

PROMOTING EDUCATION INNOVATION & ENTREPRENEURSHIP IN UTAH

RESPONSIBLE CITIZEN SUMMARY

Background

- Though innovation and entrepreneurship continue to revolutionize most industries, public education remains mostly stagnant, propping up the status quo
- Government rules and regulations prevent innovators from implementing new ideas in public schools
- Utah needs more financial and human capital in order to foster a vibrant community of education entrepreneurs

What's at stake?

- The opportunity to involve entrepreneurs in the process of improving Utah's public school system
- The quality of education for Utah's children

What's next?

- Utahns should create a political, economic, and cultural environment that allows and encourages innovation and entrepreneurship to flourish
- Sutherland offers eight specific recommendations that will help the public and private sectors accomplish this

[Responsible *Citizenship*](#)[™]

Innovative entrepreneurs are catalysts of change that can bring meaningful reform to Utah's schools.

INTRODUCTION

The entrepreneurial spirit is the engine of America's unrivaled economic prosperity. Without it, Americans might still live agrarian lives, ride a horse and buggy to church, and use candles to light their homes.

How different would American life be if Ford Motor Company had not developed the assembly line and the Model T, or had Intel engineers not developed a way to produce the microprocessor? Further, what if innovative companies like Toyota, Apple, and Google were not building upon the successes of their predecessors? Innovative entrepreneurs have discovered how to bring goods and services that are more effective, more efficient, and more useful to more people. They have revolutionized the way we live our lives, mostly for the better.

In contrast with rapidly advancing industries, education lags in innovation and entrepreneurship. Despite decades of concerted effort from all levels of government to improve public education, Americans, including Utahns, are dissatisfied with the state of their schools, which begs the question: if innovation continues to drive other industries forward, then why has it stalled in public schools?

The problem does not seem to be a lack of desire or ideas but that the best ideas rarely make it into the school system to be tested. Our children are our future. Their formal education is central to their preparation for life's challenges. A mediocre school system will not do. As Utahns, there is much we can do and must do to jumpstart innovation in education.

WHY UTAH SCHOOLS SHOULD BE ENTREPRENEUR FRIENDLY

Innovation is essential to help meet the demands of a dynamic world. Entrepreneurs – the catalysts of innovation – never assume that any product, process, or service is perfect, there is always some way to improve it or something better to replace it. Successful entrepreneurs are not afraid to challenge the status quo, even when naysayers and people comfortable with established norms resist change. They put their time, money, and reputation on the line as they seek to transform their dreams into reality.

Public education is not known as a hotbed of innovative ideas; rather it is known mostly as archaic and stagnant. According to Frederick M. Hess, a leading advocate for entrepreneurship and innovation in education, the nation's public school system was "configured to process large numbers of students for lives in an industrial nation" and "given the demands of globalization and the knowledge economy, arrangements that may have worked passably well 50 years ago are no longer adequate."¹

To be sure, public schools are progressing to some degree. They have created some opportunities for innovation, such as charter schools, and they have adopted some innovations from other industries, such as com-

puters and the Internet, to help enhance the services they provide. And yet, the good resulting from these changes represents only the very tip of the innovation iceberg. Promoting more entrepreneurship within and from outside public education would open up new vistas of opportunity to develop tools and methods that could significantly improve education in Utah.

It is vital to remember that true innovation does not improve a system slightly, it disrupts it. It transforms the way people think about what they do, why they do it, and how they do it.² Pseudo reforms like reducing class size and increasing spending may do some good, but they only uphold the status quo or rearrange it. They are usually the preferred "reform" of one powerful constituency or another, a "reform" brandished to stave off more intrusive and demanding reform models. "Disruptive technologies" do not depend on the established system for their success or operate on the assumptions of the status quo, they occur independently, transforming the system and the status quo.

Entrepreneurs have recently begun to disrupt the old way of doing things. For instance, Wireless Generation has created software for handheld devices that teachers can use to assess students, record and transfer results to the Web, monitor student progress, and receive suggestions of activities to help improve student achievement. Organizations like Teach for America and the New Teacher Project recruit recent college graduates or mid-career professionals with varying education backgrounds, work experience, and career interests to teach in urban and rural schools. Presidium Learning helps schools use Web-based technology to support administrators, teachers, and students and to connect parents with teachers.

These examples are just a few of numerous non-profit and for-profit groups that are working to inject innovation into education. Other notable examples include Achievement First, Aspire, Edusoft, Green Dot Public Schools, KIPP Academies, schoolnet.com, and Teachscape.

WHY UTAH SCHOOLS ARE NOT ENTREPRENEUR-FRIENDLY

For any industry to benefit from true innovation, it must provide an environment that fosters innovation. In general, America's private business and non-profit sectors provide ample opportunity and incentives for entrepreneurs to invest capital and other resources into their ideas, to test those ideas, and to allow them to succeed or fail. Utah's school system is not as friendly to entrepreneurs.

The education establishment – government leaders and bureaucrats, public schools, and teachers unions – tends to seek self-preservation at all costs. It resists any idea, program, or technology that could disrupt a power structure that they believe favors them. Ongoing resistance to charter schools, performance pay, and school vouchers are evidence of this fact.

In a recent report, Utah received a "D" for educational innovation and ranked just 38th among the 50 states.³ Rather than obstruct innovation, Utah educators and policymakers should collaborate with entrepreneurs to promote it.

To understand how to do this, we must first identify specific policies and practices that inhibit innovation and entrepreneurship in Utah's public school system. Let's address three: barriers to entry, barriers to exit, and lack of capital.

Barriers to entry

Innovative industries provide ample opportunities for entrepreneurs to enter existing markets or to create new ones. Industries that block new entrants become stagnant as existing participants have less competition from newcomers who would modify or challenge current business models. High levels of competition induce market players to constantly reassess and improve their products and services in order to maintain a competitive advantage.

This innovation-inducing mechanism is evident in the airline industry. Following the United States Airline Deregulation Act of 1978, Southwest and JetBlue were able to enter the air-carrier market and disrupt it. Southwest, in particular, pioneered an innovative cost-saving model that allowed it to target "the least-demanding customers."⁴ Southwest's success has forced all air carriers to rethink their models, which has benefited air travelers with improved service and lower prices.⁵

Utah's education system is in a situation comparable to the airline industry's pre-deregulation period. Though entry into the education market is possible, federal, state, and local laws and regulations and public education's finance structure make it extremely difficult. In effect, government has a monopoly on K-12 education in Utah.⁶

One of government's notable concessions with education entrepreneurs is charter schools. Since 1999, the state has allowed 78 charter schools to open, including two online schools. Charter school administrators and teachers have more flexibility to develop their programs, curriculum, and teaching methods in ways that help them better address the unique needs of students and preferences of parents. Still, charter schools are

government-operated and are subject to most of the same guidelines as traditional public schools. They also receive less funding than traditional schools⁷ and their enrollment is capped.⁸

While opening new schools or restructuring failing schools may benefit some students, the “whole-school” solution is not necessarily the best one. There is no silver-bullet solution. Rather than try to replace entire schools or discover “best practices” and standardize them across all schools, well-meaning reformers should seek earnestly to involve “niche providers” who specialize in providing specific products and services that benefit students, schools, or systems. As Hess has written, “The hunt should not be for the elusive 100 percent solution, but for one hundred different 1 percent solutions.”⁹

Seeking out specialized solutions allows for rapid and constant improvement. Hess also wrote, “The ‘R&D’ model [for educational entrepreneurship] should emulate areas like medicine and technology, where products and services deemed state-of-the-art in 1987 now seem hopelessly antiquated.”¹⁰

Barriers to exit

It is problematic that entry into the education industry is difficult, but it is equally problematic that exit is difficult. In other words, once an idea or program becomes part of the system it is rarely abandoned because even when it produces underwhelming results the establishment tends to prop it up.

For example, though one of the main purposes of No Child Left Behind (NCLB) is to close chronically “failing” schools, the actual percentage of schools that have

been forced to shut down is close to zero. Also, Utah administrators and teachers are insulated by collective bargaining agreements that shield them from scrutiny after a three-year probationary period and that base their salaries on a fixed schedule rather than on their individual performance.

Where public dollars and social programs like education are concerned, most people become intolerant of risk. Rather than weed out poor programs, policies, and employees, the system actually incubates them and allows them to spread. The resilience of the weeds makes it difficult for innovative entrepreneurs to get their ideas heard and implemented.

In contrast to public education, private-sector firms acknowledge the element of risk. Venture capital firms generally assume that some 30 percent of the ventures in which they invest will fail (as compared with 80 percent of new private ventures throughout the economy).¹¹ Private firms abandon 60 percent of new products before they ever reach consumers, and close to half of those that do end up failing.¹²

Supporting innovation involves embracing a certain degree of risk. There must be an opportunity for failure if there is to be an opportunity for innovation and success. What risk is so great and terrible that the assurance of mediocrity and failure associated with clinging to the status quo is to be preferred above it?

Lack of capital

Most entrepreneurial endeavors require substantial capital in order to succeed; specifically, financial capital and human capital.

Financial capital

For entrepreneurs, the search for project financing must seem never-ending. They need money to get started, to support growth, and to sustain their efforts as their projects mature. Entrepreneurs who lead non-profit ventures have a particularly difficult time raising adequate funding and sustaining it over multiple years as they grow.¹³

In the education industry, venture capital is not easy to obtain. On average, American venture capitalists invest just \$64 million in pre-K-12 businesses each year, whereas entrepreneurial ventures for health care receive \$7.2 billion (112 times more).¹⁴ This dearth in venture capital for education stems at least in part from the problems described above. Potential funders hesitate to invest in an industry that does not provide many opportunities to innovate and that even appears hostile to change.

Despite these concerns, some venture-capital firms, venture philanthropists, and “angel investors” do help fund educational entrepreneurship. Among other investment strategies, NewSchools Venture Fund seeks to support entrepreneurs who help develop successful charter school models, school support organizations, and accountability and performance tools.¹⁵ Venture funds such as Mind Trust and the Ashoka Foundation offer fellowships to education entrepreneurs and even “incubators” in which entrepreneurs can develop and launch their ventures.¹⁶

Some organizations run venture plan competitions and award cash prizes to the most innovative and promising proposals. Current examples include the *Milken-PennGSE Education Business Plan Competi-*

tion (1st Place: \$25,000) and the Dell Social Innovation Competition (Grand Prize: \$50,000). Though the prize money certainly helps, the real reward is the publicity associated with the award that can be used to leverage further funding and support. Venture plan competitions are a valuable model because they invoke increased interest and participation from entrepreneurs and the public, and they stimulate much more in private investment than the actual monetary value of the prize.

Note that though Utahns may apply for many of the funds described above, few, if any, of these organizations operate in the state or target Utah entrepreneurs. Utah’s schools would benefit greatly from a Utah venture capital market that invests specifically in education-related ventures.

Human capital

Financial capital is useful only if there are good entrepreneurs who can use it. Good entrepreneurs are highly-motivated, results-driven problem solvers. They take responsibility for their performance and can operate autonomously.¹⁷ The education industry needs entrepreneurs with a wide range of talent, knowledge, and experience. Some may emerge from within public education, some may transfer from other industries, and others may arrive directly from college.

Education also needs more “hybrid leaders” who are cross-trained in several sectors, especially the education, business, non-profit, and public sectors. Entrepreneurial organizations need board members who can provide strategic guidance, tactical assistance, and connections to potential customers and who can attract talent and help shape business plans.¹⁸

Organizations like Teach for America and the New Teacher Project are doing their best to attract entrepreneurial leaders to public education, but there are many aspects of the system that repel them. For example, regulations, policies, and teacher-union contracts restrict administrators' ability to manage hiring, budgeting, and the allocation of other resources, which makes innovation difficult to pursue. Entrepreneurs also shy away from a system that offers few rewards for excellence and tends to settle for mediocrity.¹⁹

Furthermore, the establishment is biased toward hiring employees who come up through the system. This culture is supported by strict licensure and certification requirements, including NCLB's "highly qualified" requirement, which deter entrepreneurially-minded individuals with varying backgrounds from entering the field.²⁰ Entrepreneurs are more drawn to other industries that welcome their diverse experience and do not restrict their ability to develop and test their ideas.

If Utahns want to help spur more innovation in their schools, then they should pull down barriers to entry and exit and find ways to expand and continually replenish the supply of financial and human capital available to the education industry.

HOW UTAH CAN BECOME ENTREPRENEUR FRIENDLY

Now that we know which policies and practices discourage innovation and entrepreneurship in education, we can identify specific steps that Utah educators and policymakers can take to create an environment that welcomes, promotes, and even demands, innovation and entrepreneurship in Utah education.

Government

By nature, government is not friendly to rapid innovation.²¹ In fact, America's republican system of government was intentionally designed to prevent rapid change in order to promote order and stability. Still, government can do much to encourage more innovation than currently occurs within the public school system, and it can harness the power of entrepreneurs from outside the system. It can remove obstacles to innovation and help develop an economic, organizational, social, and political environment that allows innovation and entrepreneurship to flourish.²²

Sutherland offers the following policy recommendations for government to help foster an entrepreneur-friendly environment in public education:

1. Increase access to charter schools.

- Remove the charter school growth cap. The state now permits charter school enrollment to increase by just 1.4 percent of total district enrollment per year.

2. Give districts and schools more autonomy.

- Eliminate federal and state rules and regulations that dictate which products and services district and school managers can obtain and how and from whom they can obtain them. District and school managers should have the freedom, and even be encouraged, to collaborate with niche providers to fulfill needs such as data management, professional development, office management, security, cleaning and maintenance, food services, transportation, management consulting, technology, counseling and psychology, health care, curriculum development, assessment tools, tutoring, mentoring, textbooks, and supplies.

- Enact a law similar to Colorado's Innovation Schools Act of 2008. This statute allows and encourages public schools, groups of schools, and districts to submit an "innovation plan" to their local school board and, if approved, to obtain waivers from statutes, rules, or collective bargaining agreements that would present obstacles to their plan.²³
3. **Expand the niche-provider market to parents.**
 - Offer an Education Supplemental Services Tax Credit that reduces taxes for parents who spend money out-of-pocket for supplemental services such as tutoring and special education provided by entrepreneurs.
 4. **Open the hiring pool to entrepreneurs.**
 - Waive licensing requirements for administrators and teachers in charter schools and low-performing schools. For example, state law requires administrators to have an advanced degree and three years of full-time professional experience working in schools.²⁴ When highly-skilled leaders from other sectors apply for positions at low-performing schools, the waiving of these two requirements would allow entrepreneurially-minded candidates who are otherwise qualified to work to turn those schools around. Districts and schools can collaborate with recruiting agencies like Teach for America and the New Teacher Project to find qualified candidates for such positions.
 - Create "hybrid teaching positions" that allow teachers to teach part-time and spend other time "building skills and gaining experience supervising adults, leading teams, designing curricula, or developing accountability systems."²⁵ This policy would be similar to Google's "20-percent time" policy that allows engineers to spend one day each week innovating whatever they want.
 5. **Hold employees accountable and reward them for performance instead of inputs.**
 - Schools and districts should pay all employees based on their ability to meet or exceed expected outcomes for their particular role. Performance-based pay will both encourage employees within the system to be more innovative and attract entrepreneurs from higher-paying industries.
 - Implement Sutherland's performance-based-pay proposal for teachers and principals, which would offer pay increases and bonuses based on evaluations and student achievement, make principals CEOs of their schools, and end collective bargaining for salaries and benefits.²⁶
 - Conduct a yearly competition to identify the public administrator or teacher who designs and implements the most innovative approach to education. Offer the winner a one-time grant to help further their innovation in their school.
 - Reward schools and districts for increasing efficiency and decreasing costs in areas such as budgeting, procurement, and human resources. For example, districts could award bonuses or budget enhancements to the school that has the most efficient payroll department, whether it uses public or private resources to make such improvement.
 - Base compensation for contracts on performance. For example, rather than pay a private provider a fixed amount for tutoring services for a specific period of time, a public school could pay the provider a specific dollar amount for every high-school dropout it helps meet graduation requirements.

6. Reduce the influence of the federal government in Utah education.

- Opt out of any federal law or program that prevents the state, districts, or schools from implementing any of these recommendations or discourages innovation in any way. Obvious offenders include No Child Left Behind (NCLB), the Individuals with Disabilities Education Act (IDEA), and food and nutrition programs. Federal programs stifle innovation by mandating one-size-fits-all programs and practices that leave little room for innovation.

- A private organization could create a network for education entrepreneurs, similar to Utah’s Silicon Slopes that focuses on technology-related businesses. This organization would connect entrepreneurs, investors, mentors, and educators and facilitate the sharing of ideas in order to avoid “reinventing the wheel.”²⁹
- Government could assist these private endeavors by offering access to any education data needed to identify potential areas for investment and by encouraging educators and administrators to participate in networking events.

Private Sector

The private sector is the source of most innovation because it is “nimble, risk-taking, and non-political.”²⁷ Government needs private non-profit and for-profit organizations to help find workable solutions to complex issues. Sutherland offers the following recommendations to help government and entrepreneurs in the private sector cooperate to advance innovation and entrepreneurship in education:

1. Conduct education innovation competitions.

- Utah venture capitalists or philanthropies could offer substantial prizes to entrepreneurs who create the most promising innovations for specialized products and services or whole-school reform. The state could help advance the winning ideas by actively seeking out public schools willing to try implementing those ideas.

2. Coordinate investing and innovation efforts.

- A consortium of investors could hold an annual angel investor or venture capital conference in Utah that specifically addresses investment in education ventures.²⁸

CONCLUSION

As the world around us continues to change, Utah needs to adapt its schools to such change. To accomplish this, we must not assume that the way we have always done things is the best way to do them. We must create an environment in our public school system that encourages innovation and entrepreneurship from within and from without and that allows the best ideas to rise to the top. Creating such an environment could revolutionize the way we educate our children. They deserve the very best we can give them.

The author, Matthew C. Piccolo, M.P.P., is a policy analyst with the Sutherland Institute. A former Charles G. Koch Summer Fellow and an Intern in Business and Economics Studies at the Pacific Research Institute in Sacramento, California, he has also worked with the Heritage Foundation in Washington, D.C., and Family Health International in Arlington, Virginia.

ENDNOTES

1. Frederick M. Hess, "Educational Entrepreneurship," remarks to the Education Industry Association membership, Washington, D.C., March 14, 2007, 1.
2. Kim Smith and Julie Petersen, "What Is Educational Entrepreneurship," in *Educational Entrepreneurship: Realities, Challenges, Possibilities*, ed. Frederick M. Hess, Cambridge, MA: Harvard Education Press, 2006.
3. Center for American Progress, U.S. Chamber of Commerce, and Frederick M. Hess, director of education policy studies at the American Enterprise Institute, "Leaders and Laggards: A State-by-State Report Card on Educational Innovation," November 2009. http://www.americanprogress.org/issues/2009/11/leaders_laggards/report.html
4. Jeremy Dann, "Multiple Disruptions on the Radar Screen," *Strategy & Innovation*, July/August 2003. Southwest Airlines used point-to-point, short-haul flights instead of a hub-and-spoke system, turned around planes faster, and used "less-expensive gate slots at secondary airports whenever possible." It targeted the "least-demanding customers" by offering unassigned seating and minimal food service in exchange for low prices.
5. Government Accountability Office, "Airline Deregulation: Reregulating the Airline Industry Would Likely Reverse Consumer Benefits and Not Save Airline Pensions," GAO-06-630, June 2006.
6. Eighty-nine percent of Utah's schools are government-run and only 4.3 percent of Utah's children are enrolled in private or home schools. Utah State Office of Education School Finance & Statistics, Student Demographics, 2007-08.
7. Charter schools receive \$500 less per pupil per year than traditional public schools. Elizabeth Stuart, "Group lauds Utah's charter school laws," *Deseret News*, December 8, 2009.
8. The state caps annual increases in student enrollment in charter schools at 1.4 percent of total school district enrollment of the previous school year. *Utah Code* 53A-1a-502.5.
9. Frederick M. Hess, "The Future of Educational Entrepreneurship," American Enterprise Institute, *Education Outlook*, No. 7, November 2008, 5.
10. Hess, 2007, 5.
11. Jeffrey Timmons and William Bygrave, "Venture Capital's Role in Financing Innovation for Economic Growth" in *Entrepreneurship: Critical Perspectives on Business and Management*, ed. Norris Krueger, New York, NY: Routledge, 2002, 23.
12. Clayton M. Christensen and Michael E. Raynor, *The Innovator's Solution: Creating and Sustaining Successful Growth*, Boston, MA: Harvard Business School, 2003, 73.
13. Smith and Petersen, 2006.
14. Hess, 2008, 3.
15. <http://www.newschools.org/work/investment-strategy>.
16. <http://www.ashoka.org/learning>; <http://www.themindtrust.org/fellowship/aboutFellowship.aspx>. For a good sample of nonprofit providers of capital in education see Kim Smith and Julie Petersen, "Social Purpose Capital Markets in K-12," in *The Future of Educational Entrepreneurship Possibilities for School Reform*, ed. Frederick M. Hess, Cambridge, MA: Harvard Education Press, 2008, Table 4.1, 97-99.
17. Bryan C. Hassel, "Attracting Entrepreneurs to K-12," in *The Future of Educational Entrepreneurship Possibilities for School Reform*, ed. Frederick M. Hess, Cambridge, MA: Harvard Education Press, 2008, 46-47.
18. Smith and Petersen, 2006.
19. Bryan C. Hassel, "Attracting Entrepreneurs to K-12," in *The Future of Educational Entrepreneurship Possibilities for School Reform*, ed. Frederick M. Hess, Cambridge, MA: Harvard Education Press, 2008, 46-47.

- ship Possibilities for School Reform*, ed. Frederick M. Hess, Cambridge, MA: Harvard Education Press, 2008, 50-53; and Frederick M. Hess and Bryan C. Hassel, "Fueling Educational Entrepreneurship: Addressing the Human Capital Challenge," Harvard University Program on Education Policy and Governance, June 1, 2007, 2.
20. An overwhelming majority of principals and superintendents come up through the school system rather than transferring from other industries. Susan M. Gates, et al, "Who is Leading our Schools? An Overview of School Administrators and Their Careers," RAND Corporation, 2003, 24, 31-32.
 21. As an example, some Utah legislators have been trying to facilitate the implementation of computer-adaptive testing in Utah schools for well over a year, but they have managed only to authorize a pilot program. See Amy K. Stewart, "Computer-adaptive testing is gaining favor," *Deseret News*, July 26, 2009.
 22. Thomas Hatch, "Four Flawed Assumptions of School Reform," *Education Week*, December 9, 2009.
 23. According to the statute, school boards are "strongly encouraged" to give schools "a high degree of autonomy" in making decisions regarding curriculum, personnel, scheduling, the use of resources, and the delivery of educational services, "thereby empowering each public school to tailor its services most effectively and efficiently to meet the needs of the population of students it serves." Also of note, principals of "innovation schools" can hire teachers on one-year contracts and give them bonuses for improving student outcomes, and the state can revoke the status of an "innovation school" after three years if outcomes do not improve. See *Colorado Revised Statutes 22-32.5-101* and Colorado Department of Education, "Fact Sheet: Innovation Schools Act of 2008," November 11, 2008.
 24. *Utah Administrative Code*, R277-505-4.
 25. Hess, 2008, 3.
 26. *The Myth of the Silver Bullet: A Comprehensive Approach to Teacher Incentive Pay*, Sutherland Institute, January 7, 2009. <http://sutherlandinstitute.org/uploads/SilverBullet.pdf>.
 27. Hess and Hassel, 6.
 28. Such a conference could be similar in purpose to the Entrepreneur, Angel Investor Conference organized by Grow Utah Ventures, but it could specifically target education entrepreneurs and investors.
 29. NewSchools Venture Fund and the Aspen Institute hold an Annual Gathering of Education Entrepreneurs in Aspen, Colorado to help connect leaders in educational entrepreneurship, philanthropy, policy-making and research. Utahns could hold a similar event here and maybe even partner with these organizations. On the importance of connecting parties interested in education entrepreneurship, see Smith and Petersen, 2006, and Hess, 2008, 3.



Crane Building
 307 West 200 South, Suite 5005
 Salt Lake City, UT 84101
www.sutherlandinstitute.org
 office: 801.355.1272
 fax: 801.355.1705