

# Encouraging Educational Innovations Through Competitive Institutional Arrangements

Christopher Lubienski

*\*Academic/Faculty: Associate Professor University of Illinois, Department of Educational Organization and Leadership, 329 Education Building, 1310 South Sixth Street, Champaign, IL 61820 MC-708.*

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## Abstract

Policymakers increasingly recognize the need to encourage educational innovations as a way to give all children access to quality schooling. Standardized systems have failed underserved and marginalized communities; state-run systems are often oriented to the preferences of bureaucrats and special interests, rather than the needs of students. Thus, theorists point to alternative organizational structures as a means to animate market-style incentives, thereby inducing school managers to be more entrepreneurial in responding to consumer demand for education. This paper surveys educational innovations in a number of nations that have embraced private sector models to aid in educational provision and innovation, including Canada, Chile, England/Wales, India, New Zealand, and the United States. The review suggests that decentralized structural arrangements have been more successful at producing innovations in areas such as governance, contracting, employment and marketing. Classroom-level innovations are more often a product of professional impulses, often within the state sector.

*Key words : Innovation, incentives, governance, curriculum, pedagogy.*

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## Prelude

Policymakers increasingly recognize the need to encourage educational innovations in order to give all children access to quality schooling, and many see competitive incentives as the most effective way to promote these innovations. It is widely believed that state-run systems have failed to foster innovations, thereby consigning students — particularly those

in underserved and marginalized communities — to inadequate schooling. Theorists note that this is because state-run systems are often oriented to the preferences of bureaucrats and special interests, rather than the needs of students. Thus, these theorists point to competitive institutional environments as a means to leverage market-style incentives, thereby inducing school managers to be more entrepreneurial

in responding to consumer demand for education. The question then arises as to whether these competition-oriented policies in fact cause education leaders to pursue more innovations and, if so, in what form. The patterns evident indicate that competitive incentives may in fact work at cross-purposes to what theorists had anticipated in terms of the incentives recognized by school leaders.

This analysis reviews educational innovations in a number of nations that have embraced private sector models to aid in educational provision and innovation. The analysis finds that alternative structural arrangements have been more successful at producing innovations in areas such as governance, contracting, employment and marketing. Contrary to the expectations of theorists, classroom-level innovations at the technical core of schools are often a product of professional impulses, often within the state sector. Theorists failed in predicting such patterns because they embraced a relatively simplistic view of how markets for education work.

So what are the sources of innovation for schools? The following section summarizes the dominant theoretical perspective guiding policymakers in this area. Public Choice Theory offers a cogent critique of moribund state administration, and advances policy prescriptions based on market-style models to promote innovation. Then the paper reviews research on innovations in several nations that have adopted such market-oriented policies for educational innovation and expansion, finding patterns at odds with theoretical predictions. The penultimate and concluding sections consider the inherent peculiarities of education markets that may resist simplistic applications of pure market mechanisms, and discuss alternative perspective on how policies can encourage education leaders to pursue innovations for more effectively educating all children.

### **Public Choice Theory and State Capacity for Innovation**

Many governments have in recent years borrowed attributes from the business sector — consumer choice, competition between autonomous providers

— to address the bureaucratic malaise and rigidity associated with state provision of public services (International Finance Corporation, 1995). The Public Choice Theory (PCT) basis for these policies essentially applies analytical assumptions and methods from neoclassical economics in examining public sector failure, thought to be inherent in direct state (nonmarket) production of public goods and services (Mueller, 1979). Under the “economic theory of regulation,” PCT perceives “captured” regulatory regimes used to insulate, enrich, and protect service providers or regulators (Kalt & Zupan, 1984; Stigler, 1998). Self-interested officials will maximize their own power by creating empires (fiefdoms, dictatorships) within and over bureaucracies and public resources (Niskanen, 1971; Romer & Rosenthal, 1979).

In this logic, state production and regulation necessarily engender anti-innovative tendencies. Since parties try to capture monopoly rents and control public resources, rather than promoting innovations that may help service-users, regulatory regimes are re-oriented toward the needs of bureaucrats or the interests that control them (Borcherding, 1977; Buchanan, Tollison, & Tullock, 1980). In education, of course, this is the “education establishment” of teachers, unions, governance agencies, etc, (Friedman, 1995; Levin, 1997; Levin & Young, 1999). Without competition and consumer-oriented accountability, the natural tendency of non-competitive state enterprises such as education is to rely on top-down mandates to impose bureaucratic fiat, so the state system will standardize, leaving little room for flexibility and innovation in the technical core practices of an organization — “Where educational systems resemble monopolies, the incentives for curricular innovations disappear” (Gauri, 1998: 22; Chubb & Moe, 1990; Friedman, 1962; Peterson, 1990).

Thus, market-style arrangements represent the most obvious approach to encouraging innovation, with deregulated state entities managed as business-style enterprises in competition with other providers — giving citizens or “consumers” an array of options.<sup>1</sup> Since the best proxy for the general social good is the aggregate of individual preferences, PCT consecrates the citizen as consumer to encourage economic-style

expressions of those preferences (on such exit-oriented expressions, see Hirschman, 1970). Responsiveness and efficiencies can best be realized through institutional arrangements that go furthest in facilitating Tiebout-style (1956) expressions of preference. Organizations, without guaranteed government funding, are placed in environments where they must compete through strategies such as product/process innovation for the patronage of consumers and the government funding they bring.

This logic is particularly prominent in education expansion and reform, in part because of Milton Friedman's (1962) prominent proposal for non-public provision of schooling (Gauri, 1998; Lubienski, 2006). PCT influence is evident in "managerialism" and "new public management" (see Oettle, 1997). Nobel-laureate University of Chicago economist Gary Becker (1999) contends that "Competition...would induce a more rapid rate of innovation into curriculum and teaching." His colleague, Friedman (1994: 101), argues that in a competitive, consumer-driven system, there would be "many more choices, there will be a whole rash of new schools that will come into existence." The Chicago school was particularly influential in the reform of Chile's education system during the Pinochet-era, where policymakers promoted PCT tenets to promote "pedagogical decentralization" (Gauri, 1998: 39). Friedman's followers created a voucher system that enabled parents to choose public, proprietary, or religious schools as state expense. Education reforms in New Zealand exemplify public choice thinking in the Treasury (1987) and Picot Reports' (1988) emphasis on decentralized institutional autonomy and enhanced consumer choice of schools (Bennett, 1994; Gordon & Whitty, 1997). Similarly, reforms of education administration and governance in the UK relied on a consumer-driven model for schooling. India has relied on non-state providers for expanding educational services, and PCT has also been influential in the thinking on school choice in North America (Lubienski, 2003, 2004; e.g., Gintis, 1995; Robson, 2001; Walberg & Bast, 2001).

1 While Public Choice advocates assume the superiority of private-style institutional types, market-style

alternatives are still typically premised on a continued state role in funding in order to provide public goods in cases where free-rider tendencies lead to an undersupply of socially desired goods (Olson, 1965).

### **Patterns of School Responses to Competition**

While the reforms in these countries have evolved, the research record on educational innovations has also matured. Despite the predictions of PCT, few schools in Chile, particularly in the proprietary sector, pursue curricular innovation (Carnoy & McEwan, 2000; Espínola, 1993; Gauri, 1998; Parry, 1997b). Instead, school leaders appear to be taking advantage of the deregulated environment in organizational areas such as employment practices and marketing, the use of selection processes for admitting students, and cost-cutting measures such as increased class-size (Carnoy, 1998; Hsieh & Urquiola, 2002; Parry, 1997a, b). Where classroom innovation occurs, it tends to appear in the public sector, while private schools offer more traditional curricula and embrace "basics" approach to teaching (Gauri, 1998; Parry, 1997b).

On the other hand, some market advocates believe that educational developments in India have resulted largely from private, not state, action (Tooley, 1999). Non-state organizations have been critical in the expansion of access to schools. Private (independent and government funded) schools have been critical in both expanding access and offering a necessary alternative to state-run schools. Aspects of this autonomous sector look promising for promoting innovation. For instance, some proprietary organizations have started research and development (R&D) units for curricular innovation (Tooley, 1999; see also Tooley & Dixon, 2005b), and a study of Hyberdad found greater availability of basic resources (water, blackboards, desks, etc.) in private sector schools, suggesting that, since private schools are able to provide greater tools and outcomes with fewer resources, they must be more innovative (Tooley & Dixon, 2003, 2005a). While few examples of curricular innovations were noted, innovations in delivery, contracting, and marketing are evident, as in a study of low fee private schools in Uttar Pradesh (Srivastava, 2004).

A number of organizational and programmatic changes in New Zealand resulted in new school themes such as athletics, vocational and ethnic emphases (Fiske & Ladd, 2000; Lauder et al., 1999). Yet other than Maori schools, researchers have found little evidence of schools pursuing innovative methods or otherwise differentiating themselves to appeal to specific markets. Mikuta (1999: 155; citing Wylie, 1994), notes that “schools are not attempting to adopt innovative approaches to teaching, curriculum or assessment in order to fill a niche in the market that will distinguish them from their competitors.” Instead, school leaders are increasingly concerned with public appearances — uniforms, physical plant, advertising (Fiske et al., 2000; Lauder et al., 1999; Mikuta, 1999; Whitty, Power, & Halpin, 1998). Oversubscribed schools, typically with more affluent students, are able to give preference to students likely to enhance indicators of academic achievement at the school (Fiske et al., 2000; Lauder et al., 1999). Gordon and Whitty (1997: 458) suggest that “neoliberal claims that choice leads to diversity of provision are hard to substantiate.”

Researchers report little evidence that schools in England/Wales seek innovations in practice, even when policymakers explicitly sought academic innovations (Glatter, Woods, & Bagley, 1997; Halpin, Power, & Fitz, 1997; Power, Fitz, & Halpin, 1994; Power, Halpin, & Fitz, 1994; Woods, Bagley, & Glatter, 1998). Schools in a position to shape student intake emphasize an academic orientation, and tend to seek a student body that will support that image (Whitty et al., 1998; Woods et al., 1998).<sup>2</sup> The renewed emphasis on marketing and symbolic presentation such as uniforms indicates such a strategy (Gewirtz, Ball, & Bowe, 1995; Whitty et al., 1998). Ironically, where real diversification has occurred, it has been the result of government intervention, not competition and choice (Glatter et al., 1997; Walford, 1997b).

One might expect to see more innovation from charter schools in the US (and Alberta, Canada), particularly before their practices are institutionalized, since they were specifically advanced as “R&D centers” to develop innovations in curriculum and instruction. However, virtually all educational practices in charter schools are

already used in public schools (Good & Braden, 2000; Lubienski, 2004; Stout & Garn, 1999). A comprehensive review of charter school practices across the country indicates that these schools are more successful in adopting administrative innovations, while often embracing traditional curricula (Lubienski, 2003). Indeed, while these schools often use their operational autonomy to avoid classroom-level innovations, many of the administrative practices such as school marketing, discipline codes, and parent contacts enable school leaders to shape student intake.

2 A significant degree of this standardization can be understood in light of the centralizing policies of national curriculum and assessment. However, Whitty, Power and Halpin (1998: 90) conclude that the market effects of these reforms outweigh these neoconservative efforts in encouraging standardization due to the choices of “active” consumers which, in aggregate, elevate a standard traditional model of education — in “substantive terms, the market itself thus seems to reinforce traditional norms rather than fostering the diversity claimed by its advocates.”

A few patterns are evident across these different contexts: 1) School leaders are adopting innovations in administrative areas such as marketing and employment. 2) There is scant evidence of the expected innovations in classroom practices; indeed, many school leaders often used the new-found autonomy to embrace “basics” instructional strategies. 3) Where educational innovations are occurring, they are often the result of bureaucratic, professional, or public-policy interventions, not market forces, contrary to the logic of PCT.

### **Peculiarities of Education as a Quasi-Public Good**

The simplest explanation for these somewhat counter-intuitive patterns focuses on the demand-side: preferences for education are not as diverse as theorists assumed, but cluster around a relatively monolithic conception of what constitutes “good” education. Under this view, parents want schools to focus on the academic “basics” in a disciplined and orderly atmosphere, rather than as laboratories for innovations tried out on their children. While there is

certainly much merit to this argument, three important factors should be considered. Inasmuch as this is true, it does seem curious that parents were positioned by policymakers as the driving force for reforms that pursue innovation and diversification (Whitty et al., 1998). Furthermore, this perspective ignores the degree to which providers shape preferences through marketing, which is certainly a factor in these cases. More importantly, leveraging competition between providers is meant to lead to innovations not simply in product, but in production. Even if consumers are not looking for innovative services, their choices should introduce competition between providers that will generate innovative productive processes — more effective ways of attaining better outcomes. It is not apparent from the research that this is happening to any substantial extent.

In contrast to this demand-side perspective that explains standardization *in spite of* supply-side competition, an alternative explanation analyzes standardization *as a consequence of* increased competition, focusing on the incentive structures imposed upon providers. Economists note that when peculiarities inherent in production of goods in particular sectors precludes pure-market-style arrangements, attempts to impose more market-like dynamics may lead to less-optimal and perverse outcomes — with no *a priori* way of knowing the likely effects (Lipsey & Lancaster, 1956). Consequently, rather than idealized markets, we are left with less-than-optimal markets in mixed-sectors for quasi-public goods such as education. Therefore, in such cases, one cannot assume that further moves towards market-style accountability mechanisms will address problems as intended, yet policies that nevertheless pursue purer market dynamics often corrupt intended results. According to Lancaster and Lipsey (1956: 11), such counter-intuitive patterns are continually rediscovered in isolation, yet “this seems to evoke expressions of surprise and doubt, rather than of immediate agreement and satisfaction at the discovery of yet another application of the already generally accepted generalizations.” In education, public choice policies seek to fashion even closer approximations to purer markets, yet several unique aspects inherent to public education necessitate non-market forms of

accountability, access, regulation, and funding. The consequent pathologies corrupt the intended incentive structures, which then encourage schools to manage uncertainty not by innovating processes of production or horizontal differentiation, but by emulating traditionally prestigious institutions and shaping student intake.

For example, public choice positions schools to compete for students to obtain funding. In purer markets for consumer goods or services, firms go out of business if they fail to attract and retain consumers. Yet, in most cases, those consumers are not legally compelled to make a purchase. That is not the case with education markets. Governments may mandate that parents obtain an education for their children — but not that they choose the best education. States can only set a minimal standard, which may institutionalize incentives for inertia, not active consumer-style discrimination between options that should promote school responsiveness. Particularly when a school is situated within a community of passive clients, it is not subject to forces intended to drive innovation.

Moreover, in education markets, the role of the “customer” — a central and sovereign character in market arrangements — is inherently fragmented. Whereas consumer markets establish an individual customer to choose, purchase, and enjoy a product or service (or suffers the consequences of a bad choice), in school choice plans, the agency of those functions are necessarily distinct. In theory, a parent chooses a school, while in most cases the state pays and the child (ideally) benefits from that choice. Consequently, there is a notable degree of confusion in public choice thinking over the identity of the sovereign “consumer” — students? parents? future employers? taxpayers? All have legitimate claims on education. Yet those claims on governance often conflict when it comes to issues such as curriculum or instructional strategies, and conflict is anathema in PCT. Since this fragmentation of the consumer is peculiar to less-than optimal markets, pure-market mechanisms for mediating conflicting claims (ownership, bidding, selling, exit, etc.) are not only ineffective in these cases, but may engender perverse incentives and consequences counter to purer market outcomes — disempowerment of choosers,

disenfranchisement of payers, discongruence between chosen and employable training, and as Brighthouse (2000) notes, displacement of the effects of good and bad choices from the proxy-choosing parent onto the child. In that sense, it is not clear who is the intended beneficiary of any attempts at innovation.

Furthermore, different constituencies have different conceptions of the “product” of schooling in second-best education markets. Students might emphasize the experience of schooling, social opportunities, athletics. Ideally, parents choose based on curricular or other criteria presumed to enhance academic outcomes, but in reality also consider factors such as a school’s discipline code and safety record, ethnic composition, graduation rate, etc., so that the process is conflated with the product. Employers value the production of skilled graduates. And societies place multiple goals on schools, including shared civic values and cultural knowledge, assimilation, literacy, vocational training, socialization, etc. Such multifarious goals often stand in stark contrast to the narrow focus on core academics. Of course, many reformers would note that a move to a more academic mission is exactly what schools need and parents want. Yet, even if parents truly want only a narrow academic training for their children, this academic instrumentalism essentially disenfranchises the goals and concerns of constituencies who have a valid claim on defining the “product” of schooling, and bear the cost of education. While eliminating social goals constrains programmatic diversification, nebulous conceptions of the product in second-best education markets inhibit process innovations.

According to public choice logic, the range of schools will respond to consumer preferences — as businesses do in consumer markets. While a particular neighborhood school might not be the best option for a given child, other schools would emerge to meet particular preferences (Friedman, 1994) — schools are thought to be more effective when students are grouped into more homogenous preference clusters (Chubb et al., 1990). Yet, just as private businesses may exclude potential customers based on ability to pay or other criteria, many schools situated in increasingly competitive environments realize incentives to shape

their student intake in order to stake out positions of competitive advantage in local markets. Deregulated schools with more market power should be expected to establish favorable positions by attracting the more desirable consumers who will further enhance the relative market position of the school; attending to the difficult-to-educate consumers is relegated to philanthropic, not market, impulses. Consequently, while many schools may not legally discriminate, they have reason to shape their intake through other means: advertising, school mission, and “covert selection” (Walford, 1997a). As such, rather than seeking as many customers as possible, like a discount chain, schools necessarily limited by physical and service considerations are defined by their clientele, as is the case in markets for leisure goods and activities.

Together, these considerations suggest the difficulties inherent in transferring market logic onto necessarily less ideal markets for mass education. In fact, the heavy-handed application of market arrangements tends to slight more nuanced economic analyses of various market conditions that can encourage or constrain differentiation. Instead, the peculiar nature of education markets appears to confound market mechanisms leveraged to achieve specified ends, so that innovation is often administrative, rather than educational.

### **An Alternative Perspective on Sources of Innovation**

While in public choice logic, competition is thought to induce innovation, Schumpeterian economic logic challenges that automatic assumption. PCT logic associates state administration with monopoly rents and bureaucratic uniformity. However, as noted, in several cases the most innovative practices are generated in the regulated state sector, free from competitive pressures. Following Schumpeter (1943), it may be counter-productive to place such schools in more perfectly competitive conditions (Lubienski, 2004). Since R&D requires investment of resources (and the ability to absorb real, sunk and opportunity costs of experimentation), innovation requires such rents as those targeted by public choice policies. In fact, because state sectors enjoy some degree of

monopoly rent due to imperfect competition, as with large firms in other sectors, they are able to shield R&D units from the immediate pressures of competition. In environments characterized by more perfectly competitive conditions, the rents necessary to nurture innovations are lost, leading to overall underinvestment in R&D. Conversely, where innovation is a policy goal, there typically is some degree of imperfect competition to generate rents to support R&D (Stiglitz, 1991).

Models such as North American charter schools and City Academies in the UK are designed with an intended R&D function to serve as “engines of innovation” for the state sector, yet are placed in the untenable position of devoting resources to innovation, and then being required to freely share results with competitors. The public aspect of mass schooling suggests that it would be prohibitively costly or inappropriate to secure innovations as proprietary knowledge; in such cases where it is difficult to disentangle public and private proprietary rights, private parties recognize fewer incentives to undertake innovations (Dosi, 1988). Without the real possibility of substantial private reward to an innovator, or with the potential for free-riders to adopt an innovator’s work at little or no cost to themselves, underinvestment in R&D is likely without public sector intervention.

Indeed, PCT tends to emphasize conditions, and then simply assume that innovation will occur as a result, without considering organizational processes endogenous to an institution. Other factors such as technical knowledge and learning are at least as important as the environmental incentives intended to induce innovation. Certainly, PCT tends to discount the type and structure of any particular second-best market, its potential approximation to the free-market ideal, the importance of pure and/or applied knowledge in that sector, and the nature and distribution of R&D costs in such a market. In many sectors such as education, technical knowledge is often personally cumulative, locally-dependent, and inherited within an organization — suggesting path-dependencies for which the sunk costs would make departures from established trajectories prohibitive.

## Conclusion

Public choice prescriptions for education seem to produce effects in some cases contrary to the assumptions of theorists and reformers regarding innovation. Public Choice theorists blame rent-seeking providers for imposing uniformity on production processes, and elevate competition to create a more innovative sector that meets consumer preferences for schooling. However, in response to competitive pressures, school leaders are too often not developing innovations in the classroom which would diversify programmatic options on a horizontal scale — indeed, successes often come from public policy interventions, not market forces. Instead, many school leaders embrace more traditionalist symbols and curricula, or pursue innovations in administrative areas — tendencies that promote isomorphism, where vertical diversification occurs based on institutional prestige and social characteristics of students (Lubienski, 2007).

This analysis attempts to understand these patterns in terms of the logic of policies that elevate competition to remedy public-sector rigidity. The peculiar aspects of education markets may confound and corrupt the incentive structures intended by public choice policies to encourage school leaders to innovate in response to competition. In fact, a more nuanced analysis suggests that perfectly competitive conditions pre-empt innovation by competing away the rents necessary to support R&D. Indeed, instead of perfect competition or pure monopoly, education markets reflect some degree of monopolistic competition in that they tend to include numerous providers offering substantially similar services within a discernable product field (Chamberlin, 1933; Robinson, 1933). Under such circumstances, where each provider has some control over a segment of the market, incentives emerge not for substantive innovations, but for school leaders to differentiate their services symbolically through marketing (Mansfield, 1970; Schumpeter, 1943). The dis-incentives for substantive process innovations (necessary to enhance the value-adding potential of a school’s effectiveness) may force schools to compete through symbolic representations designed to shape intake — a safer and more certain route to improving market position.

However, this form of diversification is taking place on a vertical scale of perceived indicators of schools' academic "quality" — the proxy for which is often found in symbolic areas such as school uniforms, the racial and social composition of student intake, or raw test scores (Lubienski, 2007). Overall, then, rather than innovating and diversifying, schools are often isomorphic to a monolithic model. Moreover, as Oettle (1997) notes, inasmuch as reforms induce schools to behave increasingly like private entities, this has the ironic effect of limiting overall choices for parents in terms of institutional type and — as this analysis suggests — programmatic options.

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