

NEW SCHOOLS, IN 'NEW ORGANIZATIONAL SPACE'
October 2001

Background

In 2000 Minnesota's law creating a charter sector within public education was recognized by Harvard University's John F. Kennedy School of Government and by the Ford Foundation as an important innovation in American government. The charter law was not a pedagogical innovation, creating a new kind of school, but an institutional innovation creating an opportunity for others to start and run a public school; to offer public education in the community.

With the recognition came \$100,000 - to Minnesota, as to the nine other winners - to be used to tell the country about the innovation and to urge others to replicate it.

This presented an unusual problem. Minnesota's charter law was enacted in 1991. By 2000 the idea of the state creating a charter sector had become widely known to those in education policy around the country, and legislatures in something like 35 states had by then replicated the law in some form. What, then, could Minnesota usefully do further to advance the national understanding of its innovation?

Rep. Alice Seagren, chair of the K-12 Finance Committee in Minnesota's House of Representatives, chaired a small task force to come up with an answer. The decision was to focus on the need for and the importance of . . . the rationale for . . . a new-schools strategy as a central element in the national effort to change and improve public education.

In the almost 20 years now since the national commission report in 1983 the national strategy has been to improve public education by persuading existing organizations - the districts - to change and improve existing schools. There was no real place in this strategy for the idea of creating the (needed) different and better schools new. The chartering idea introduced that possibility. But through the 1990s that idea remained peripheral to the central effort to re-form the schools we have . . . outside the accepted 'theory of action'. By the end of the decade, however, it was increasingly clear how hard it was proving to re-form existing schools and to scale-up that change. Even to sustain the change where it was initially made.

A contract was awarded to Hamline University in Saint Paul to organize a national meeting to begin considering how the national effort to improve existing schools might be supplemented by a comparable national effort simultaneously to create different and better schools new. About 50 persons took part in the discussion, held in the Conference Center at Hamline on October 9 and 10, 2001.

This is a summary of that discussion; to which a list of the participants is attached.

oooooo

Part I: Re-forming the schools we have

The meeting began with an effort to put in perspective the present strategy; the present effort to change and improve the schools we have.

The moderator, Senator Wib Gulley, asked Ron Wolk, the founding editor of Education Week, to review the idea of standards-based systemic reform . . . the current "theory of action".

Wolk: Until three years ago I thought that 'standards' offered the best hope. But I became concerned enough about it to write my 'Confessions' memo which Bob Schwartz used for the 1999 Education Summit.

At the start it was a sensible effort. But the 'opportunity to learn' element was dropped as too expensive. And the some of the expectations about standards were unrealistic: too many academics seemed to want all kids to learn everything about their field. The original idea about making time the variable could not be implemented; nor did the testing the standards really get well aligned with each other, either: The measurement was highjacked by the accountability movement, threatening the new schools that were appearing and trying new things.

In my memo I had advocated a "mid-course correction" in standards-based reform. But the establishment was fearful that if they let up on the effort it would be lost. The correction did not get made, and since '99 the movement has drifted even more off course.

Chris Cross: There has indeed been a fear of showing any willingness to admit the problems: that the tests are not well keyed to standards, or that the standards themselves have been very hard to generate. People do not see how to change course without seeming to back down; how to change the testing without seeming to "lower the bar".

Bruno Manno: Checker Finn summarized the four major theories of action at the end of a report on the Annenberg program. First is that the districts have the resources but don't know what to do. They need to be shown what to do. The second is that they know what to do but don't have the resources. So they need to get the resources. The third is that they know what to do and do have the resources, but still don't act. They need to be made to do what they ought to do. This produces the accountability model: standards, measurement, consequences. The fourth is that nobody can really make 'em do it; so that - in addition to the first three - there also have to be the incentives produced by choice and competition to give them a reason to act in their own interest. All of these are about the district changing its schools; are about the role of the district board of education.

Dave Patterson: There is a train wreck coming. California has absolutely no idea what it is going to do with the schools that come out at the bottom; that are identified as inadequate. People are looking simply at traditional ideas like staff-development. **Wib Gulley:** The states didn't put in enough money. **Patterson:** Even the money wouldn't do it.

For the succeeding hour the participants then offered various examples of the difficulty districts have in changing existing schools; and various explanations for this difficulty.

Part II: Why organizations have such difficulty with change

The moderator then turned to Joe Graba, former dean of the Hamline Graduate School of Education. **Graba:** I've been a state legislator, I've been an administrator in public education. In these capacities you become curious about the process of change. Nothing I've come across has been as intriguing to me as the work of the person we will hear from next.

On these TV monitors you will shortly see and hear Clayton Christensen. He is a professor at Harvard Business School; the author of The Innovator's Dilemma and of an article in the March-April 2000 Harvard Business Review titled "Responding to the Challenge of Disruptive Change".

Wib and Ted Kolderie and I visited Professor Christensen in mid-September. He will simply present his research and his conclusions about the problem of change in the private business sector. How far this analysis and these conclusions apply in public education is what we want to talk about afterward, here.

As a person in public education I've often been skeptical of analogies from the private sector. Most of these talk about what private firms do well; and urge districts to do the same. The message here is different. It is about how hard it is for even private firms to change. So our traditional response, that the public sector is not like the private, is something we will have to think about carefully; may not apply.

Christensen: I should start with where the puzzle came from.

I was living in Boston, watching Digital Equipment collapse. This had been a successful company. As in most such cases the success had been attributed to the management team. Now when it was failing the failure also was attributed to 'bad management'. This was a common view. Yet it seemed strange. Clearly at the same time all the mini-computer firms were failing. And I had worked with DEC executives when I was with my own company. They were very good. I began to try to refine the problem. Is there really something about the style of management that causes good firms to fail?

I began looking at the disk-drive industry. I saw that no firm ever stayed 'on top' over a period of time, through successive generations of product. This began to generate a theory, which I then applied to other industries. It turned out to apply in other fields, including the non-profits, as well.

In every field there is a level of improvement the customers can utilize (though of course the customers vary). There is also a level of performance-improvement in the product (or service) that the mainstream customers do not find useful; that is not what they need, so is not of interest to the firm. Firms do not necessarily get lazy as they grow. There are continuing, sustaining improvements. We found that 111 of the 116 identifiable improvements in disk drives were in this trajectory of sustaining product-improvement. But five of the technological improvements that appeared during that period brought to market something that was, as we came to say, 'disruptive'. These were simple developments; not complex. But not things the mainline firms could use.

Let me go back to Digital. It was doing a wonderful job of sustaining-improvement. At that time personal computers were toys. Apple was originally marketed to children. None of DEC's customers could use this; wanted this.

The innovation took root in an undemanding market. And then the PC began improving; so rapidly that suddenly it could meet the needs of users who had previously been buying other equipment.

Intel has thought about this. Low-end chips when they appeared took that company's market-share from 90% cent to 30% in 18 months. As Andy Grove said in one of our discussions: "It was a trivial technology, that disrupted our company's business model". DEC faced this question. It had some proposals to go upscale in the mini-computer market, promising returns of 60%. It had some other proposals to move downscale to products that were lower in quality and which existing customers did not visibly want. It is virtually impossible for management not to choose the former. Yet virtually every company whose stock you today wish you'd owned began as a company coming in at the low end of a market, making a product that the management of existing firms chose not to make.

- o This was the story of the telephone. Bell took his invention to Western Union, which asked: "Three miles is all the signal can carry?" and rejected his offer to sell the patents. In time the Forbes family put up the money for what became the Bell System. Telephony began not in the long-distance market but as a way of carrying voice signals between two offices of a single company. Over time research made it possible to extend the signal beyond two miles. In time the telephone blew Western Union out of the message market.

- o Consider Cisco. At the start packet-switching technology was no good for voice transmission. So the company started carrying data. The market for data grew; and in time the technology for carrying voice-transmission improved. Cisco grew enormously.

- o Consider discount retailing. My father had a retail store. K-Mart came to town. It had a fundamentally different business model: With practically no help on the floor it was limited to selling goods the customers knew about; could simply come in and pick up . . . were able to buy without help. This initially took out the market for a lot of appliances, etc. Department stores then moved upscale to clothing; home furnishings. Gradually these stores were pushed to the high end of the market; constantly pursued by the discount houses also continually upscaling.

- o Consider lending. In the 1960s a Minneapolis company developed credit scoring: reduced the decision-making on lending to four simple variables. This essentially automated the decision to extend credit. As this technology improved it enabled credit card firms to move into what had previously been exclusively bank lending. This squeezed the banks into a smaller area of ever-more-complex transactions. As their lending market shrank the banks were pushed into ever-larger mergers. They were simply unable to make the transition themselves to the new business model.

- o One last example: Defense. About 18 months ago Secretary Cohen called and asked to have a meeting with the Joint Chiefs. They were interested because all their weapons systems had become oriented to massive, complex conflict with the Soviet Union. Suddenly that conflict had gone away; replaced by local wars and terrorism. The services were faced with a huge problem of reorienting to deal with this new kind of low-end problem.

As the conclusions emerged out of the research I wrote an article for the Harvard Business Review, which was initially rejected by the editor as "too pessimistic". The attitude was: You are saying that people build great firms and yet lose. The editor wanted solutions: Tell people what they can do to

avoid losing. So we thought about all this some more. And we did find a few firms that had survived; had made the transition after being challenged by the disruptive changes in their market. We saw that in all cases these had formed some kind of separate organization to work with the new technology even if it involved attacking the parent business. We came to feel we could say with confidence there is zero probability that an organization can succeed against a disruptive technology by trying to handle the response from within its established operation.

Again, some examples will help.

- o IBM is the only computer company to succeed through major changes in the product-cycle. When the mini-computer appeared to challenge the mainframes it set up a new operation in Rochester, Minnesota to develop its System 360. When the personal computer appeared to challenge the mini it set up that skunk works in Florida; way away from IBM headquarters.

- o Hewlett-Packard. When the ink-jet printer appeared HP was making big margins on its laser printers. Its printer division, located in Idaho, sat on the new technology. Finally management created a new division based in Vancouver to develop the new technology. The conflict between the two was horrible. But it established HP in the market for the ink-jet printer as well.

- o Dayton-Hudson. Of 300 department store companies only this one picked up successfully the disruptive technology of discounting. It created a wholly-owned subsidiary to build this business; given a new name - Target - to distinguish it from the company's top-line department stores. Target grew to become the dominant part of the business. Today the whole corporation has taken the name Target.

There is a theory behind all this.

Think of an organization as having (a) resources - people, cash, etc., (b) processes and (c) values. The processes include the patterns of operation; hiring, for example. They are built to serve the company's needs; are therefore not flexible . . . are intended not to change. So as they enable the company to do what it does they also make it unable to do something different. They determine what the company can not do. I use the term 'values' not to mean 'ethics' but more broadly, to mean the criteria by which people in the organization make decisions about what is important and what is not. Decisions of this sort are made in a great many individual situations within the organization. In a well-run organization the set of values is imposed on everyone, so everyone will be doing the things the organization has learned it needs to do to succeed . . . which in a business firm is of course making money.

In a business firm the pressure will always be to earn more from the existing operation. As the firm grows managers cannot be interested in small opportunities promising low returns. So they lose the ability to innovate. A single organization will not give equal priority to two different kinds of operation. Values are very inflexible. They are meant not to change. This is, fundamentally, why the companies that succeeded against disruptive technologies had to set up new organizations. It was not a question of resources: The existing operation had the resources. It was a question of getting away from the existing processes and values.

Intel, again. As low-end computers grow, will it be able to change? Even with resources it was not clear it would be able to change. There were so many interdependencies with existing operations, and so many people involved that it was simply not possible to change quickly; for the existing operation to be successful at the low end of the chip business. So the decision was to set up a different organization, in Israel: Celeron. This, with a different mission and a different cost-structure made Intel a success.

Interestingly the problem is almost never that the organization cannot see the disruption coming at it. Many in fact see it and try to use it; simply failing. The firms making vacuum tubes all knew about the transistor; all tried to make it good enough to work in the products then using tubes. None of this worked. In fact the transistor first began to be used in hearing aids. Then in 1955 Sony came out with a crummy little portable radio; serving mainly the needs of teenagers. For a while this had no impact on the businesses using vacuum tubes. But in 1959 Sony brought out a portable television based on the transistor. This market became huge. This set could do everything the vacuum-tube products could do, and quickly it destroyed the firms with products based on vacuum tubes.

This happens over and over. Another example: hand-held devices. Computer firms had tried to enter this market. But the devices were not good enough to compete with the portable computers. A new company came in with what it called simply "an organizer". Gradually this improved. Now it is competing with portable computers. Or look at voice-recognition technology. In its early form this had no appeal to a professional secretary in an office. Why tell a machine when to capitalize a letter when you can type the capital faster yourself? So it began to be incorporated for simple uses; as when the voice on the telephone says to you, "Press or say: One". Also, it turned out that kids liked it, for chat rooms. Maybe before long it will be used for e-mail where people don't care about capitalization. The mainstream companies were pushing it into unsuccessful applications to try to persuade senior management there's a market out there among those the company traditionally serves.

This process is affecting all kinds of organizations. We can see it happening here at Harvard Business School. We're now at the top tier of the market. It costs \$240,000 to get an MBA, taking into account the salary-loss involved. Our graduates now average \$135,000 to start. We think this is impressive. But we find we've overshot the salary range our traditional customers can pay. Our new competitors are not the low-end business schools but the 'corporate classrooms'. We've tended to tell ourselves the students there are not our kind of students. But there are now eight times as many individuals learning in these corporate colleges as in conventional business schools. We are being driven upmarket; to consulting firms, financial firms. IBM last year spent \$500 million in training. This is a market growing 30 per cent a year. Harvard Business School is growing three per cent a year. We are also realizing that it is possible for people to learn real management on the job. Our classrooms are teaching the analysis of business problems. This attracts consulting firms. We are seeing that if we were to do something about this situation we would have to set up a totally new organization.

ooo

The discussion that followed touched on a few key points:

Q: In public education the districts are protected by the 'rules' that make them the only organizations able to sell education for a zero-price to

customers. **Christensen:** Yes, this is clearly a major issue when you think about this analysis relative to education. The chartered schools are a first exception to this 'rule', of course; a lever for change. Probably the central problems in K-12 are beyond the capability of managers to change. It might be a good idea to let these new schools take root in the non-traditional education constituencies; in the inner city especially. It is hard for organizations to change radically. We looked at firms that had a reputation for having transformed themselves. We found that in every case this 'transformation' came from selling off old and unsuccessful business units, and starting other new units. The business units themselves are almost impervious to change. So: Go on letting the districts do what they can do fairly well; build new units outside for the new things that need to be done. This raises a major question for elected district boards: How do they see themselves? Are they comfortable having multiple 'business units'? Or do they take the view they are a single operating organization?

Q: Your logic says that existing organizations have serious liabilities. But new organizations have liabilities too; difficulties of a different sort. We certainly see this in the charter field. It is hard to get the new schools, the new organizations, started up. **Christensen:** This is a difference. Intel had the resources to give to its new organization. In your field you can now create the organization, but getting the resources is a problem. Perhaps the federal or state government will have to put in the resources for the new schools.

Q: Why would a supplier of 'public goods' have a compulsion to move upmarket? The district is not in the profit-maximizing business. It is hard actually to know what the performance-measures are. Even if a district lost enrollment why would it care; if teacher-attrition was proportionate to the loss of students? Both districts and charter schools clearly fail to pursue market opportunities. **Christensen:** People in organizations are motivated by what's deemed success. This is defined differently in different sectors: money, in business; something else, for the organizations in education. Certainly it hard to move down-market. Processes and values in K-12 really do make change virtually impossible in the current context. In every case we've seen the quality of the new 'disruptive innovation' is initially poorer, or the return is lower. If the organization were to move this direction its reputation would suffer, measured by its traditional standard of 'success'. By breaking off some applications in this very complex situation education might be able to use some new technologies successfully.

Q: I'm concerned how much change the institution can sustain, especially in the population-groups that need improvement the most. There's a question of equity in both inputs and outputs. Where can we get the resources needed? I'm thinking of a case in Ohio where low-income African-Americans tried to start some schools and failed; lacking both financial capital and social capital. **Christensen:** In the business sector the established firms tend to point to their increased investment as a sign of how hard management is trying to change and improve. But the problem that's hit them is not a resources problem: It's a processes problem. The disruptive innovation wins despite usually having smaller resources. It's their new and different processes that enable them to win. Obviously if the new schools have only private resources it will be a problem. But the district has resources that it could put into the new ventures if it wanted to do so. This returns us to to that question of how the district managements wants to see itself; see its job. Perhaps this analysis will provides a way to frame the problem that the district will find useful; as it helped Andy Grove at Intel. Currently we are trying to

help organizations in health care to face the problems in their system in a new and more useful way.

ooo

Part III: 'New organizational space' in K-12 education

Participants then spent something over an hour discussing their reactions to the Christensen analysis, in small breakout groups.

The moderator had asked them to consider how this analysis applies to education. And to the extent they feel it applies, to think about how Christensen's idea of creating 'new organizational space' for the new-and-different operation can be created in K-12 education: to think about what the districts could do to create it, and whether they might; and about what the states could do.

Gulley: Now that we're back together we thought it might be useful to make use of the people here from Philadelphia, to look at what both a district and a state might be able to do in the context of restructuring public education in a big city.

Lynn Spampinato: I came 15 months ago, from Denver, when David Hornbeck was still superintendent; have stayed on as special assistant to Phil Goldsmith. We're looking all across the nation for ideas; having conversations about using diverse providers; some external, some internal. The board is just now developing principles to support this concept. I hope it will lead to action. Three months ago there might not have been much prospect of that. But Gov. Ridge then retained Edison to analyze Philadelphia and develop a plan. This has been a catalyst. We assume Edison will want to run some schools itself.

Dwight Evans: Pennsylvania is basically a rural state. I'd supported the district loyally most of my years in the Legislature. But I began to ask why it was not working for all the kids. I came to argue . . . said to the PFT that . . . it has got to change. David Hornbeck comes in; says Harrisburg is racist. I tend to resent that. I saw the superintendent and the union saying the same thing. I formed an alliance with the governor and majority leader. We pushed charters, takeover, empowerment zones. It was not a party issue. We now have 39 charters in the city. Now we have Edison doing this analysis. I support giving kids all possible options. In the next 30 days the district as we've known it will be dismantled. The district will run some schools; others will run some schools. Philadelphia is now getting ready to do a lot of things. We're trying to involve higher education. Trying to develop clusters of schools. I want to use the contract at the charter school in our cluster as a model, where we negotiate only economic issues. It won't happen overnight. This is a serious moment. What happens in Philadelphia is likely to have implications for other big cities.

John Claypool: The business community has essentially pulled out now, from the questions about the district. Act 46 lets the state take over and bar from the contract certain practices that would block change. Without Act 46, the takeover legislation, none of this would be possible.

Bill Boyd: I've been following Philadelphia. In a way David Hornbeck was 'a disruptive change'; creating an unbalanced budget and threatening to close the district if the deficit didn't get covered. He generated Act 46 and

brought all these other actors together. It is an amazing case; going from 'systemic reform' to this radical change.

Evans: Some nonprofits may be involved. Not all the for-profits have the capacity to take over even a whole cluster: generally a high school, four middle schools and 10 elementaries.

Bruno Manno: Annie E. Casey Foundation is considering some role in this. We had put \$5 million along with Annenberg into creating the first clusters, now gone. We have now committee \$250,000 a year for planning for the new cluster program.

Evans: Ideally I'd like to see both nonprofits and for-profits; not one or the other. Most all the 39 charter schools now are single-unit non-profits. The discussion is driven by dollars; everyone is reacting to the leverage of dollars. The key period will be next fall. We had a 36-person retreat last Saturday; including nine from the district. We are in a political environment: We have to make an agreement with someone: the city, the district, the commonwealth.

Q: But these are all existing schools. What will cause their culture to change? **Evans:** You do need the external pressures. The pressure the 39 charters create on the district is gone. I agree that we will have to change the schools. We are insisting on full discretion on hiring; on the same per-pupil financing. We have got to be in control of the school. These things are not negotiable. We will build a new culture.

Cross: Be careful about moving too fast. I think about EAI, which tried to do too much too fast. Set your measures of success. Do get capability developed. I agree with your passion but you do need an infrastructure to get you there.

Evans: Our cluster now has probably the best community infrastructure in the city. We have looked at KIPP; at other good practices. We are conscious there is a lot of pressure to produce. **Manno:** Chris is right. There's a need for start-up, for maintenance, for information, for civic capacity.

Sheree Speakman: Colorado last year, in SB 186, provided for the conversion of failing schools to charter status. The governor is now starting to implement the legislation, doing the capacity-building ahead of the date when the first schools have to convert.

Fred Hess: Philadelphia makes Chicago look like an organization doing 'systaining' innovation. Our 1988 reform was an effort to think about a new form of decision-making; creating new *school-level* space, free of the central bureaucracy. In '94 the district began creating some new small schools. In '95 we got our - weak - charter law. Chicago has used all the 15 it's allowed; and is now trying to enlarge this 'space' by getting the allowable-charters not used elsewhere in the state. In '97, with the city having taken over, there was an effort to change the high schools, their processes and values. This was not very successful. Most recently the elementary schools have been seeing their kids go into the high schools and become failures. The reaction has been to say, "Let's not send 'em there" and to add 9th and 10th grade at the elementary schools. We keep trying to find new ways to create new spaces. **Claypool:** Who are the leaders doing this? **Hess:** Chicago generated lots of new leadership with 6,000 new elected school-council members. The mayor in '95 was given authority to appoint five top leaders to a new board; expanded in '97 to seven. You can now think of the schools as a department of city government in Chicago. What failed was the effort to change the internals of the high schools. Their teachers were simply too resistant; the

culture was too tough. The new charter high schools may be able to accomplish more than trying to change the existing high schools.

ooo

Wednesday morning participants returned to discussion of ways to create 'new organizational space'; drawing on discussion earlier in small-groups.

Joe Graba: We talked about what the districts might do, as through site-based management; but we aware how exaggerated much of the talk about SBM has been and how hard it is for boards to make schools autonomous enough really to become different. There's a tension between freedom and control. We wondered if the charter schools have become so autonomous that their district sponsors no longer feel these are their schools.

Speakman: One of the ideas in the ECS task force - lost, in the end - was to create a new authority above the urban districts; to receive state money and through contracts to redistribute it both to districts and to non-district schools on a per-pupil basis; also with the duty to inform the public about the choices available. Graba: We're starting to have some discussion here about creating, say, five entities with no geographic location, which would request proposals for the creation of new schools and then contract for their operation.

Other participants then described other arrangements through which the state had created entities in the state or city, able to create schools and with the authority to cross district boundaries. Minnesota about 1985 gave selected districts the authority to create "alternative learning centers" that could enroll students 'not doing well' from surrounding districts.

Elliot Washor said his organization is "a virtual LEA"; created by the state of Rhode Island, some of whose officials still inclined to believe "that we do not really exist" because we are not located in a *place*. But it gets state financing and can run several schools at various locations in the state.

Jim Ford described Washington DC in these terms; the creation of 'new organizational space'. In the mid-'90s the Congress in its capacity as legislature for the District of Columbia first granted chartering authority to the local district board. Later it created a separate "D.C. Public Charter Schools Board" in the city but outside the framework of the local school district. In the 'new organizational space' this provided, that board - chaired by Jo Baker, a former DC elementary-school teacher - has now created the largest charter sector of any major city in the country. The initial hostility of the local district organization has now softened under the leadership of the new superintendent, as it begins to respond positively to the presence of the charter sector and as it sees enrollment now growing in the two public sectors overall.

Kaleem Caire: I'm having discussions within BAE0 about the Maryland-suburban counties, which currently have no charter law.

Steve Kelley: I know the skepticism about local boards being willing to act, but I would like to make it easier for them to do so. This may take some legislation about labor-arrangements, about the provision of buildings, etc.

Dave Patterson: This has helped me put into perspective how to get to something new. We do know a lot about how to create new space. The problem is the political will to do it.

Cross: It will be important to create a common vocabulary for this discussion. Christensen's discussion may help, with this: We need to capture that. **Ted Kolderie:** When Mike Resnick left he said to me, "The people here are talking a different language than we talk". **Dave Ferrero:** It may be that some of Christensen's presentation got in the way of the discussion. **Dolores Fridge:** BAE0 started with eight people in a meeting at Marquette University. We had 600 at the first national meeting early this year, and will have more in Philadelphia next year. People get it that their kids are in danger. It is important to have these grass-roots people in the room.

Glenn Haley: I want to thank you for having this discussion. We need to continue the discussion about how to build capacity of national nonprofits. In the 'Y' we deal with nine million kids. You have my commitment to help follow through.

ooo