

# ACADEMY OF MANAGEMENT PUBLIC AFFAIRS FORUM

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## **MAKING PUBLIC SCHOOLS WORK: MANAGEMENT REFORM AS THE KEY**

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**PROF. LYMAN PORTER:** Good morning, everyone. I am Lyman Porter, a professor emeritus at the University of California, Irvine. Welcome to the Academy's 2005 annual meeting and to this public-affairs forum, "Making Public Schools Work: Management Reform As the Key."

Most of us are aware, I think, that public education has not traditionally received a lot of attention from management scholars, although obviously it is a subject of great concern to policy-makers and the general public. At the outset of this forum, I would like to raise two questions: first, as management scholars, do we have something significant to contribute to this subject, and, second, have we done enough to engage not only issues relating to public education but public-policy issues in general?

By the end of our program, both questions, I expect, will have answered themselves. Our focus this morning will be on the research of one of our most distinguished management scholars, Prof. William Ouchi, and there can be little doubt of the profound impact his insights and research have already had on thinking with respect to public education and the considerable potential they have to bring about change. Since the publication of his book *Making Schools Work* in November 2003, Prof. Ouchi has been in great demand as a consultant – and has responded generously on a *pro bono* basis, I might add – in school districts across the United States – from New York City to Chicago to Hawaii, from Boston to St. Paul, Minnesota, to San Francisco.

Given the potential for a management professor to have this kind of impact, have we as scholars and researchers been involved enough over the years in addressing the managerial aspects of public-affairs issues? Have we done enough to apply what we know about management theory and what we know from research evidence to major public issues, such as the urgent need for reform of public education? With the conspicuous exception of Bill Ouchi and a few others, my answer would have to be, no, we have not done enough.

For me, the bottom line is that we need more research projects like the one that you're going to hear about shortly.

Before turning things over to Prof. Ouchi, let me say a few words of introduction for those of you who may not know him. Of course, he is a fellow member of the Academy of Management whose career was the subject of an extensive profile in last November's issue of the *Academy of Management Executive*. Bill grew up in Honolulu, graduated from Punahou School here and then attended Williams College in Massachusetts, where he received his bachelor's degree. He went on to get his Ph.D. from the University of Chicago, and has subsequently served on the business-school faculties of Chicago, Stanford and UCLA.

Prof. Ouchi moved to the front ranks of our field with the publication in 1981 of a hugely best-selling book that is widely recognized today as a classic on corporate management. *Theory Z: How American Management Can Meet the Japanese Challenge* was published at a time when many people were coming to believe Japan was destined to dethrone us in short order as the world's predominant economic power. Making the case against that gathering sense of inevitability, *Theory Z* was published in 14 foreign editions, and is the seventh most widely held book among the 12 million titles in U.S. public libraries.

Having reached the front rank of management scholars, Prof. Ouchi made an unusual career move, when he left his faculty position to become a senior aide and then chief of staff to his friend Richard Riordan, following Mr. Riordan's election as mayor of Los Angeles in 1993. Undoubtedly, that experience contributed to his concern about a subject that had first stirred his interest when he worked as a volunteer during his children's school years – namely, public education. It is that subject that brings us here today, and, to lead off our consideration of it, I give you Prof. Ouchi.

**PROF. WILLIAM OUCHI:** Thank you, Prof. Porter. I got involved in this research basically because of two people – Mayor Richard Riordan, the man sitting to my right, and Ted Mitchell, sitting in the back of the room, who was a great source of encouragement and inspiration as dean of the graduate school of education at UCLA. Ted subsequently went on to serve as president of Occidental College and today heads the New Schools Venture Fund, a foundation in Redwood City.

I've spent 35 years studying the design and the structure of very large business organizations. There are a few empirical regularities so reliable that much of the field fell asleep about 20 years ago. Prominent among these is our understanding that with large size comes administrative bulk-up along with many negative consequences and that the chief antidote is to decentralize decision-making down to the operating subunits. This understanding was formulated by Oliver Williamson as the M-Form Hypothesis. It applies in every industry in every country.

It occurred to me that the same should be true of school systems. Since 1932, the number of students enrolled in public schools in the United States has doubled, from 24 million to 50 million. Meanwhile, the number of school districts has declined from about 127,000 to about

16,000. This means that school districts today have an average of 15 times as many students as their predecessors had in 1932.

Few business organizations that live in a competitive world could survive that much growth without fundamentally altering their organizational form through decentralization. But school districts, not living in a competitive world, have not changed their form. They remain every bit as centralized today as when they were one-fifteenth their present size

But the fact that they don't go out of business doesn't mean they aren't failing. The evidence is very clear that satisfaction with public schools has been eroding steadily for the past 30 or 40 years.

Some years ago I became involved as an advocate in an organization founded by three people – my friend Dick Riordan, later to become mayor of Los Angeles; the late Helen Bernstein, then president of the teachers' union of Los Angeles; and Bob Wyckoff, president of Arco. It was plain to us that the chief problem in fixing our schools was not one of the usual suspects. It was not that that students were worse – that there were more minority students or more immigrant students or higher transience rates. It wasn't, either, that we had terrible teachers or that we didn't have enough money. The problem with our schools, it became clear to us, was that they lacked autonomy. Each individual school actually serves a unique group of families and needs the freedom to come up with its own instructional approach. But, as matters stand today, schools generally don't have that freedom.

So clear did this seem that it was rather frustrating how little weight our explanation appeared to have in the world at large. In all the endless discussions of what was wrong with public education, management structure was far down the list. Further, there was no organizational voice to get the message out. When we have a scare in America about vaccines causing autism among children, the American Medical Association stands up and provides some balance. If there is an issue about nuclear power, the American Physical Society can be counted on as a credible voice. If the issue is management, though, we are all individual voices trying to make our point in this vast marketplace of ideas.

I began to cast about for evidence that might bear on our hypothesis, and, finding no systematic research on the organization of large districts, I designed such a study. I raised about a million dollars and put together a research team, and we visited 223 schools. Since we were investigating a size-dependent phenomenon, we visited the three largest public school districts in North America – those of New York City, Los Angeles, and Chicago. We visited the only three districts in North America where public schools were largely autonomous – Edmonton, Seattle, and Houston. We visited the three largest Catholic districts in North America, because they were said to be so completely decentralized and their schools so thoroughly autonomous. And, finally, we visited a group of private schools, because they represent the ultimate in autonomy.

Let me tell you a few stories about what we found.

In preparation for our visit to the archdiocesan headquarters in New York City, I called the superintendent's office and asked how many central-office staff it had for its 120,000 students. I was calling fairly far in advance on the assumption that pulling this information together would take a while.

The woman who answered the phone said, "Do you really need to know that?"

I said, "I really do. It's a very important part of my study."

She said, "Well, just a minute, I'll go count them." She put the phone down and came back a few minutes later and said, "There are 22, including secretaries and clerks."

I also had access carte blanche to the New York City Board of Education, as it was then called, which was in the process of doing a study, and its working papers were available to our team. We determined that the New York City public schools had 10 times as many students as the Catholic schools, about 1.2 million and 120,000 respectively. The Catholic schools had 22 central office staff; if the city had a proportionate number, it should have had about 220.

Actually it had 25,500.

Now, most of those people they don't count. The city counts only about 3,000 as central office staff, because the other 22,000 are dispersed to regional offices or even go to individual schools to work. But they don't work under the supervision of a principal. They work under the orders of someone in the central office, and they do what the central office wants done, not what the principal wants done.

Why does it matter for individual schools to have autonomy? Let me tell you a bit about Edmonton, Seattle, and Houston, the three districts in North America that have gone furthest in this respect.

The city of Edmonton in Alberta, Canada is a blue-collar town that drills for oil, raises hogs, and grows wheat. There are no Jimmy Choo stores. There are no Armani stores. But Edmonton has become a center of attraction for educators who want to find out how to make public schools work.

This is far from the situation that existed in the early 1970s, when the Edmonton public schools were in deep trouble. Although most people in Edmonton couldn't afford private schools, more and more families were showing their disaffection with public schools by teaching their children at home. The local papers reported constant conflict between principals and teachers on the one hand and the central office on the other.

One of the principals in the Edmonton schools was a young man with big, strong forearms named Mike Strembitsky. In addition to being a principal, Mike raised and sold 3,500 hogs a year and on the weekends built houses to supplement his income. People in Edmonton identified with “Big Mike,” and so he was brought into the central office as district director of social studies.

In that capacity, Mike was given \$50,000 and told to buy maps and globes for all the schools in Edmonton.

Mike asked how he was to know what maps and globes to buy.

“Well,” said his colleagues in the central office “you hire a consultant. You have him do some interviews and then you run some focus groups. Then you put out an RFP. You buy the maps and globes. You rent a warehouse, and then, as the schools need them, you send them out to the schools.”

“Time out,” said Mike, “I know a different way. I will divide \$50,000 by 80,000 students and then I will send a check to each of the principals and tell them to buy their own maps and globes.”

They almost fired him for that. They said it was a violation of the provincial education code. What if principals bought microscopes instead? Mike could go to jail.

They sent Mike to New York and told him to chill for a year and take courses at Teachers College. Instead, he sneaked over to Columbia Business School and took courses in management.

In the spring, they called him up and told him the superintendent was gone and that he was the new superintendent. And in 1973, at age 35, Mike Strembitsky became superintendent, a job he held for the next 22 years, during which time he did to the entire Edmonton school budget what he had done to maps and globes – that is, gave power to the principals.

Today in Edmonton, principals control 91.7% of the money. By comparison, in New York City they control 6.1% of the money and in Los Angeles, 6.7% of the money.

In Edmonton today, the public schools have become so popular that there are no private schools left. All of them have voluntarily become public schools, having found that they have as much freedom and more financial stability.

There are no charter schools left in Edmonton. There were several, but last year all of them voluntarily gave up their charters and became regular Edmonton public schools, because they had no more freedom than the Edmonton schools had.

The public schools have also taken back eight market-share points from the Catholic schools, which are fully funded by the government. Ninety-two percent of public-high-school graduates are performing at grade level or above. Graduation rates have risen 14 percent in the past four years.

The second example of school autonomy is Seattle. In 1970 Seattle had nearly 100,000 students in its public schools, and 25 years later it had only about 39,000. Almost half the city's children were enrolled in private schools, because Seattle is Starbucks and Microsoft and Boeing and Weyerhaeuser and Amazon, meaning that plenty of people could afford private schools.

The business community got together and ran a change-oriented slate for the school board. That board then proceeded to recruit a non-traditional superintendent, Gen. John Stanford, a retired army general, and told him, "Whatever we're doing, general, change it."

General Stanford took his chief financial officer, and they went to Edmonton and spent half a day with Mike Strembitsky. They took his formula back to Seattle and implemented it the next year.

A key feature of the Edmonton system that has been maintained in Seattle is what is called the weighted student formula. This is a means of determining how much money gets allocated to each school. Are you going to give each school the same amount of money regardless of the special problems its students have? Of course not; if a student is autistic or sight-impaired, more money has to be allotted for that student. What Mike Strembitsky did in Edmonton was to take the actual cost per student, as calculated by formulas that exist in every state and province, and determine school budgets on that basis.

In Seattle, the minimum amount per student is \$2,600 per year, which would be the amount for a child of a two-parent, middle-class, English-speaking family who has no special disabilities. Such a child is likely to do as well in a class of 30 as he or she would do in a class of 17. The maximum amount, \$24,000 per year, might be assigned to a child with severe learning disabilities who comes from a one-parent, non-English-speaking, low-income household.

Now, what does this look like on the ground? Let me tell you about three elementary schools in Seattle, all of them K-6.

The first one is Bailey Gatzert in skid row. Thirty percent of the children in this school are homeless, and all are from low-income families of color. I spent three days at Bailey Gatzert. A fifth-grade teacher told me, "I came here from Athens, Georgia. I heard about this school. I applied for a job. They took me, and I'd never leave."

He said, "People will tell you that you cannot get experienced teachers to stay at a hard-core inner-city school like this one, but that's because those schools never have adequate resources

to meet the needs of the children, and you know your children will fail. Who wants a job in which you know you're going to fail every day, every month, and every year?

“But because of weighted student formula,” he said, “we have the resources to hire all the specialists these children need, and they are succeeding, and I'd never leave them.”

The second school, John Hay Elementary, is across town in an upper-middle-class district, Queen Anne Hill. The staff's job at John Hay is to do right by the neighborhood children, so that they don't go to the private schools that are across the street. In the old days the principal controlled \$25,000 a year out of her total budget; now she controls \$2 million a year, almost the entire amount. So, she got her teachers together, and the first thing they decided was to junk the traditional schedule of six periods a day, five days a week, which, they felt, created a very inefficient allocation of their teaching resources.

Then they reorganized. They believed that reading in the lower grades should be taught in groups of five to seven students. So, they built everything around that goal, reorganized schedules. They enlisted a librarian and a computer-room teacher both of whom were reading specialists and put them to work teaching reading part-time. They also set up tutoring stations outside classrooms, each staffed by a certified teacher who wanted to work part time, so that each non-English-speaking child got an hour of tutoring every day that enabled the child to get up to grade level by year's end. In the past four years they've taken their standardized math scores from the 32<sup>nd</sup> percentile to the 64<sup>th</sup> and their English scores, which have always been a priority, from the 72<sup>nd</sup> to the 76<sup>th</sup>. In third grade, at which point all children must be reading, black children and white children now have identical reading scores, and all are at or above grade level.

Let's go now to the third school, next to the campus of the University of Washington, named in honor of John Stanford, who died of leukemia in his third year as superintendent. The principal at this new school did a market survey. She found that her students would be primarily from the families of graduate students and young faculty and would be from all over the world. So, she designed an international elementary school in which every course is taught from a global perspective and in which all first-graders are required to choose a second language that is not their own and to receive half their instruction in that second language from grades one through six. At the end of one recent year, the school had 170 families on its waiting list.

Now, here's the point: It's difficult to imagine three elementary schools that could be more different from one another than Bailey Gatzert, John Hay, and John Stanford, but in a system in which you decentralize control to the subunits and create competition by giving families freedom to choose any school, this is exactly what happens every time.

I would like to talk about Houston too, the third city that has had great success in granting autonomy to individual public schools, but time is growing short. Let me refer you to the discussion of Houston in *Making Schools Work*.

Since this book was published just a year and a half ago, several new outgrowths have appeared. I'll leave it to Mayor Riordan to talk about his battles in California to get these kinds of changes established and to Governor Lingle to talk about what they are doing here in Hawaii, but let me tell you about three of these outgrowths that are very interesting.

New York City, Chicago, and Boston all now have pilot projects along the lines of the Edmonton model, and I have visited all of them within the past three weeks. In each case I was reminded of a very important book I read when I was starting my research, *Lessons from Privilege* by Arthur Powell. Mr. Powell was headmaster for many years at one of the elite Eastern boarding schools, and in this book he tried to capture elements basic to the success of these schools that could be applied to public schools. What particularly caught my attention was his observation that probably the single most important statistic about a school is the number of students for whom a teacher has responsibility.

In the typical public school a teacher has five sections of 30 to 35 students each, for a total of 150 to 175 students. At New York's Bronx High School of Science, where I spent three days, an administrator told me, "We have brilliant children who can't write, because every teacher has 150 to 170 students and can't correct papers. So, each student writes three papers per semester, two short papers of one or two pages and one long paper of three to five pages. Then our students go to a college and are assigned a 20-page research paper, and they're sunk."

Contrast this with the private schools I visited all across America. Everyone teaches. The headmaster teaches, the librarian teaches, the director of admissions teaches, the director of development teaches, the registrar teaches, the counselors all teach. Everyone teaches. They can't afford to have it any other way if they're going to get that critical statistic down to 55 to 60 students per teacher.

The importance of that small assignment load is, 1) teachers can assign writing and critique it in detail, 2) teachers get to know the students well, and 3) teachers can encourage students to visit them, not discourage them from doing so.

What is a teacher's main job? As we all know from our own experiences, it is to motivate students to want to learn. And frequently there is no better way to do this than one-on-one.

So, I was visiting Boston, which has 19 pilot schools operating on the Edmonton model, and, when I mentioned Arthur Powell's book to the man who provides administrative guidance for these schools, he said, "That's exactly what we've done in our pilot schools. We average 55 to 60 students per teacher, and parents are beating down the doors to get in."

A few days later I was in New York City visiting what they call the "autonomy zone," New York's version of the Edmonton model – 29 schools last year and 45 in the coming year.

When I cited Powell's observation, they said, "Of course, that's just what we're doing in our autonomy-zone schools."

And then I was in Chicago a few days later talking to a senior official in the school system, and, when I mentioned my conversations about Powell in New York and Boston, he almost fell out of his chair. He said, "I spend a lot of time at our top public school, and that's exactly what they do. I never realized the importance of that – everybody teaches."

Now, this is not to say that every school has to have this same student-to-teacher ratio. The whole point of autonomy is to avoid standard solutions in favor of unique local adjustments. For example, in one high school the English and history teachers realized that, if they collapsed English and history into a single humanities course, they could give it 20 percent more time than the aggregate of the two courses it would replace. Another school eliminated all the low-enrollment electives, because they push up class size in all the core academic subjects. And some of the schools have closed other learning tracks than the college-prep track, when very small class sizes in these other tracks bled off teaching resources for the core courses.

Local solutions and autonomy, along with it accountability – these are the kinds of things we in management research focus on. Unfortunately, you won't find many people in education who have an interest in studying this topic. I have to warn you not to expect a lot of thanks if you choose to go down this road. People are not accustomed to having a management scholar asking these weird questions about education. They won't understand the language you speak. They will not thank you and praise you for your creativity or insight and your new point of view. Probably you all know this: our management colleague Carl Weick has told us about it many times.

In the end, though, it is worth the effort – at least it has been worth it in my case. It helps a whole lot if you have a mentor like Dick Riordan, who will encourage you, spend the time to teach you, show you how to make yourself understandable, show you how to make yourself heard. Look for that kind of mentor.

**PROF. PORTER:** Thank you, Bill. As luck would have it, our next speaker is the just-mentioned, Richard Riordan.

Mr. Riordan is best known, of course, as the twice-elected mayor of America's second largest city, Los Angeles, but let me briefly fill in some other details about his career. He started college at Santa Clara and then transferred to Princeton, where he received his undergraduate degree in philosophy. After earning a law degree at the University of Michigan, he moved to the Los Angeles area and in the middle 1980s started a venture capital firm that was tremendously successful. In 1993, Mr. Riordan, though a Republican, was elected mayor of Los Angeles, where registration is three-to-one Democratic. He was re-elected overwhelmingly in 1997, and, at the time he left office four years later, was regarded universally as one of the country's most successful big-city mayors.

In the early 1980s, Mr. Riordan and his wife started a foundation that has supported various aspects of public education, particularly teaching children to read and write. The foundation over the years has distributed some 20,000 computers to over 2,000 schools in 40 states and has purchased over 128,000 books to be distributed in public-school classrooms and libraries. So, Mr. Riordan has been involved in the educational arena for quite some time as a private citizen.

For the past two years, until just recently, Mr. Riordan served as secretary of education for the State of California under Gov. Schwarzenegger. I never know whether to call him Secretary Riordan or Mayor Riordan or, as Bill calls him, Dick; in any event, it's a pleasure to introduce the Honorable Richard Riordan.

**RICHARD RIORDAN:** Thank you very much, Prof. Porter. Bill Ouchi reminds me of a statement of Peter Drucker, who said that all great movements in the world start in the heart and the mind of a single person. Bill, you're that single person. You're going to win.

And the stakes are tremendous. Some of you may remember a report called "A Nation at Risk," which was issued by a national commission in 1983 and which made a huge difference in my life. It said that, if a child cannot read and write fluently by the end of the second grade, you've lost that child for life. Can you picture a third-grader who can't follow what's going on in school and falls further behind every year? He or she is going to find other things to do – like truancy, gangs, crime.

One of the startling things I learned when I became mayor was that a child born in a poor family in L.A. had only a 12 percent chance to read and write at the eighth-grade level by age 18. Almost as startling was that only 45 percent of education dollars ended up at the school sites. Or that it was commonplace to move principals who fail in one school to a poorer school, a practice called the "dance of the lemons." No one was ever held accountable, no one was ever fired.

These were facts of life that helped give rise to Prof. Ouchi's book, which now has blossomed into a national effort to effect a desperately needed turnaround in our schools, particularly the schools of our big cities.

That turnaround will not happen because of speeches and legislation. What Dr. Ouchi is telling us is that it will happen mainly by applying ideas to public education that have proved themselves over and over again in the corporate sphere. And that means making fundamental changes in the management structure of our schools, so that power and accountability are at the school level, and resources are not wasted to the extent they are today on activities remote from classrooms and children.

Here are some lessons I've learned as mayor of Los Angeles and secretary of education of the State of California.

First, the higher up you get in the government, the harder it is to get anything done. The bureaucracies thrive on making it impossible for newcomers to make things happen in government.

Second, diffusion of power increases, the higher you go. Gov. Schwarzenegger has very little power over education in California. You have a separate superintendent, who is elected. You have a legislature dominated by another political party that has vast power over allocation of funds. Diffusion of power means that there is nobody to hold accountable.

Third, in general it is individuals, not committees, that make things happen. As management scholars, many of you are familiar with the satirist C. Northcote Parkinson, who gave us Parkinson's Law, which says that the amount of work expands to the time allotted. Parkinson has a number of essays on committees. One is called "Negation by Delay," the point being that, if you want to stop something from happening, appoint a committee, which can then appoint sub-committees and on and on. He also observes that the number of people who control a committee is inverse to the size of the committee. In other words, if you have a hundred-member committee, one person controls it; if you have a five-person committee, everyone is equal. The observation I like the most is that the amount of time spent by a committee on an issue is inverse to the importance of that issue. If the subject is landscaping around the bicycle shed, that may take two hours. If it's a billion-dollar bond issue, that will take about 30 seconds.

If we want a prime example of the contribution an individual, in contrast to a committee, can make to our society, we need look no further than Dr. Ouchi, who virtually single-handedly is changing our whole national discussion about public education. I must say, I don't find that surprising, because in many ways his approach to educational reform is reminiscent of the approach he brought to city hall when I was mayor. Bill gave me a lot of great ideas, but two simple ones stand out. First, hire the best people you can find and delegate real power to them to make decisions, so that they didn't have to come to me or other higher-ups to take action. And, second, let your people think for themselves, so that they are not always having to figure out what the mayor is thinking.

I see the same approach in the autonomy that Dr. Ouchi would give to public-school principals. Everyone agrees that it is the principal more than anyone else who determines the quality of a school, but, as matters generally stand today, principals lack the power that true leadership requires, the power executives typically have in the business world.

Dr. Ouchi's prescription seems obvious, doesn't it. Yet, if you made a list of people's silver bullets for public education – smaller classes, better pay for teachers, more phonics, longer school years, no social promotions – the concept of changing governance structure would be well down the list. None of the favorite silver bullets is going to work, though, unless principals are empowered and can in turn empower teachers and parents. Dr. Ouchi calls it delegating power to those below, but, in order to delegate it, the principal first has to have it, which means having the power to hire and fire and to determine how money is spent.

One criticism I've heard of Dr. Ouchi's approach is that it is unrealistic to expect our current crop of principals, who have never been concerned with budgets, to take the responsibility for budgets. But it has been shown in Edmonton, Seattle, and other places, that many principals have the capacity to do so, and, equally important, it has been demonstrated that empowerment attracts strong, entrepreneurial people to the job. And those are the kind of people we want in the principal's office, after all – as Dr. Ouchi puts it, entrepreneurs not bureaucrats.

In conclusion, let me tell you briefly about a school that Governor Schwarzenegger and I visited a few months ago. This is a charter school in Los Angeles, called the Vaughn 21<sup>st</sup> Century Learning Center, and the governor couldn't believe what he saw there. The school budget is determined by the weighted student formula, which Dr. Ouchi explained earlier, and the principal has been so skillful at budgeting that surpluses from the past two or three years have enabled her to construct a separate building as a library. The teachers make 10 percent more than the regular L.A. teachers; there is team-teaching throughout the school, three teachers per team; and teachers typically stay in school until four or five o'clock. There is almost total parent involvement. All children are Title I, and what has been achieved academically is amazing.

Of course, all of us have read at one time or another about schools, like Vaughn, that overcome adversity to become paragons of success and achievement. The problem is that these schools have been rare exceptions. Dr. Ouchi has described a way to make such schools a lot more common.

He has also provided an opening for the business community and for management scholars like yourselves to engage the challenge of public-education reform as they have never done before. Both these constituencies, I believe, will have major roles to play if our nation is to succeed in this most daunting of challenges.

In conclusion, let me simply say that everyone – teachers, principals, parents, everyone – wants to be part of a winning organization. It's not fun to be a loser year in and year out. You forget what it is like to really make things happen, and we owe that to every child.

Create strong organizations, and you'll find that you attract the best and the brightest. To borrow from the movie *Apollo 13*, failure is not an option.

**PROF. PORTER:** Thank you very much, Mayor Riordan, for those inspiring words.

Our next speaker is the Honorable Linda Lingle, governor of Hawaii. Gov. Lingle was elected in November 2002, and, from what I read in the papers, she is going to run for re-election in 2006.

Gov. Lingle is a graduate of Cal State Northridge, where she majored in journalism. She moved to Hawaii shortly after her graduation and subsequently settled on the island of Molokai, where she founded *The Molokai Free Press*, the island's only newspaper. In 1980 she was elected to the Molokai seat on the Maui County Council, where she served for 10 years, and in 1990 she was elected mayor of Maui County, becoming the youngest person and first woman to hold that position. During her eight years as mayor, Maui was a particular bright spot in the state economy, some people calling it the "Maui miracle."

In 1998, as a long-shot candidate for governor, Mayor Lingle came within 5,000 votes of unseating the incumbent. Four years later she tried again, and this time she won by 17,000 votes, thereby becoming the first woman ever elected governor of Hawaii and the first Republican elected to that position in 40 years. As governor, she has assigned a high priority to educational reform and has brought in Prof. Ouchi as an adviser.

Let us give a warm welcome to Hawaii's sixth governor since statehood – and the first governor of any state to participate in a meeting of the Academy of Management – the Honorable Linda Lingle.

**GOV. LINDA LINGLE:** Aloha and welcome. It is an honor to play host to the Academy of Management on its first visit to Honolulu.

My administration came into office with public education in our sights and as the number-one subject we talked about.

In Hawaii we are unique in having only one board of education. The only completely non-contiguous state in America is the only one with a statewide board of education. Whatever island you live on – whether the big island Hawaii or Kauai or Maui or Molokai, the board of education is in downtown Honolulu. It's an elected board, but people generally don't know whom they're voting for, because the candidates aren't from their community.

Mayor Riordan praised Dr. Ouchi for his emphasis on organizational structure. It's hard to imagine a more dysfunctional governing structure than the one we have here in Hawaii in terms of responsiveness to parents and community.

I came to office in 2003 wanting to make changes, and in that same year *Making Schools Work* was published and began to get national attention. I had an opportunity to meet with Dr. Ouchi, along with some of the people he writes about in his book, including Mike Strembitsky. But bringing change has been an uphill battle, because people tend to be fearful of change, despite the fact that Hawaii's schools have continually suffered from poor test scores relative to other states, with virtually no improvement over the past 30 years. Given our unique governance structure in public education, it might occur to people that perhaps this structure is part of the problem, particularly when we continue to rank 49<sup>th</sup> or 50<sup>th</sup> in the nation no matter how much money we spend and no matter what new teaching techniques we employ.

Our state today has the highest percentage of schools marked for corrective action under the No Child Left Behind Act. Twenty-four schools – 8.5 percent – are so designated. We're the second in the nation in the percentage of schools in the first year of sanctions under No Child Left Behind, and more than half those schools have not met adequate yearly progress.

Our state also has the second highest private-school enrollment per capita in the nation, after Connecticut. This doesn't mean we're a wealthy state. It means our parents will sacrifice anything, hold as many jobs as it takes, to get their children into a private school. Nor does it mean that some of our public schools aren't outstanding or that we don't have many great teachers. I was a volunteer reading tutor for 12 years in the Title I, Chapter I reading program for third- and fourth-graders, and I've seen at first hand the commitment of the teachers along with their frustration with the system in which they find themselves.

The main excuse offered for the system's chronic failures is, unsurprisingly, that we need more money. But we can chart clearly that, no matter how much money has been spent, results haven't changed. Thirty years ago we had 180,000 students in our school system, a few thousand more than we have today; yet, 30 years ago we spent \$215 million on our public schools, and today we spend \$1.9 billion, an increase more than double the national rate of inflation. Half of our general fund, over \$10,000 per student, goes to public education, and we still rank at the bottom of the nation.

Some will say, "Well, it's not just the money. It's the teachers and the staff." But the ratio of teachers to students is double what it was in 1973. We have a workforce of 23,000, about 14,000 of whom are certified teachers.

In other words, the problem isn't the amount of money or the number of teachers. Neither is it the ethnic background of our students or the economic level of their parents. More than anything, the problem is a governance structure in which one board of education oversees education on six islands and 268 schools.

We have the quintessential bureaucracy here in the state department of education, which will do whatever it can to block significant change or reform. If we are to have meaningful reform, the bureaucrats will, in the end, have to give. To some extent they have given, and I'll talk about that in a minute.

To illustrate how centralized the decision-making has been historically in our school system, I often tell about one particularly striking experience of a school on a neighbor island. It's a favorite story of mine not just because it makes a point so well but because for a long while I was a neighbor islander myself. I lived for a number of years on Maui and before that on the small island of Molokai, so I know first hand the frustration of being controlled from downtown Honolulu.

While I was on Maui, one of our high schools wanted to change the date of its graduation by two days. It seems like a simple matter: if the principal wants to change the graduation date, you might think he could just do it. Well, not so in this bureaucracy. There was a district superintendent for the County of Maui, which includes Molokai, Lanai and Maui islands, but, like the principal, the district superintendent didn't have the authority to change the date of the high school graduation. The issue had to go to the State: the elected board of education actually spent time discussing whether one high school on the island of Maui could change its graduation date by two days.

Even then, it wasn't easy to get that date changed. We had a campaign of letters-to-the-editor from the people of Maui. We had to have people fly to Honolulu, because you can't get from the island of Maui to a board of education meeting on the island of Oahu without paying to fly here, then renting a car or having someone pick you up. In short, it became an all-day affair simply to request that the date of a graduation be changed by two days. And this wasn't an arbitrary request by any means. The high school, Lahaina Luna, is the only boarding high school in the entire system, and the boarders go back to their home islands on a certain day, and the school needs the boarders to help set things up for a very tradition-laden, elaborate graduation in which the whole town of Lahaina participates.

Eventually, the date was changed, but it wasn't a unanimous vote.

Using Dr. Ouchi's breakthrough research, we proposed a series of measures to implement structural change, the most important of which was to break up the statewide board of education. This would require a constitutional amendment, meaning that both houses of the legislature would have to approve putting it on the ballot. I am the first Republican governor of Hawaii in 40 years, and our party is heavily outnumbered in both legislative houses. Our rallying cry was, "Let the people decide," but the legislature didn't let the people decide, and the statewide school board remains today.

A second proposal we made – and one that took on increasing significance for me the more I talked to teachers and principals – was to mandate that 90 cents of every education dollar be spent in the schools. In other words, out of \$1.9 billion, the bureaucracy would get \$190 million, and the rest would go to where the teachers and students are. It would be a tremendous improvement in the system, and it would not require a constitutional amendment but simply a state law.

In the end, the legislature agreed to mandate that 70 percent of the money go directly to the schools. It may sound as if we did fairly well, but, of course, the real discretion comes between 70 percent and 90 percent. Seventy percent will cover salaries, and it's that other 20 percent that will enable principals and teachers, working together with the parents, to make a real difference.

We have had made some progress, though. The state has adopted the concept of a weighted student formula, which Dr. Ouchi talked about here today and which other school systems have implemented, and we have created a committee to determine exactly how to divide the

money among the schools. In addition, to encourage principals to function as true CEOs, as outlined in *Making Schools Work*, we worked with the legislature to create a “principals’ academy,” which affords these educators the opportunity to learn about subjects with which they may have had little experience – for example, finance.

My administration has also sought to widen school choice for students and parents through increased support of the charter-school movement. Hawaii is unique in that the majority of the charter schools here are imbued with the native Hawaiian culture – that is, the culture of the indigenous people in our state. Over the weekend this issue has come to the fore with a big march and rally. Many in the Hawaiian community feel that the public-school system is not the best place for their children. Many feel they’re discriminated against and that the style of teaching does is not fit well with the native Hawaiian culture, and so they have turned to charter schools. My administration has been a huge supporter of this movement.

Unfortunately, under current legislation the department of education has the sole power to award charters, despite the fact that money going to charter schools means less money for that department. We proposed extending chartering authority to the University of Hawaii and county councils, but the legislature has been unwilling to do so.

Also, in the past two years the legislature has put a cap on the number of new charter schools. With the cap now having been reached, tension is building to establish more of these schools. The cap is artificial, because parents and teachers and communities continue to indicate that they want to come together to create more charter schools. And, as you might imagine, most of the pressure comes from native Hawaiians and from neighbor islands.

Our success, then, has been limited. We did galvanize public attention on the issue of education. We got the legislature to allocate 70 percent of education funds directly to the schools through the weighted student formula. We implemented the concept of placing principals on performance contracts. We have been able to get increased funding for charter schools.

As students of management, you know that a sense of priority is critical to good managers, because issues come at them all day long every day. The issues never stop coming. When you go home at night, they are still coming in, via fax and e-mail and voice mail, and when you return the next morning, they haven’t stopped. So it is critical to have your priorities straight, and we have continued to make education a high priority, while at the same time making tactical shifts that reflect the realities we have encountered.

And so, after achieving only limited success over two legislative sessions, we made a conscious decision to change tactics this past year. We decided to put emphasis on charter schools and were rewarded with good results. We also put increased emphasis on early childhood education, which is mostly beyond the purview of the board of education, and through these efforts an additional 3,000 students will enter quality preschools.

Another place where the board of education isn't involved is the university system. We have one public university system in the state, governed by a board of regents that I get to appoint. We were able to take advantage of a lot of quality entrepreneurship at the University of Hawaii that enabled us to attract substantial new funding for the university.

So, again, education remains a high priority, but we recognized that a change in course was important after two years of talking about the same things.

Important as it is to be tactically flexible, it is even more important to persevere. Things are rarely accomplished in a single year or even a single term of office. Making schools work is very difficult, but it is too worthy a cause for any of us to give up on.

All in all, change and reform require ideas, research, and strong collaboration of many minds. I very much appreciate Dr. Ouchi's work here in our state as a non-paid consultant, the best kind, and I appreciate very much that the Academy of Management has provided us with this forum. Thanks to all of you for being here today.

**PROF. PORTER:** And we thank you in turn, Gov. Lingle, for those very frank and provocative observations. We have time for questions from the audience.

**QUESTION FROM AUDIENCE:** Let me say, to begin with, how delighted I am to be able to attend a panel on public education at the Academy of Management. Prof. Ouchi, in districts where principals have been empowered, who has the power to hire and fire the principal?

**PROF. OUCHI:** To my knowledge, 16 cities in the U.S. have embarked on this approach: about half are still in the planning phase, and the remainder started to implement it anywhere from a year to six years ago. They include New York City, Chicago, Boston, Houston, San Francisco, Oakland, Seattle, and St. Paul, Minnesota. So, it's a nice geographic distribution. And, in all cases, the power to hire and fire principals resides with the superintendent. In that sense, the hierarchical structure of the organization should not be altered.

The only exception to this pattern was in Chicago under a reform plan initiated in 1988, when elected local school councils were given the power to hire and fire principals. It led to near-chaos – so much so, that young Mayor Daley ran against that system in his first campaign for that office. When he was elected, the State of Illinois passed a bill that applied only to school districts with more than 300,000 students, of which there is only one in the state, and transferred most control over schools to the mayor and his appointees. The legislation did away with the city's elected school board and replaced it with a board of trustees appointed by the mayor.

I might add that New York, Boston and Chicago, all three of which are moving strongly in this reform direction, all now have mayorally appointed school boards.

**QUESTION FROM AUDIENCE:** I am a member of a school board in Oregon, where there is no leadership on the state level for the kind of reform discussed here today. What is the panel's advice on how to bring this about?

**MR. RIORDAN:** Particularly in the bigger cities, the typical school-board member has gotten the most important job he or she has ever had. School-board members usually have no background in education, but the unions and other special-interest groups get them elected, and the bottom line is that they pick politically correct superintendents who are going to do their bidding. They become constituent politicians whose greatest interest often is in solving the problems of the people who elected them, like a parent who wants her child switched to another school. About all I can suggest in your case is to fight like hell to get a strong superintendent. We did that in L.A. We have Roy Romer now, who may not be perfect but is infinitely better than we've had in the past. So, fight like mad for a strong superintendent, and then give that superintendent the power to make things happen, including hiring and firing the principals.

**QUESTION FROM AUDIENCE:** The idea of decentralization sounds good, but I'm concerned about communities where people aren't real clear about the distinction between scientific reasoning and religion. How do you address that?

**MR. RIORDAN:** What Prof. Ouchi, I think, has been suggesting is that the problem to which you refer is less likely to rear its head when mayors have the power to appoint superintendents or school boards. Then the light of day will be right on the mayor. People may not know who the members of the school board are, but they know who the mayor is, and, if there is tampering with integrity of the educational program, it is going to be out in the public right away.

**PROF. OUCHI:** One needs to distinguish between standards and curriculum. In the U.S. the job of education falls to the states, not the federal government or the municipal governments, so it is the states that set the standards. It is the states that specify and will continue to specify that children in eighth grade must learn such-and-such about science and that those in the ninth grade must learn such-and-such about biology. This is going to continue to be a state function, and the battle you're talking about has to be fought at that level. In contrast, the way one implements standards in the form of a specific curriculum should be delegated by the state to the local districts, so that they can combine classes or run multi-grade-level classrooms or do team teaching or whatever they think will suit their situation best.

**PROF. PORTER:** I'd like to ask Governor Lingle a question on this issue of standards. What has been the effect of the greatly increased emphasis we've seen in recent years among political leaders on standardized test scores and the setting of measurable standards in public education?

**GOV. LINGLE:** Well, this is a great and timely question, and I want to get to it by going back to the comments I just heard about appointed versus elected boards. Certainly, this is an important issue, and the argument for appointed school boards is obvious from a management

point of view. As Mayor Riordan said, with appointed boards, you know who is accountable, and the unfortunate fact is that no one is accountable in the system that we have here in Hawaii.

Whether that will change any time soon, though, is another matter entirely. We have had studies in the past that concluded that we needed an appointed school board, but once you have a history – and all across America there is a history of electing school boards – it can be extremely difficult to change the system. This remains the case even though only 13 percent of the people voted in our last school-board election, which I don't think is unique in this country, especially in the cities. And, as Mayor Riordan suggested, in school-board elections many people know little about the individuals they're voting for.

In any event, as things stand today, we have a statewide board of education in Hawaii, and are likely to have one for some time to come, and this brings us to the issue of standards and testing. We've had a fascinating week on this subject.

As many of you know, each state gets to set its own standards under the No Child Left Behind Act. Our state made the decision under a previous superintendent to adopt not just high standards but the highest standards, as if *having* the highest standards, as distinguished from *achieving* them, is in and of itself a good thing. The school system at that time – and, in all fairness, this was before No Child Left Behind – went through an elaborate multi-year process of establishing these highest-in-the-nation standards.

Now, along comes No Child Left Behind, and here we are with these standards. And, no matter what our teachers do, they are simply not able to reach the standards that our system has set for itself. Standardized tests reveal that about 38 percent of the children in Hawaii are at or above the national average in math; yet, only about 27 percent meet the standards we have set here in our own state. And the reason for this differential, some people are now saying, is that the standards were set too high. This has become a big issue just this week.

The board of education now finds itself in a difficult position. If it lowers the standards, it opens itself up to being accused of “dumbing down” the test to prevent more and more schools from falling into the corrective-action category defined by No Child Left Behind.

To get back to your question, Prof. Porter, yes, we're having very real problems in this state with regard to educational standards, but they are largely problems we have inflicted on ourselves and are not the fault of the No Child Left Behind Act. Standards are very important. I hear a lot from people in the bureaucracy to the effect that there's too much emphasis nowadays on testing, but I don't know of any aspect of career life – whether it involves applying for a civil service job or volunteering for the military or seeking a job in the private sector – where one doesn't have to demonstrate a basic level of competence, often through a written test. And, of course, standardized testing is a critical tool in assessing the achievements of our students and our education professionals. It's important for the teachers and the principals to know how they are doing. Are we doing any better than last year? Are our students able to achieve at the level required for success in life?

Our problem in this state, then, isn't standards or testing per se but an unrealistic set of standards, and that is just one of the unfortunate outcomes of the overcentralized, dysfunctional governance structure we have in public education.

**PROF. PORTER:** I'm afraid that we are out of time. Prof. Ouchi, as the principal organizer of this forum, you should have the last word.

**PROF. OUCHI:** Thank you, Prof. Porter. I want to express my gratitude to Mayor Riordan and Gov. Lingle not just for honoring us with their presence but for really candid, frank talk from two strong leaders. I have had the chance to see them both up close and have found them to be individuals of tremendous integrity and great personal courage, leaders who consistently do what is right in preference to what's easy.

I expect that their comments have set off many thoughts in our audience and perhaps even some ideas for research. I do want the management scholars among you to know, particularly the younger ones, that, in addition to writing a book for a general audience on this subject, I have written several scholarly articles, including a rather lengthy piece that will be published in *Organization Science* this fall. In other words, if you embark on research into this very rich topic, you can do so with a reasonable chance that your work will get published□