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Educational Entrepreneurship and Covisionary Multisectorism

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Abstract. This paper introduces the concept of "educational multisectorism" among the private not-for-profit, private for profit, and public/government sectors. Multisectorism leverages the opportunities presented by the contrasting economic and "social" advantages (and disadvantages) of educational organizations operating in the three sectors, as viewed through the analytical prism of comparative advantage. The underlying principle of multisectorism is the belief that drawing on the resources and strengths of all three sectors can be of significant benefit to the pursuit of educational reform. Thus, multisectorism (rather than "unisectorism") – and the covisionary entrepreneurial thinking and social entrepreneurship that are its implementation alter egos is suggested as a powerful paradigm for innovation and change. Through this paradigm, educators, regardless of sector location, can join forces to advance K-12 educational and social outcomes. The authors emphasize the tight coupling between educational entrepreneurship and social entrepreneurship and the evolutionary changes that are beginning to foster both processes in K-12 education. They also examine the education "industry" today – its historical antecedents and the current trends that are shaping it – and delve into the "industry's" expanded three-sector modern presence that extends well beyond traditional schools, colleges, and universities. Robust and client serving educational ventures that maximize educational reform and learning improvement may best grow from the cross-sectoral synergy of sector-specific advantages. The fashioning and sustaining of such effective "covisionary educational multisectorism" will hinge on educational leadership that pursues its social mission across sector lines and that is firmly grounded in the characteristics and principles (as defined in this paper) of educational entrepreneurship and entrepreneurial thinking.

Keywords: K-12 education, educational reform, educational entrepreneurship, social entrepreneurship, entrepreneurial thinking, comparative advantage, public and private sectors, cross-sector educational initiatives, educational leadership.

1. Introduction and Overview

The emerging connections between the world of education and the world of entrepreneurship are a natural part of the spirited debate about the "how," the "by whom," and the "for whom" of K-12 education. The attitudes, thought processes, and skills of entrepreneurial thinking and social entrepreneurship have the capacity to link successfully with the social objectives of K-12 education in all three of the major sectors of economic activity: private not-

for-profit, private for profit, and public/government. By contrasting the intrinsic economic and "social" advantages (and implicit disadvantages) of educational organizations in these sectors as viewed through the prism of comparative advantage, one can begin to explore their natural "specializations" with respect to educational entrepreneurship.[1] In this paper, the authors introduce the notion of "educational multisectorism" – the belief that drawing on the resources and strengths of all three sectors can be of significant benefit to the pursuit of educational reform.[2] A theme running through this paper is that "educational multisectorism" (rather than "unisectorism") – and the covisionary social entrepreneurship which is its implementation alter ego – represent a powerful paradigm for innovation and change around which educators, regardless of sector location, can join forces to advance K-12 educational and social outcomes.

We begin by defining educational entrepreneurship and discussing how manifestations of educational entrepreneurship may vary with the levels of the entrepreneurial spectrum pyramid. The next section seeks to describe evolutionary changes that we believe are beginning to foster the growth of educational entrepreneurship in K-12 education. The subsequent sections shift the spotlight to the education "industry" today, its historical antecedents, the current trends that are shaping it, and its expanded modern presence well beyond traditional schools, colleges, and universities. As the discussion evolves, we seek to extend our prior analyses to argue that K-12 education is rapidly evolving into a three-sector (as opposed to primarily governmental) domain; and that each sector enjoys certain respective comparative advantages relative to various types of educational objectives, organizations and ventures. Attention is called to a collateral risk of this surge of educational innovation – "deprofessionalizing" teaching – and the need to ensure that the complexities of educational decision-making are still guided and informed by the expertise and experience of the professional educator. We further develop the idea that robust and client serving educational ventures that maximize educational reform and learning improvement may best grow from the cross-sectoral synergy of these (sector-specific) advantages. Further, the fashioning and sustaining of effective, covisionary "educational multisectorism" will hinge on educational leadership that is firmly grounded in the characteristics and principles (as defined in this paper) of educational entrepreneurship and entrepreneurial thinking.

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1. Unfortunately, there is a growing tendency within public and academic discourse to allow the concept of educational entrepreneurship to be held "hostage" under the controversial umbrella of educational privatization – with all of its (often polarizing) connotations of purely private for profit ownership and that ownership's potential challenge to the public sector's role in the provision of education.
2. Multisectorism is a new term also introduced by the authors.

2. Educational Entrepreneurship

There are many definitions of entrepreneurship that have been suggested in the literature. However, a close examination reveals a fairly small number of core elements that they share. These include recognizing and acting on opportunities, marshalling resources and adding value, taking risks, articulating a compelling vision, initiating ventures, and modifying strategic and tactical plans on a regular basis to adapt to changing circumstances. Or, even more succinctly, entrepreneurs are "innovative, opportunity-oriented, resourceful, value-creating change agents," (Dees, Emerson & Economy, 2001).

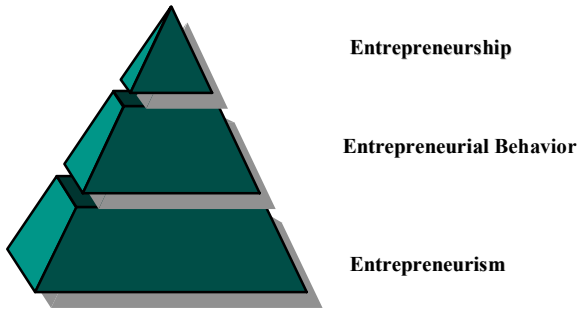
Key to the implementation of these components is a combination of mindset and attitudes that can be called entrepreneurial thinking. In that spirit, Kourilsky (1995) frames the concept of entrepreneurship as an orientation or means of observing the world – "…the ability to *recognize* an opportunity that others have overlooked and the insight, self-esteem, and courage to *act* where others have hesitated."

From these definitions, one can see immediately that entrepreneurship and entrepreneurial thinking are not just about creating enterprises – but about bringing to bear on problems and opportunities in the public, not-for-profit, and for profit sectors a rich framework of skills, intellectual attributes, and innovative approaches. The concept of social entrepreneurship adds a further layer to the picture – entrepreneurship practice and entrepreneurial thinking in the pursuit of a social mission.

In this paper, we choose to have the term educational entrepreneurship always carry with it the implicit connotation of social entrepreneurship. In other words, for the purposes of our discussion, just creating a viable enterprise in the educational marketplace is not sufficient to qualify as educational entrepreneurship. We reserve the phrase <u>educational entrepreneurship</u> to be about <u>applying the skills and attitudes inherent in entrepreneurial thinking and the entrepreneurial process</u> to achieve innovative and sustainable impact and reforms with respect to the social mission of K-12 education, regardless of the ownership profile of the institution or venture under discussion.

The entepreneurial spectrum pyramid (Figure 1 below) developed by Kourilsky (1995) is a helpful lens through which to view the manifestations of educational entrepreneurship in the not-for-profit, for profit, and public sectors.

Figure 1: Entrepreneurial Spectrum Pyramid



"Entrepreneurship." The top level of the pyramid carries the label of the noun "entrepreneurship." Educational venture initiators (or the venture initiation team) occupy this first level of the pyramid. It is their foresight and efforts that first transform the vapor of an idea into tangible value. Initiators innovate and create by recognizing educational opportunities that can advance the social mission of education, conjuring ideas and a long-run vision of what they would like to accomplish, and implementing a plan to bring their ideas and vision to reality. Initiators typically bear the greatest share of the risk burden associated with the undertaking of an entrepreneurial pursuit.

It is primarily the raw passion, horsepower, and determination of the founding team that carries educational ventures successfully through their initial conception and start-up phases. However, if a venture wants to embark on serious growth beyond these early stages, it eventually must broaden its leadership base to tap into the resources of an entrepreneurial development team.

"Entrepreneurial Behavior." The members of the entrepreneurial development team occupy the middle level of the pyramid, the Entrepreneurial Behavior level. This level focuses on the adjective *entrepreneurial* rather than on the noun *entrepreneurship*. As such, the members of this level are not themselves the initiators – the catalytic agents with the innovative impulse to jumpstart the venture from zero. However, they are expert practitioners in their own right of much of the thinking and behavioral processes that underlie entrepreneurship – such as being opportunity oriented, taking calculated risks, and striving to change and improve the status quo. Thus, the development team practices *intrapreneurship* – the pursuit of entrepreneurial behaviors by individuals within an existing organization. As *intrapreneurs*, the development team members look for new and innovative opportunities to improve products and/or services and to expand the scope of marketing and operations to a larger customer base (Pinchot, 1985; Kourilsky, 1998; Kourilsky & Walstad, 2000).

The development team has a strong affinity for the initiator (or initiator team) and is deeply committed to the vision the initiator team is pursuing. It is the entrepreneurial development team that will apply their entrepreneurial expertise and attitudes to expand the scope, size, and market of the educational venture and take the enterprise to its next level of growth. Although the members of the entrepreneurial development team may not themselves be the initiators for the venture at hand, the boundaries between the initiator and development team levels are "porous," and development team members often evolve into the subsequent initiators of other ventures.

At the entrepreneurial behavior level of the pyramid, among the key differences exhibited by the not-for-profit and for profit sectors are their approaches to and emphases on the issue of "scaling up". With due regard for minimizing impact on the integrity of the social mission, growth is generally perceived by the development team as almost an axiomatic requirement for an educational entrepreneurship "for profit" that wants to continue its success. Although not as directly vulnerable to the "scale or be scuttled!" school of thought, not-for-profit development teams are not immune to the lure of scaling up. Potential pressure from the community and from funders – coupled with the philanthropic urge to cast an ever-wider net of social benefits and the appeal of potential efficiencies of scale – can argue quite persuasively for expansion. The committed not-for-profit development team, however, stringently trades off these arguments for scaling up against the potential costs and risks in areas such as mission, quality, reputation dilution, over standardization, and infrastructure strain (Taylor, Dees, & Emerson, 2002). They also must take into account one of the primary constraints on scaling in not-for-profits – access to funding specifically for growth. Finally, public sector development teams generally are limited to "guerilla" intrapreneurship tactics to pursue any kind of growth activity. In addition to the expected budget and regulatory issues, they face constraints imposed by jurisdictional boundaries that demarcate the geographical and demographic limits on units of government.

"Entrepreneurism." Neither the initiator level nor the development team level of the pyramid could exist and function successfully without the third level of the pyramid – which carries the label "entrepreneurism" and whose inhabitants are referred to as the "constituency." Here, the word "constituency" does not carry its normal political connotations of voters or the electorate. Rather, "constituency" in this context carries a connotation of overall support or "buy-in." It is intended to refer to the members of the general public who encourage the objectives and the processes of entrepreneurship and entrepreneurial behaviors – and believe they are stakeholders in and beneficiaries of the resulting economic and social outcomes. In the for profit segment of the private sector, the constituency plays a key role by expressing their political support for decision-makers and policies that create an

environment conducive to the emergence and successful operation of entrepreneurial educational ventures whose outcomes are perceived as socially desirable. With respect to the not-for-profit and public sectors, the constituency weighs in by expressing their support for policies and decision-makers that preserve and enhance the tax incentive structure for not-for-profit organizations – and that facilitate the ability of government units to overcome creatively some of the limitations imposed by the obligations and boundaries of their jurisdictions and demographic charters.

3. The Growth of Conditions Favoring Educational Entrepreneurship

The characteristics most highly valued in educational leaders at a particular point in history are, by definition, shaped by the context of the time. If "educational entrepreneurship" has salience in education today, it is attributable to social, political, and economic changes in education that favor it. Since the Civil War, public education has been considered a right and "public" requirement for all citizens up through age eighteen (Tyack, 1974). Before that period, most schools were privately run institutions that were accessible primarily to the children of those privileged either socially or by religious affiliation. The political goal of assimilating large numbers of new immigrants was paralleled and reinforced by the growing belief that schools should teach people the necessary job skills to become effective and productive members of society. The advent of "the common school" carried with it acceptance of the notions that every citizen (not just parents) should be taxed to support schooling and that the taxing authority should be the school provider. Proponents brought about a widespread system of public education that formed the basis of what has evolved into today's educational environment.

Almost 15,000 school districts currently operate across the country under the auspices of local and state governments, which also represent the primary source of funding for their member schools. In addition, the Federal government plays a small, but significant role in subsidizing educational resources for selected groups of students who are underserved – low-income, special education, physically handicapped, and others.

Education policy makers (and those who support them) have traditionally believed in the *positive externalities* of education – the benefits that accrue to society as a whole from an individual's education (beyond those benefits that accrue directly to the individual over her or his lifetime) (Heyne, 2000). From an economics perspective, the aggregate individual demand for education was believed to under-represent society's overall demand for education of its participants ("private market failure"). Policy-makers therefore feared that not enough of the good (i.e., education) would be produced (and consumed) to

meet society's demand if the production and consumption decisions were left purely to individual demands in the market (Kourilsky, 2001).

Recognition of the desire to produce more of a public good such as education and to encourage more consumption of that good, however, need not necessarily lead either to a monopoly structure of public provision or in theory to any direct public provision of the good. If the general public, whose voice is expressed by the political process, believes that not enough of a "desirable" good would be produced and consumed in a pure market setting, government more typically intervenes by trying to work through the market rather than by absorbing the production process into a publicly-run effort. Government usually attempts to influence markets by targeting the supply/production side, the demand/consumption side, or some combination of the two. For example, government can incentivize suppliers to produce more of a good through subsidies or other means of increasing the goods' profitability. Alternatively, government can make it easier for consumers to have access to goods or services through transfer payments or income redistribution.[3]

In the case of education, government can remedy the problems of perceived private market inadequacy or failure by reducing the private cost/ price of schooling to citizens. In cases where the government elects to pursue the more drastic intervention of compelling certain levels of consumption (e.g., compulsory education through high school), political and socioeconomic considerations often dictate that government also make the compulsory schooling available at a reduced price or as a zero-price service. (The argument differs only in degree when schooling is not compulsory.) It can reduce the price by increasing the supply of schooling through direct provision and/or by contracting with other providers. Government also can increase the demand for schooling by providing parents of children with the financial means to purchase schooling and/or by imposing statutory requirements. Governments throughout the world employ wide variations on these basic options (including co-payment by parents). In the United States, government evolved into the principal funder and direct provider of free (to the family) schooling. "Public education" became an integral service and near monopoly of the public sector – and in the case of the United States, a compulsory service provided primarily by state and local governments.[4]

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3. For a further discussion of this point, see Kourilsky & Dickneider, 1988; Kourilsky, 2001.
4. Certainly, the private not-for-profit and for profit sectors have long played a role in aspects of public education. However, this role has been limited in the past either to the initiation of self-contained private schools and educational service organizations or to vendor support enterprises providing products primarily in three areas – 1) creating and disseminating curricula in the form of textbooks and instructional materials, 2) providing goods such as materials, computers, and supplies, and 3) offering non-instructional services such as food or transportation.

What factors, then, are spurring today's departure from these historical perspectives and the growing belief that various forms of market competition should be introduced into the domain previously reserved primarily for public sector supplied education? Furthermore, how are these factors being manifested?

3.1. Increasing Publicly Expressed Dissatisfaction

The public is increasingly dissatisfied with the public sector in general. Results of national polls indicate that only 3 in 10 U.S. citizens think government operates for the benefit of everyone. National surveys further reveal public perceptions of government planning as "inadequate" and of government program outcomes as "highly problematic" (Hula, 1990; Murphy, Gilmer, Weise, & Page, 1998).

In addition, surveys over the past few decades have highlighted the trend toward declining public confidence in their public schools, in part because of increases in the individual, personal consequences of a good or bad education.[5] The proportion of people who possessed a "great deal" or "quite a lot" of confidence in public schools dropped from 58% to 36% from 1973 to 1999. Over that same time period the percentage of respondents who said they had "very little confidence or none" grew from 11% to 26% (Public Agenda, 1973-1999).[6] A further marker for the public's apparent confidence issues with respect to public schooling is the steady increase in home schooling recorded during the last two decades.[7]

Kourilsky and Walstad (2000) have studied the opinions and beliefs of students, teachers, and business leaders to determine the degree of alignment between education goals and student preparation. All three groups believe that schools are not delivering the necessary curriculum for students either to "make a job" for themselves effectively in the future as venture initiators or to "take a job" successfully as employees of a venture. Parents also hold this same view, especially with respect to at-risk populations (Kourilsky and Kourilsky, 1999).

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5. Increasingly, what individuals know and can do ("human capital") is a key determinant of their personal "socioeconomic horizons" and their capacity for social and economic impact as well as the overall economic and social well-being of the regions, states, or countries in which they live. This fact has fuelled significant increases in aggregate and per capita demand for schooling to levels that are very difficult to supply and/or finance through traditional models of provision and funding.
6. Public Agenda, a not-for-profit organization, has polled Americans on education related issues for decades.
7. The National Home Education Institute estimates that between 1.5 and 1.9 million K-12 students were homeschooled during the 2000-2001 school year, and those numbers are growing between 7 and 15% per year (http://www.nheri.org).

The topic of education is identified regularly by Americans as one of their top priorities in opinion surveys. Gallup surveys in May and June of 2001, for example, showed that education was the top or one of the top issues in America. Sixty-nine percent (69%) of respondents rated education "extremely important," the highest rating choice in the survey, a percentage that ranked education above other major national issues including a "patient's bill of rights" and "keeping America prosperous."

3.2. Increasing Reliance on Multiple Sources of Revenue

Inherent limits to funding of public educational institutions have forced educational leaders to pursue a variety of nontraditional revenue streams, including revenue sources not directly linked to the public school system (e.g. educational partnerships in the juvenile justice and health areas), not-for-profit educational philanthropy, and for profit education businesses. Examples include business support of private schools, public school foundations, employer funding of adult education, investment banking targeted to education businesses, and developer fees for new school construction. The pursuit of these alternative revenue streams has in turn fostered the creation and growth of both new ventures and new forms of ventures in the not-for-profit and for profit sectors of the economy.

3.3. Changing Organizational Frameworks: from Centralized Public Models to Decentralized Market Models

Just as exclusively public financing has given way to mixed financing from a variety of sources, exclusively public provision of publicly financed education services is giving way to educators employed through new blends of public, not-for-profit, and for profit organizations. These new organizations, which in part reflect the "market" seeking to address perceived shortfalls in both the productivity and the quality of public education, provide direct services to students via contracts with public educational organizations – or charge private fees directly to students. The new firms also are providing desired services to existing schools, colleges, and universities through various forms of alliances and vendor contracts.

3.4. Increasing Inter-penetration by Education Service Providers of Historically Protected Markets

Geographic segmentation for purposes of organization, control, and delivery of educational services is accommodating increasingly to a market blend that crosses traditional geographic boundaries of educational services. Charter schools, magnet schools, public/private voucher programs, inter-district transfers and open enrollment policies exist alongside and inter-penetrate across the fixed attendance boundaries of neighborhood public schools. Distance-delivered programs at universities are crossing state boundaries in which they are chartered as well as boundaries of regional accrediting agencies. As political and technical barriers to entry fall, new "virtual" education businesses providing on-line education, such as Virtual High School, increasingly are able to serve students across attendance area, district, state, and national boundaries.

3.5. Changing Relationships Between the 'Policy End' and the 'Operation End' as Educational Organizations Move from Compliance to Performance

Direction from the "top" of traditional (largely public sector) education organizations has shifted from enforcing compliance in providing uniform educational services to creating incentives for improving student performance. Especially in K-12 and community college systems, the federal and state governments are seeking increasingly to tie government funding to student academic performance while increasing the flexibility of laws and regulations that require compliance with uniform procedures. The same is true for state licensing programs in teacher education, in which local providers have increased "accountability" for the performance levels of graduates in tandem with greater flexibility in program design. Similarly, as they are being held more accountable for improved student performance, educators providing direct services to students also are gaining more latitude in determining how they will provide services. As a consequence, new education ventures (and new programs created by existing education enterprises) that promise increased student performance are gaining more acceptance as viable alternatives for public school "customers" than in the past.

3.6. Increasing Reliance on Technology for Service Delivery, Organization, and Operation

Rapid developments in technology are driving down dramatically the cost of "handling information" in existing organizations, but they also are influencing

significantly the form and creation of newer education ventures. Communication technology platform advances and interactive learning paradigm enhancements are enabling the evolution of new types of education enterprises and fundamentally altering the organization and service mix of many existing education institutions and firms. A number of education firms have emerged in recent decades whose core mission entails some form of "e-learning." For example, currently twelve states have established online high school programs; twenty-five states allow the creation of "cyber" charter schools; and thirty-two states have e-learning initiatives underway (*Education Week*, May 9, 2002).

4. Education as an Industry Today

Although schools, colleges, and universities have been a common part of life for centuries, the term "education industry" has come into common usage only within the last ten years. When the term "industry" is used in this context, it usually connotes a wide amalgamation of firms, government agencies, associations, foundations, and other organizations that are closely affiliated or aligned with a common area of interest, as in "medical industry," "defense industry," and the "automobile industry." Until recently the term "education industry" was unnecessary, because "schools, colleges, and universities" sufficed. However, several forces over the last 20 years have led to the creation of newer, less visible organizations also within the education industry that are separate and distinct from traditional schools, colleges, and universities.

Public and traditional not-for-profit educational institutions in the U.S. (a system of about 15,000 school districts within which are located about 125 thousand schools plus about 3500 public and private colleges and universities) are responsible for about $750 billion in annual business activity in the United States. These institutions are being supplemented by a growing number of not-for-profit and for profit private sector educational ventures. Of these, at least 1000 with five or more employees are largely for-profit education ventures, with this newer, more narrowly defined segment currently generating something over $100 billion in annual business activity. [8] (These numbers may well reflect some overlapping of business activity, because of the likelihood of "double counting" when, for example, a public institution contracts with a for profit education business.)

The newer education businesses that characterize the education industry are much more focused and specialized in the goods and services they provide. The number and variety of narrowly focused educational organizations are

8. Based on analysis of firms tracked by Eduventures, Inc. See http://www.eduventures.com.

growing, with each organization seeking to pursue niches in the education market place. The core business of Futurekids, for example, is providing teacher training in classroom applications of computers; the Chicago Teachers Union has become the first labor organization in the nation to launch a graduate school for K-12 educators; Sylvan Learning provides tutoring in reading and math; EDUCATE LA provides Los Angeles County parents and families with a centralized source for education related programs and services in addition to producing the interactive Web CD EDUCATE LA Resource Directory; Parents In Charge (PIC) is a not-for-profit dedicated to informing and organizing the public with respect to the problems and possibilities in K-12 education and school reform. Edison Schools comes closest to providing a comprehensive service, but it markets only one form of comprehensive service.

Because the education industry is evolving and growing so rapidly, definitions and taxonomies of the *categories* of firms that make up the education industry are themselves also evolving. While traditional categories of schools are based on the ages of the student and to a lesser extent the character, curriculum, and overall objectives of the schooling entity – e.g., day care, elementary schools, community colleges, doctoral granting universities – the firms of the education industry currently are more readily categorized by their primary markets (three) and core mission focus (four).

4.1. Primary Markets

Primary markets include pre and K-12 education (the principal focus of this paper), corporate education, and post-secondary education. Youth education ventures and institutions, including the infrastructure and service organizations that support them, are the primary enterprises that address the largest of the three primary markets, pre and K-12. Providing functions that include childcare, pre and K-12 learning, and services for students with special needs, the for profits alone that are addressing this market account for over $50 billion of annual education industry revenues.[9]

9. The distinction between pre and K-12 education and the other two primary markets is clearer than the distinction between those other two markets themselves, largely because of the demarcation of age. The differentiation between post-secondary and corporate markets is based more on the type of course provided than on the age of the student. Post-secondary education typically refers to traditional, credit bearing, semester-long (or quarter-long) courses leading to formal academic degrees, e.g., Associates, Bachelors, and Masters degrees. On the other hand, corporate training usually refers to shorter, non-credit bearing courses of instruction that typically do not lead to academic degrees and that may or may not lead to training or continuing education certificates based on satisfactory completion.

4.2. Core Mission Focus

The core focus of most enterprises in the education industry falls into one of four broad categories: education delivery, content, infrastructure, and services. Those whose core mission is *delivery* provide bundles of learning delivery education functions for students, ranging from traditional and specialty school instruction to corporate training to childcare. Most education delivery organizations and companies specialize in one of the three primary markets. Examples of pre and K-12 education delivery ventures include KinderCare Learning Centers and Bright Horizons Family Solutions (childcare), Edison Schools and Nobel Learning Centers (K-12), and Aspen Education Group and Ombudsman (specialty schools). Examples of education delivery businesses in post-secondary education are Apollo Group and DeVry, and in corporate training are Global Knowledge and Learning Tree.

Organizations whose core mission is *content* frequently include enterprises that publish curriculum materials and (in the pre and K-12 primary market) materials for testing student knowledge of the curriculum. (An example of the latter is EduTest, the online assessment and accountability division of Lightspan, Inc.). Firms specializing in electronic learning or e-learning provide a relatively large fraction of publishing for the corporate training primary market. Firms in this area often develop software-driven training programs that corporate employees can take at on-site computer terminals or at terminals located near to where they work. The actual delivery of the learning curriculum can vary from local mass storage based implementations to distance learning implementations across proprietary networks and the Web.

Infrastructure is a label applied to the core mission of ventures – such as Blackboard and WebCT – that provide various forms of (largely technological) support for teaching and learning (including distance learning). These enterprises may sell (or donate) to schools and colleges products ranging across computer hardware, networking equipment, desktop and server software, and web-based applications as well as staff training in how to use educational support technology. These firms also may manufacture and/or distribute a variety of products, equipment, supplies, and curriculum materials to schools and colleges.

Not-for-profit and for profit entities focusing on *educational services*, such as National Teacher Training Institute (focusing on classroom Internet use) and Tutor.com, are differentiated from *education delivery* organizations in that their core mission is to provide support functions that assist and evaluate other firms in the delivery of primary learning content and assist and evaluate students in the acquisition of learning content. Their activities can range over a spectrum that includes specialty education services, professional development for instructors, curriculum and standards consulting,

measurement and accountability services, student tutoring and student test preparation services, and student testing and assessment functions.

The various types of firms described above constitute (directly and indirectly) the vast majority of educating enterprises, i.e., those organizations that by themselves or with other ventures, produce the education goods and services that make up the education industry. In addition to these direct producers, three other types of not-for-profit and for profit organizations are key contributors to the private sectors of the education industry: *banks and venture capital institutions* that specialize in investing in education; *information firms* that provide to clients detailed, current, and sophisticated levels of data and analysis about the performance and prospects of individual firms and collections of firms within the education industry; and education industry affiliated *professional organizations* whose membership share interests and information with respect to various areas of the education industry. Examples of these organizations abound, including Sprout and Warburg Pincus (investing in education), Eduventures and Knowledge Quest Ventures (information), and the Association of Educational Practitioners and Providers (professional membership).

Of course, the vast majority of these firms (or at least their major K-12 divisions) was created within the last generation and, by definition, was formed by entrepreneurs. One might assert, therefore, that educational entrepreneurship "has already arrived" in K-12 education. To do so, however, would be to shortchange both the concept of educational entrepreneurship and its potential for K-12 education, as would focusing on any one of the three sectors to the exclusion of the other two.

5. Inter-Sector Comparative Advantages

Based on the trends influencing the education industry and the apparent trajectory along which it is evolving today, it is clear that not-for-profits and for profits from the private sector will continue to seek out and enter spaces in K-12 education. If only by virtue of aggregate economic activity, K-12 education is a three-sector domain, i.e., made up of firms whose sector locations, all else equal, provide them certain advantages, opportunities, and constraints.[10] How might the relative advantages of the sectors be leveraged in a coordinated fashion to pursue the greatest amount of educational reform and learning improvement in our schools?

A helpful analytical lens through which to view the issues just raised is an adaptation of a familiar one from the intellectual toolkit of the economist. What are the respective *comparative advantages* (in both the social mission sense and the economic productivity sense) in the K-12 learning "market" of

the public sector, the not-for-profit private sector, and the for profit private sector?

Technically, absolute advantage refers to the ability of a producer to provide a good or service *with fewer resources* than do other producers. On the other hand, comparative advantage refers to the ability of a producer to provide a good or service *at a lower opportunity* cost than do other producers (Kourilsky & Dickneider, 1988). For example, when George Herman "Babe" Ruth began playing for the New York Yankees, he was thought to be the best hitter and pitcher on the team. That is, Babe Ruth had an absolute advantage in both hitting and pitching. The coaches would have liked him to do both, but pitchers cannot play every day to allow their arms to rest between pitching games. The coaches decided instead that Babe should not pitch because they believed the opportunity cost of using him as a pitcher was too high. There were two reasons for this conclusion. In the first place, although other members of the team were fine pitchers, no one could touch Babe at hitting. In the second place, if Babe's arm held up well enough for him to pitch even in every fourth game (for example), he would still warm the bench during the other three games. The opportunity cost of Babe's pitching was the hitting the team would sacrifice during the games when Babe was not allowed to pitch. Because Babe had a comparative advantage in hitting while others had a comparative advantage in pitching (even though Babe had an absolute advantage in both), the coaches ended up with a more successful team by having Babe specialize in hitting while others specialized in pitching.

The above example has an analogue in the education industry. Just because a sector (public, private not-for-profit, or private for profit) may have an *absolute* advantage in a given area of education reform, it does not follow necessarily that it has a *comparative* advantage in that same area. Each district (and/or each school within a district, depending on the level of decentralization) ultimately will have to make its own decisions about the best division of "educational" labor for meeting their learning and administrative responsibilities towards the students in their respective jurisdictions and for pursuing educational reform in particular areas. It is useful to that decision-making process, however, to consider what each sector, historically and potentially, can bring to the table in the way of comparative advantages with

10. A number of studies have been conducted which address the interplay of the characteristics of firms in different economic sectors in particular policy areas as well as inter-sector collaboration in those policy areas. See for example: The Conference Board, Council on Foundations, Independent Sector, National Academy of Public Administration, National Alliance of Business, & National Governors Association. (2000); "Changing roles, changing relationships: The new challenge for business, non-profit organizations, and government"; Rosenau, P. V. (Ed.). (2000). *Public-Private Partnerships.* Cambridge, MA: The MIT Press; and Weisbrod, B. A. (1977). Toward a theory of the voluntary nonprofit sector in a three-sector economy, *The Voluntary Non-Profit Sector* (pp. 51-71). Lexington, MA: Lexington Books.

respect to particular functions. In fact, serious discussion and analysis is merited about the potential of improving the quality of the whole "package" of educational reform in the education industry by strategic leveraging of the comparative advantages of each of its candidate producer sectors, i.e. by pursuing a strategy of multisectorism. We continue below with an attempt to initiate that dialogue by highlighting selected areas of potential comparative advantage within each of the sectors. [11]

5.1. K-12 Government (Public) Sector

The government or public sector has the benefit of access to tax revenues and has the responsibility for assuring minimally acceptable levels of schooling to all eligible children regardless of social, demographic, or economic background. Additionally, it makes and modifies the rules of commerce that govern education firms in all three sectors. Equity for all is, perhaps, its core value. One can argue for the comparative advantage of the public school sector in several key areas: core learning, social justice initiatives, and holistic anchoring of the student. The public schools manifest a comparative advantage with respect to their historical responsibilities for the delivery of K-12 core learning the foundational knowledge and skills in areas that include reading, language arts, mathematics, and basic science. As creative and innovative as private not-for-profit and private for profit suppliers might be with respect to K-12 core learning, they in the end still constitute a *market* with all that implies – free to come and go, free to change what they teach and to whom they teach with the vagaries of philanthropic funding and missions and the oscillations of supply, demand, and the general economic health of the economy. Because of the potential for significant damage to students as a result of supply variations or especially of supply interruptions, K-12 core learning is an example of a class of functions for which in-house production can be argued to be preferable (Hirsch, 1991). Public schools thus have the structural advantage with respect to reliable delivery over the long-term of K-12 core learning and – with that advantage – a strong argument for their retention in-house of their historical responsibilities in that area.

Government operated public schools also exhibit an advantage with respect to the pursuit of social justice in education. Public schools are in a better position to have relationships with and understand the unmet needs and inequitable access profiles of their community constituencies that are

11. Voucher plans are outside the scope of this paper's discussion. Voucher plans might of course impact the choice of educational organization or institution within sectors. However, such plans would not affect materially the intrinsic comparative advantages of the not-for-profit sector, the for profit sector, and the public sector. Similarly, home schooling also is outside the scope of this paper.

underserved. Additionally, their scale, public monopoly powers, and their close linkage to government funding positions them more strategically to be the delivery agents for broad government reform initiatives in the area of social justice. Private not-for-profit and for profit enterprises certainly can and do engage in both minor and major initiatives for the enhancement of social justice in learning. However, the public school systems have the advantages of structure, reach, and knowledge of their surrounding communities.

Finally – particularly for the underserved – the public schools are in the best position to act as the anchor point for the student as a whole, as each student makes her/his way through the K-12 school system. Private schools also are capable of performing such functions, of course, but the ones that do so typically tend to be beyond the socioeconomic reach of students in underserved communities and sometimes are beyond the reach of students from even moderate socioeconomic environments. For the majority of students, the public schools retain the advantage with respect to the capacity for being the learner's homebase – their primary physical point of contact for learning as well as the nexus of information and functions which track the student's entire academic profile and provide equitable guidance and career counseling. Some readers may be tempted to argue that the public school system's well-publicized failures in guidance and counseling are legion. Without debating the merits of that assertion, it is really beside the point we are making. Trying to achieve better performance in this area certainly is an important public school reform issue. However, there is, for example, no evidence or long-term track record that convincingly supports the assertion that private not-for-profit or for profit enterprises have an advantage over urban public school educators in working with poor students of color (Farrell, Johnson, Jones, & Sapp, 1994). Public schools still have the intrinsic comparative advantage in terms of their capacity to deliver in this area for the underserved and for low and moderately low socioeconomic students.

5.2. K-12 Private Not-For-Profit Sector

Highlighting the comparative advantages of the public sector in turn helps bring into focus some of the intrinsic comparative advantages respectively for the not-for-profit and for profit private sectors. Stated simply, the not-for-profit sector has access to the "hearts" of individuals and organizations that value K-12 education. This sector provides the philanthropic and tax-advantaged means and incentives for them to apply land, labor, and capital (human, social, fiscal, and physical) to K-12 education "causes." The "gaps" left by government provision are first filled by this sector. (Just as governments respond to "private market failure," not-for-profits respond to "public market failure.") Tens of thousands of voluntary, "cause-oriented" K-

12 organizations already provide an exceptionally wide range of public good and service "needs" that are not provided or only partially provided by the public sector. Filling unmet social needs is perhaps the core value of this sector.

5.3. K-12 Private For Profit Sector

The ability of the for profit sector to identify market opportunities (and, often, creative ideas to address those opportunities), access investment capital, build compelling and innovative business models, and successfully sell their goods and services lies at the heart of its comparative advantage. Examples of goods and services from for profit providers can be found across the full range of the K-12 domain, but their existence is very closely linked to their perceived value in the marketplace. When educational entrepreneurs (as we defined them early in this paper) pursue the social mission of education in the for profit sector, that mission must always be integrated appropriately with the fundamental efficiency objectives that are perhaps the values closest to the core of this sector.

The for profit sector's "market test" is reflected in goods and services sold to households, e.g., encyclopedias, as well as in goods and services sold to other educationally oriented businesses, e.g., instructional objectives and testing services. The business-to-customer vs. business-to-business ("B to C" vs. "B to B") distinction is important here, because such a large proportion of potential business customers in the education industry are public educational enterprises. In many B to B instances, for profit firms concentrate on niches and customers in the public sector. Many of these target customers in the public sector find that the cost/value proposition and scale economies of the for profit firm yield a product or service which is more competitive than that which could be provided within the average size school district (6 schools, $23M annual operating budget).

The economies of scale argument, however, must be applied with some caution. For example, a common assumption of the founders of aspiring educational management organizations (EMOs) – such as the initiators of Edison Schools – has been that national expansion would be accompanied by significant economies of scale and corresponding financial growth for the company. However, research has established that the reality of the industry economics does not support such assumptions. In fact, it has been demonstrated that the decline in per pupil costs levels out at about 6000 students or less and that expansion beyond this level actually begins to manifest diseconomies of scale (Andrews, Duncombe, and Yinger, 2002).

5.4. Comparative Advantage Arenas of the Private Sectors

Given today's educational landscape, the comparative advantage arenas of the private not-for-profit and for profit sectors have large regions of overlap. Among the important considerations that ultimately determine the not-for-profit or for profit "tilt" of any particular venture in these areas is the character of the funding/investment sources to which it is most likely to appeal. In other words, for any particular instance of a social mission oriented educational venture, the affinity towards the not-for-profit sector relative to the for profit sector will be determined often by the agendas of the candidate funding communities. For example, if an educational venture were to appeal strongly to the philanthropic community's drive to fill gaps consistent with social need, it might experience a strong draw to become part of the not-for-profit sector of the economy. On the other hand, ventures that are capable of achieving simultaneously both educational social outcomes and profits would be more likely to appeal to funders in the private investment community and might find the financing currents tending to carry them towards the structure of a for profit enterprise.

Additionally, the "politics of acceptance" will play a role in the form the venture eventually takes. The educational community tends to greet for profits with reflex mistrust of their commitment to social objectives – abetted by the not infrequent perception of profit as a residual or surplus that threatens to "siphon off" resources that otherwise could be used for enhancing educational outcomes. This automatic "negative press" is substantially more muted for not-for-profits. However, they too can expect to encounter resistance unless they work to secure buy-in, particularly from teachers who perceive a displacement threat and from the unions who represent them.

With these contrasting considerations in mind, we proceed to highlight some of the key areas of the educational industry in which either private sector may contribute advantageously to enhance the potential for educational reform. For the private sectors taken as a whole, two important areas of comparative advantage are specialty education services and new school alternatives (such as charter schools). [12]

12. Non-educational support services are not included in this discussion because they are so peripheral to the underlying spirit of education as a social mission. Nevertheless, it should be noted that with its profile of competing ventures providing greater service variety and customization, higher efficiency, reduced costs, and easy switching to more favorable vendor relationships, the private for profit sector's advantages in providing support services for non-educational areas such as school transportation, food, and building maintenance have long been recognized by the public school system. In fact, it was reported in 1995 that the contracting out by public schools of services such as these – which are clearly distinct from the direct functions of delivering learning to students – already had reached estimated levels exceeding 30% of school transportation, 30% of cafeteria operations, and 10% of cleaning, repair, and maintenance (NSBA, 1995).

5.5. Specialty Education Services

Specialty education services build upon and enhance the core K-12 education functions but typically do not have the primary responsibility for delivery of the core. As such, these services are especially amenable to the creativity of the private sector marketplace as their delivery is relatively unfettered (in contrast to that of the core K-12 functions) by the constraints of regulated implementation procedures. Additionally, to the extent that their focus is on enrichment of the K-12 core learning areas rather than on the core areas themselves, they may encourage a more accommodating response from public school teachers and teacher unions.

Private sector provision of the middle and late 1990s already had made its influence known in a number of specialty areas including vocational education, substitute teacher bureaus, and services for at-risk children (Beales & O'Leary, 1993; Thomas, 1996). Private provision further has expanded to include instructional support in areas such as testing, drivers education, instructional technology, professional development, pre-school and after-school programs, and instructional camps – and supplementary curricular areas such as foreign languages and science. A Berlitz International language contract with a New Jersey elementary school and Science Encounter alliances with Maryland school districts are characteristic respectively of private sector relationships with public schools to teach foreign languages and to provide supplementary science education options such as a mobile science laboratories and summer "booster" workshops for science teachers.

5.6. Start Up Charter Schools

One of the most visible components of the *new school alternatives area* is the charter school arena, whose participants most often are the product of public and not-for-profit (and, sometimes, for-profit) relationships. Political and legal exposure considerations – rather than statutory limitations – were responsible in the main for the rarity with which school districts had in the past contracted out educational services to providers from the not-for-profit and for profit sectors. That situation was transformed by the advent of charter school legislation, which breached the historically "exclusive" school oversight rights of districts and opened the door for "non-district" initiation and operation of public schools. Typically taking the form of not-for-profit corporations – often with specialized objectives in mind – charter schools' reliance on parent or guardian choice for student enrollment immediately drew the attention of entrepreneurial thinkers and venture-initiating social entrepreneurs in the educational market. The operating environment for these innovation-oriented educational enterprises was much more favorable towards the contracting of

services both to the not-for-profit and to the for profit sectors of the economy, and both producers and consumers moved rapidly into the market vacuum.

With their genesis firmly rooted in the desire to facilitate creative approaches to the schooling of our youth, the charter school segment was essentially "given birth" to catalyze and nurture innovation and change. This "birthright" is reflected in a comparative advantage for implementing educational "laboratories" in which to test out best practices and alternative approaches for delivering learning and for the administration of that delivery. One potentially seminal outgrowth of this charter "laboratory" environment was the concept of teacher cooperatives.

5.7. Teacher Cooperatives

Teacher cooperatives – in a sense a hybrid development from both the private (not-for-profit and for profit) and the public sectors – have the potential for combining a number of the advantages of both sectors for the delivery of education in the K-12 arena. Although teacher cooperatives constitute a tiny fraction of the nation's teachers, the phenomenon is one of the most provocative and visibly evolving trends in educational entrepreneurship.

Beales (1994) describes the members of teacher cooperatives as professional educator teams that provide their services to schools or other organizations on a contract basis. In their most common manifestations today, small groups of teachers who are oriented towards social entrepreneurship are organizing themselves into professional partnership practices. These partnerships to date have taken the form most frequently of cooperatives, legally structured in ways that are most appropriate to the statutory and administrative context of the local school districts and states within which the partnerships are establishing contracting relationships. EdVisions, a "teacher-as-owner" Minnesota cooperative formed in 1994, was an early example of this innovation. EdVisions took on the contractual responsibility for running both the learning program and the daily operation of the Minnesota New Country School, a not-for-profit charter school. The partner teacher-owners were completely in charge of the school's pedagogical decisions and materials, assignments and performance evaluation, and hiring and compensation processes (Dirkswager, 2002). Until recently, teacher cooperatives coalesced around a variety of themes including subject matter (e.g. music), learning methods (e.g. phonics), unit of a course (e.g. U.S. Civil War), targeted student groups (e.g. gifted students) and teaching approaches such as computer-assisted learning (Wenger, 1994; Yelich, 1994; Murphy, Gilmer, Weise, & Page, 1998).

Members of teacher cooperatives today act as social entrepreneurs, who not only may transform the way education is delivered but also may have a

profound impact on teaching as a career choice. Like other entrepreneurs, these teachers are now "making a job" rather than just "taking a job." Members of teacher cooperatives no longer think of themselves as employees. They have the mindset of owners who recognize opportunities, marshal resources, create ventures (such as their cooperatives), are "customer"-driven, and are willing to take risks in order to implement their educational visions. Teacher cooperatives also reinforce the "professionalization" of teaching by presenting alternative career development paths "within teaching." These paths support educators' continuing to practice and grow in the art and science of learning and instruction rather than forcing teachers who wish to advance their careers to move "upstairs" into administration or "outside" into lateral career options. In a variety of ways, then, attributes of teacher cooperatives incentivize change and efficiency. On the other hand, members of teacher cooperatives also tap into the advantages of the public sector in that they themselves typically emerge from the ranks of public school teachers. As such, they benefit from "insider status" which enables them to connect and integrate more readily with the institutional continuity and "student anchoring" functions of the public schools, the various school and community constituencies, and the public school's core learning agendas and requirements. By combining these advantages from both the private (not-for-profit and for profit) and the public sectors, teacher cooperatives may well enjoy a significant comparative advantage in the modeling of alternative delivery structures for K-12 education.

Attendant with the various current and potential transformational trends within the education industry, there is a risk of unintended collateral damage: the deprofessionalization of the teacher. Both market innovation and technology innovation are giving rise to classroom instruction delivery products at a dizzying pace. One would hope such innovation trends would represent a force that can be harnessed to accrue benefits for teacher professional development as well as for student learning outcomes and for the education industry in general. Unfortunately, a deluge of well-marketed products is homing in on the current testing and accountability trends nationwide. The "curb appeals" of these products often are based largely on assertions (frequently unsubstantiated) about improving student performance on newly mandated standardized tests. Administrative and parent decision-makers are feeling increasing market and regulatory pressure to adopt such programs as "uniform approaches" to help district schools and alternative new schools avoid the undesirable consequences of failing to achieve student increases on accountability instruments.

The result already is an uncomfortable number of classrooms in which most of the student instruction is dictated and/or delivered by canned content and technology products. The curriculum product – rather than the teacher – tends to be seen as the locus of "knowledge" and "understanding" and of the

ability to deliver both to the students. The curriculum products are positioned as "what matters," and the teachers often are relegated largely to custodial roles. If this trend were to continue unabated, it arguably could lead to the inadvertent deprofessionalization of teaching: adopted products of unknown quality and impact would control much of classroom instruction by fiat; teachers would have substantially less opportunity to adapt classroom pedagogical approaches to the varying individual learning styles and requirements of the students or – more generally – to bring their professional expertise and experience to bear on the instructional decision-making that is key to classroom learning; and the teacher role would be reduced effectively to that of a product caretaker – a "replaceable" function that could just as easily be fulfilled by less trained, less experienced, and less expensive paraprofessionals.

Deprofessionalization risks similar to the ones just described are likely to be faced in all three sectors as we go forward. Compounding these risks is a tendency on the part of broad segments of the general public and many decision-makers to underestimate the complicated trade-offs and sophisticated intellectual requirements of real education and instructional decision-making. The determined march of innovation in education will require vigilance of equal commitment from all three sectors to maintain and enhance the "professionalism" of teaching and to ensure that educational decision-making is adequately informed and guided by that professionalism. The repercussions of mistakes in this area can be quite harsh, potentially compromising student learning capacity in entire subject areas or even across subject areas for years to come (if not for the rest of their lives).

6. Conclusion: Beyond Comparative Advantages – to Covisionary Multisectoral Synergies

Significant illustrations of entrepreneurship and entrepreneurial thinking both can be found and can emerge in (and among) any sector of an economy. Such emergence depends on the venture governance incentives in place and the degree to which ventures can work with and around their portfolio of constraints for the implementation of their vision and mission.

In the not-for-profit private sector, the lion's share of the focus is on the educational social vision and mission – how best to achieve impact in the targeted areas of social need (but with no obligation to provide minimal levels of service across an entire jurisdiction, unlike the public or government sector). Organizations within this sector strive to attain educational outcomes for K-12 youth that are viewed both as desirable and as acceptable levels of accomplishment by donors, organization associates, and society.

In the for profit private sector, although the educational social mission is still key (as it is for the other two sectors by our introductory definition), it cannot unilaterally drive all decisions. The pursuit of the social mission does have to be balanced responsibly against the economic obligations of the venture to generate an acceptable level of financial return for founders, private investors, and possibly public investors (in the case of a public corporation.)

In the public arena, the educational social mission is nominally center stage (as in the not-for-profit sector) with the additional imperative to provide minimally acceptable levels of service for the relevant governmental jurisdiction(s). Across all sectors, the social mission also is constrained in practice and must find an acceptable balance with respect to the realities of funding, politics, regulations, markets, and "turf" constraints.

We have deliberately used the term "comparative advantage" in our consideration of the relative sector advantages with respect to firms and organizations in K-12 education. Our intention was to dispose aggressively of the notion that any one sector somehow enjoys a "universal" natural advantage with respect to delivering K-12 education. In fact, we suggest that the "leading edge" of K-12 education will be fashioned by educational entrepreneurs who can create and grow value in their organizations by covisionary "educational multisectorism" leveraging the comparative advantages of <u>all three sectors</u>. In other words, the most successful K-12 educational leaders will be "innovative, opportunity-oriented, resourceful, value-creating change agents" who pursue their social mission across sector lines. Both the problems and the opportunities associated with the current and future context of K-12 education call on the skill set of "educational leader as educational entrepreneur."

Examples of such cross-sector ventures already abound in K-12 education, even in the area of school operation. Regardless of the ultimate viability of such initiatives, schools districts have much to learn (and undoubtedly much of which to be skeptical) as they observe various entrepreneurial not-for-profit and for profit forays into all areas of their current responsibilities and functions. Many of these forays hopefully can serve as "laboratories" to model candidate best practices and innovative potential approaches with respect both to educational content and to educational delivery. As such, their results can provide invaluable guidance to inform and adjust both the division and the coordination of labor between the public school system and the not-for-profit and for profit private sectors so as to achieve the greatest overall benefits for K-12 learners. One can certainly debate whether such forays should or should not be happening (a <u>different</u> debate, as an earlier comment suggests, than the debate about "privatization.") However, such debate does little to advance the learning of our K-12 youth. In the spirit of finding opportunity in the disguise of problems, a more entrepreneurial question to ask is how organizations from the not-for-profit sector, from the for profit sector, and from the public sector can best pool their strengths through covisionary "multisectorism" to achieve simultaneously enhancements of performance outcomes and of social justice in the K-12 space.

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