g., curricula and software). Another would create a network of large school districts to fast-track purchases of resulting advances, thereby achieving bulk savings and providing a critical mass for effective products.

Removing Barriers to Entry. A variety of formal and informal barriers stifle entrepreneurial ventures in K–12 education. These obstacles, which include regulatory policy as well as cultural and organizational factors, must be reformed to make the educational landscape more conducive to the creation and survival of promising start-ups. Barriers deserving particular attention are those that impede new providers or impose constraints on how they can operate. Some of them—like caps on charter programs or elaborate facilities requirements—have drawn notice. Other cultural obstacles have been less salient.

Significant among these is the tendency to define staff and salaries as sunk costs. Rather than asking whether a tutoring provider could reduce the number of paraprofessionals or whether more sophisticated diagnostic tools could enable a teacher to work more efficiently, administrators often believe that technology and service providers should supplement but not supplant personnel. Reversing this mindset would require metrics that make the costs and benefits of various staff-service combinations more transparent and coaching district officials to appropriately evaluate alternatives. It would also demand revising statutes and policies, finding ways to reward efficiencies, reducing the emphasis on compliance, and retooling funding formulas that are determined by number of employees rather than performance.

In addition, most big-ticket items in education are purchased through competitive bidding in which the product needs to be finished before the contract is awarded (for example, for a textbook to be adopted, it first must be written). As a consequence, large firms with lots of cash—like major textbook publishers—have an enormous advantage. In more R&D-friendly sectors, procurement works quite differently. When NASA wants a new spacecraft, it does not expect Boeing to build one at its own expense. Instead, it invites competing proposals and may even fund the early development of competing designs before selecting a partner.

State and district procurement systems are designed to buy products like books, computers, and training workshops—items that can be easily counted and monitored. They have much more trouble purchasing services. The most promising solutions, however, are complex combinations of products and services that require educators to have more discretion to make purchasing decisions and procure products and services in a manner that meets their needs. The New York City Department of Education has been a pioneer on this front, devolving substantial funding and authority to “empowerment schools” and allowing principals to purchase services from district collectives or authorized external organizations. A small “market maker” office within the department offers support, collects outcome and customer satisfaction data, and provides quality control by vetting would-be vendors.

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Quality Control in a Vibrant Sector. While policymakers and practitioners have embraced student achievement and graduation rates as reliable gauges of performance, an unfortunate blind eye has been turned to their limits. Standardized assessments are a valuable measure of student learning and offer a crucial basis for comparing competing providers; however, little attention has been paid to other metrics that might be more appropriate, to the applicability of test scores for judging the performance of varied providers, or to whether the responsibility of monitoring should belong to independent providers or the state.

Accountability efforts—and particularly the eight-hundred-pound gorilla of NCLB-style testing—have created an appetite for programs and schools that can help struggling students reach proficiency in reading and math. Yet, these particular achievement measures are largely irrelevant to motivating and managing many important school employees. It does not make sense, for instance, to hold a payroll processor responsible for student achievement rather than the speed and accuracy of his work. In short, quality control metrics need to focus on outcomes rather than inputs, but the understanding of outcomes needs to be much more nuanced than has been the norm.

To take one example: *Consumer Reports* often suggests “best buys” in several price ranges; whether the $1,500

or the $4,000 flat-screen television is the best buy for a given family depends on its budget and preferences. Such information is irrelevant to a parent trying to choose among district or charter schools (as their out-of-pocket cost will be zero in every case), but it is highly relevant to superintendents choosing alternative curricula or Title I tutoring firms. The bottom line is that some quality control strategies work for some goods and services in some contexts for some users more than for others—yet, in the past decade, we have focused on generating one set of metrics while paying little attention to many others.

What Comes Next?

A supply-side strategy calls for thinking beyond what today passes for cutting-edge approaches and emancipating ourselves from once-reasonable but now confining assumptions that govern the shape of K–12 education.

Considering Function, Not Location. Historically, schools and districts have been organized by local geography, serving children in a particular location. This approach made sense given the constraints of transportation, communication, and the provision of support services. But as these limitations have eroded over time, the need for school systems or service providers to confine themselves to a particular area has diminished. Today's arrangements require each district to reinvent the wheel when it comes to serving a particular segment of students. Instead of expecting a single school district to meet the entire array of needs in its community, a variety of specialized providers operating nationally would more readily provide targeted services to any given community.

For example, the SEED School, a public charter school in Washington, D.C., provides a boarding school experience for more than three hundred low-income children in grades seven through twelve whose parents believe they will benefit from its intensive environment. SEED does not try to serve students desiring a conventional high school education, and the D.C. Public Schools would have a difficult time staffing, operating, or managing SEED alongside its other schools. Instead, a specialized provider is fulfilling a valuable role and complementing other available services. Some have described various schools coexisting in a community as a "portfolio" approach; it may be more useful to think of a "jigsaw" approach—with an array of schools and providers collectively covering the spectrum of student needs.

Valuing Specialization. One advantage of the jigsaw metaphor is a shift from the assumption that successful providers should duplicate the services of a school or district to a system in which providers may focus on serving discrete needs for particular clients. In each case, the purpose of the innovation is not to replace an entire school or school system but to provide a particular service that benefits students, schools, or school systems. The hunt should not be for the elusive 100 percent solution, but for one hundred different 1 percent solutions. The roles played by the New Teacher Project in supporting human resources, by Wireless Generation in supporting literacy instruction, or by Presidium Learning in providing back-office support are examples of how this can work.

The main benefit of this approach is that it allows providers to become good at one function and then slowly expand their reach. Michael Dell was able to start small by selling only hand-assembled personal computers. Amazon.com started by selling just books. Microsoft provided software and never sought to provide the hardware that existing competitors provided. If Amazon.com had only been taken seriously if it could displace all the services provided by Barnes & Noble, or if Microsoft had been expected to sell computers and software, neither would have gotten off the ground. Yet, there is a clear bias in education toward "whole-school" replacement—an expectation that entrepreneurs should open whole new schools instead of just delivering a single, important advance. This makes it more difficult for specialized providers to attract funding and distracts them from developing, refining, and delivering a particular service or product.

Funding Services Rather Than Seat Time. Even the most novel plans for rethinking education spending have limited their innovation to the idea that dollars should follow students to the school they choose—rather than merely flowing into school district coffers. Charter schooling and voucher plans, for example, involve redirecting a percentage of the public contribution to a parent's chosen school, and weighted student funding plans entail allocating dollars based on school enrollment.

A more robust model might build on the intuition embedded in charter school funding by allowing families to direct dollars to services as they see fit. Rather than directing funding to the school that a family chooses, a state or district could deposit each child's per-pupil expenditure into an "educational spending account" that parents could appropriate to approved providers for tutoring, specialized instruction, or similar services. A

parent might send a child to a given school and then, with any remaining funds, pay for additional reading or music instruction. This would reward schools for being cost-conscious and could encourage them, in turn, to more aggressively seek out efficient niche providers.

Another intriguing approach would refashion funding systems to pay providers based on results rather than inputs. For instance, if a school district paid a provider $20,000 per year for every at-risk high school student that it got on course to graduate on time, the district would encourage a burst of activity among teachers, community activists, and for-profit providers to devise approaches geared to help particular students. One such model, conceived by MATCH charter school founder Michael Goldstein, involved the formation of teacher co-ops that established "classes" of seven students, met in coffee shops, contracted with specialized providers for support services, and paid teachers up to $100,000 a year if students met the benchmarks.

Keeping the Garage Doors Open

Paul Allen and Bill Gates famously launched Microsoft in the Gates's family garage, but an investor in the 1970s looking for the smart bet in American technology would not have invested in these two kids. Such an investor likely would have backed IBM, the firm that dismissed the potential of Microsoft's new software and chose to lease rather than buy it.

Vibrant sectors enable creative problem-solvers to plug into ecosystems marked by talent, expertise, capital, and networks. The lesson of Microsoft is not that the government should have funded every aspiring techie, much less that experts should have surveyed the land and determined that resources should be showered on two kids from suburban Washington. Rather, it is to demonstrate the importance of keeping doors open for entrepreneurs to test out new ideas, attract support, and reap rewards for devising a successful innovation and delivering it at scale.

At one time, TWA and Sears, Roebuck and Company were feared and respected behemoths. The new entrants that challenged and ultimately displaced them—including Southwest Airlines and Wal-Mart—were initially regarded as regional curiosities. The challenge in a sector like education, in which the government funds and operates dominant systems, is to ensure that it is possible for such ventures to emerge from under the weight of the status quo.

Supplying effective new providers of various stripes is essential for choice-based reform and for retooling troubled schools. In reality, of course, these two approaches operate in tandem. In Chicago and New York City, for example, charter management organizations are running dozens of schools, New Leaders for New Schools is training principals, and the New Teacher Project is hiring hundreds of first-time teachers. Meanwhile, the districts have taken steps to provide some principals with charter-like authority and to recruit teachers more aggressively. In fact, it is hard to say with precision the degree to which these new developments are occurring inside or outside of districts. The most promising initiatives skirt those boundaries, drawing on district infrastructure and political leadership while relying on the fruits of new personnel, tools, schools, and rules.

There should be no unrealistic expectation that entrepreneurial ventures will deliver happy results. They promise nothing more than opportunity, coupled with substantial doses of failure and frustration. Although we would like to determine the future through research and best practices and get there with as few diversions as possible, that is not the way of the world. We are feeling our way toward a new and hopefully more fruitful era of teaching and learning. Our choice is ultimately between trusting the authorities to fix aged and troubled bureaucracies in deliberate and incremental steps or trusting in the ability of a rising generation to seize new opportunities and tap human ingenuity to answer new challenges in unforeseen ways. If history teaches us anything, it is that this is really no choice at all.

Notes

1. *The Economist*, April 18, 1992, quoted in Peter Senge et al., *The Dance of Change: The Challenges of Sustaining Momentum in Learning Organizations* (New York: Doubleday, 1999), 5–6.

2. Paul Strebel, "Why Do Employees Resist Change?" *Harvard Business Review* (May/June 1996): 86.

3. Peter Senge et al., *The Dance of Change: The Challenges of Sustaining Momentum in Learning Organizations*, 6.

4. Christopher Gergen and Gregg Vanourek, "Talent Development: Looking Outside the Education Sector," in *The Future of Educational Entrepreneurship*, ed. Frederick M. Hess (Cambridge, MA: Harvard Education Press, 2008).

5. William D. Bygrave, "The Entrepreneurial Process," in *The Portable MBA in Entrepreneurship*, ed. William D. Bygrave and Andrew Zacharakis, 3rd ed. (Hoboken, NJ: John Wiley and Sons, 2004), 1–27.