

**Fueling Educational Entrepreneurship:
Addressing the Human Capital Challenge**

Frederick M. Hess

Resident Scholar

Director of Education Policy Studies

American Enterprise Institute

Research Affiliate

Program on Education Policy and Governance

Harvard University

Bryan C. Hassel

Co-director

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Fueling Educational Entrepreneurship: Addressing the Human Capital Challenge

By Frederick M. Hess and Bryan C. Hassel

In October 2006, the American Enterprise Institute convened a meeting in Washington, D.C. to discuss what might be done to grow the human capital pipeline to support entrepreneurship in K–12 education. Participants included foundation officers, educational entrepreneurs, and policy analysts. While the gathering did not seek to formulate any grand consensus or blueprint, the authors hope that the following summary will spark further discussion and action on this critical issues in education reform.¹

Over the last two decades, there has been a surge in public policies seeking to give low-income families more choice about where to send their children to school. These changes in policy have both reflected and accommodated an influx of new educational providers, including school operators, technology firms, back-office service providers, tutors, and recruiting and hiring organizations. Particularly noticeable has been the creation of new schooling options, especially charter schools, but also private schools funded with public scholarships. In some places, like Washington, D.C.; Dayton, Ohio; and Milwaukee, Wisconsin, these new options have achieved fairly substantial market share, sometimes reaching 25 percent.

What has become clear in these cases and elsewhere, however, is that the quantity of new entrants hasn't always been matched by quality. While there is clearly a strong demand for options on the part of parents, and increasing demand from policymakers for new schools, new tutoring options, and new providers of back-office and support services, the supply side has failed to equal the demands. Even in school choice hotbeds, observers are likely to see much of the same kind of mixed performance, bureaucracy, and stagnation they are used to seeing in the district sector. Not only is this situation a lost opportunity; it also poses a real risk that policymakers' enthusiasm for new options and choice will diminish over time as the supply-side reality dampens their hopes for progress.

Now, there have been important strides on the supply side. In fact, one of the most compelling developments in K–12 education in the last decade has been the impressive success of a number of entrepreneurial ventures seeking to transform the way education works. From Teach For America, which now attracts more than 10 percent of top universities' graduating classes to apply to teach in the nation's toughest schools; to KIPP, whose middle schools are dramatically beating the odds with disadvantaged kids; to dozens of other enterprises, many of the most interesting and effective ideas in education today are being carried by entrepreneurial providers. However, there are not enough of these providers to address the new demands.

The lack of adequate supply results from multiple factors. These include the proliferation of poor business models and inattention to instructional quality, as well as public unease with for-profit and nontraditional educational provision. A sampling of the range of entrepreneurial activity and the challenges it has encountered can be found in the 2006 Harvard Education Press volume, *Educational Entrepreneurship: Realities, Challenges, Possibilities*. In this book, a variety of

scholars and industry insiders examine the nature of educational entrepreneurship, the role it might play, and the constraints on entrepreneurial growth and success.

Perhaps the central theme of the volume is that while educational entrepreneurship may hold much promise, there are serious challenges and barriers standing in the way of tapping its full potential. These challenges are multifaceted, ranging from a host of obstructive policies toward entrepreneurial activity to the lack of a well-developed financial capital market for educational entrepreneurship. One crucial barrier is the apparent dearth of talented entrepreneurial individuals willing to enter K–12 education in the first place, or to stay involved past an initial foray, say, as a teacher.

Other barriers to educational entrepreneurship are, of course, equally important and often intertwined with the human capital challenge in essential ways. However, this summary zeroes in on the human capital challenge itself, treating it in-depth rather than superficially as part of a much broader debate. The key points to this discussion follow in three sections. The first frames the issues. The second delves into the challenges that inhibit the entry of more entrepreneurial talent into the sector. The third probes potential strategies and tactics for fueling that pipeline—some currently underway, some easily implemented, and some worth considering for the future.

CHALLENGES to PRIMING the HUMAN CAPITAL PIPELINE

What type of people might make up an entrepreneurial pipeline into K–12 education?

- Young teachers, such as TFA corps members or New Teacher Project fellows, who want to move from teaching into some more entrepreneurial role;
- Long-time educators and school leaders who have labored for years in the traditional environment but want to shift into an entrepreneurial role;
- Individuals who have been successful entrepreneurs in other sectors and want to move into education;
- Individuals who have been successful managers or professionals in other sectors and want to move into education.

Together, these groups (and probably others) could make up a pipeline of entrepreneurial talent in education. Examples from each group are already on display: the TFA corps yielded KIPP founders Mike Feinberg and Dave Levin; experienced educators have founded charter management organizations, like High Tech High's Larry Rosenstock and Aspire's Don Shalvey. Seasoned entrepreneurs from outside have launched education ventures, like Charter School Growth Fund's John Lock. But these individuals are all too rare in education. Feinberg and Levin, for example, are outliers among TFA alumni. While about half of TFAers express an interest in leading schools, only about 3 percent actually end up doing so.

This scarcity is particularly troubling in light of K–12 education's geographic dispersion. Unlike sectors such as the software industry, in which the clustering of entrepreneurs and professionals in a few geographic areas like Silicon Valley works well, K–12 needs entrepreneurial energy and improved human capital across all geographies—big districts and small, urban and non-urban.

Thus, it is harder to form concentrated communities that will attract and retain talent, and an enormous wealth of widely dispersed talent is needed in education.

So what barriers limit the flow of entrepreneurial talent? While the different potential sources bulleted above inevitably face a range of barriers, a set of common challenges cut across these categories. A continuum of barriers exists that runs from the structural “political economy” of K–12 schooling to more readily negotiated factors. From a macroscopic viewpoint, many elements of the construction and political economy of K–12 hinder the supply of entrepreneurial operators, including:

- the unmanageability of school systems;
- the lack of rewards and recognition for excellence (including the absence of monetary rewards for entrepreneurial success and the lack of prestige associated with education);
- the lack of ready sources of venture funding for promising ideas and individuals;
- the limited autonomy afforded to public education institutions;
- a bias toward hiring people who have “come up through the system” (and the resulting temptation for even “outsiders” and entrepreneurs to hire career educators in order to smooth relations);
- the absence of a culture of risk-taking;
- the structure of the teaching profession, which lacks differentiation of roles unless one wants to move into administration; and,
- moves toward “idiot proofing” educational delivery via standardization.

All of these factors make the K–12 environment one that repels entrepreneurs rather than attracts them. They stand in sharp contrast to the qualities participants identified in other sectors with more entrepreneurial activity: competition, rewards for performance, availability of venture funds, endless autonomy, and extreme upside opportunity. In that context, it is not surprising that other economic sectors are much more appealing magnets for entrepreneurial talent.

Attempting to remove these barriers has been a familiar pursuit of sympathetic reformers for well over a decade, and efforts to frontally address them have enjoyed little public support or success. While these efforts need to continue and intensify—and probably require a redoubling and strategic overhaul—shorter-term efforts can simultaneously be addressed. New ideas might help cultivate the human capital pipeline and attract and deliver new candidates, even while the overall environment is less than hospitable. In part, such a focus is practical: long-term changes will involve sustained political muscle.

In addition, addressing human capital (and the larger supply issue) in the short-term may be an essential piece of the longer-term strategy. Winning the political battle for reinvention will depend, in part, on demonstrating success in whatever entrepreneurial cracks exist in the status quo. Making short-term, incremental progress on the supply side, then, could contribute vitally to the longer term project. Moreover, even modest growth in the flow of entrepreneurial individuals could help reverse a vicious circle: currently low levels of quality in charter schools, for example, discourage talented people from entering the market. They don’t want to participate in an enterprise that tolerates mediocrity. Incremental progress on the supply side could help turn that vicious cycle into a virtuous one, in which success attracts talent, fueling more success. In

short, supply-side successes and incremental accomplishments could help to convince skeptics, facilitate and demonstrate the allure of new arrangements, and make bolder steps an easier sell.

Dr. Muhammad Yunus and his Grameen Bank were awarded the Nobel Peace Prize in late 2006 for their pioneering work in micro-finance. This provides a timely example of an innovation that helped foster dynamism and entrepreneurship even without overhauling an inhospitable larger political economy. The Grameen Bank and its imitators have tapped a vast amount of entrepreneurial activity in southeast Asia and elsewhere, demonstrating how some seemingly small-bore ideas can help surface and support dynamism in a sector.

In that light, there are some more readily addressed “micro” barriers worth further discussion. For example, while 50 percent of TFA’s new teachers express interest in school leadership, only 3 percent ultimately go on to become school leaders. Now, there is no way to know what percentage of TFA candidates *should* become school leaders in an ideal world, or what percentage are equipped to play an entrepreneurial role—it could be 3 percent, or it could be a higher or lower figure. However, given what we know about the capabilities of TFA candidates and the impact that some of its alums have had, this disparity seems significant and worth further exploration.

Another obvious example lies within The New Teacher Project. A sizable number of New Teacher Project fellows enter teaching mid-career, with some management experience and with backgrounds and interests that equip them for school leadership. However, TNTP contracts currently create a perverse organizational incentive when these individuals are considered for school leadership. Because its contracts stipulate evaluation of the organization in part on the retention of its hires, teachers who are hired away by other districts (as classroom teachers or school leaders) or pulled into district or school leadership count against the organization. One could imagine a schema in which the incentives are modified or realigned, but currently any effort to encourage TNTP alums to become entrepreneurs or school leaders is a problem for the organization.

Still, there are a host of shorter-term strategies that funders and organizations could pursue, even while continuing to work on longer-term initiatives.

POTENTIAL STRATEGIES to FUEL the PIPELINE

Many efforts to fuel the entrepreneurial talent pipeline into K–12 are currently underway. For example:

- The nonprofit New York City Center for Charter School Excellence serves important recruitment and incubation functions in that city. It employs a person full time to scour the country for talented people to start new charter schools in New York; provides planning funds and office space for promising new school start-ups; creates markets for service-providing entrepreneurs by bringing together schools who need common services; and networks school leaders with one another to promote mutual learning.
- The new center for educational entrepreneurship in Indianapolis (now known as The Mind Trust) is a nonprofit that will offer a two-year, well-paid fellowship for talented

entrepreneurs to start new schools or school-supporting ventures in Indianapolis. It will run a venture fund to attract already successful education enterprises like TFA to expand in the city and launch a policy initiative to identify and remove any policy barriers to educational entrepreneurship.

- The NewSchools Venture Fund and the Charter School Growth Fund, both education venture capital funds, engage in a range of activities that seek out and cultivate entrepreneurial talent, including understanding the market to figure out “what’s next”; finding talented people (after extensive due diligence) and incubating them to tackle these what’s next needs; providing hands-on assistance with business planning; connecting entrepreneurs in natural networks of mutual support; and, of course, providing substantial amounts of capital—enough to make it possible for entrepreneurs to launch successful ventures.
- Teach For America’s is making nascent efforts to incubate new enterprises by TFA corps members. They will hold a business plan competition for corps members, with winners to be provided space at TFA headquarters, support, and extended consulting time with senior TFA officials.

What else could be done by funders and entrepreneurial organizations to attract and support more talented entrepreneurs into the space? The possibilities can generally be lumped into four broadly-based categories: steps to foster networks, enhance incentives, cultivate promising talent in the system, and provide resources and capital.

Foster Networks

- **Forge more networks of people doing—or potentially interested in doing—entrepreneurial work in education.** A hallmark of vibrant entrepreneurial sectors is networks—formal and informal mechanisms for people to meet, share ideas and lessons, find opportunities for career advancement, and keep their fingers on the pulse of the sector. Networks could be formed formally, by convening people in specific locations and linking them in communications networks. Or they could emerge informally, although this requires geographic clustering of significant numbers of entrepreneurs who would otherwise labor in isolation. Entrepreneur-friendly communities or regions could set up a coordinated outreach office to recruit clusters of new entrepreneurial operations and/or school leaders at once, providing a community and some supportive infrastructure. In this vein, a group of participants from middle-America states have begun an effort to create a multi-state consortium to recruit and place talented school leaders in the region.
- **Do more smart “incubation.”** Formal “incubators”—understood as stand-alone facilities for launching new enterprises—have a generally disappointing record, but a significant part of any successful entrepreneurial sector or locale is the dense set of relationships that help entrepreneurs tap expertise, resources, and support. For example, the Indianapolis, New York City, and TFA incubators are three experiments already underway with physical incubation; NewSchools and Charter School Growth Fund are engaged in more “virtual” forms. These are all interesting laboratories for issues like the proper balance between an emphasis on up-front selection and due-diligence vs. ongoing training and support, and what kinds of support are actually most valuable, to name a few examples.

- **Do a better job of linking up and learning from existing experiments.** While there is a lot going on to attract entrepreneurial talent and tackle the attendant challenges, these endeavors are often undocumented and not communicated; lessons learned go unshared. Education professors pay little attention to these developments, and most research focuses on “evaluating” charter schools or the effect of TFA corps members, rather than understanding the obstacles entrepreneurs face, the measures that help them succeed, or how philanthropists, reformers, and policymakers have helped produce a high-quality supply of education providers. A simple step would be to do a better job of documenting and sharing what is being tried (and learned) across a range of issues. A regular magazine or bulletin (probably electronic) could communicate concrete, practical experiences and strategies for staffing, financing, operating, and otherwise supporting entrepreneurial operations.

Enhance Incentives

- **Provide retention awards or sabbaticals to keep talent in the sector.** Attracting new talent is vital, retaining talented entrepreneurs who might otherwise leave the sector after initial success is also key. Individual organizations could take steps to retain talent, but a few more sector-wide ideas could be tried: subsidize organizations to offer sabbaticals to their valued but burnout-prone executives; or offer MacArthur-style genius awards that pay out over multiple years, only if the recipient stays in K–12.
- **Start or supplement business plan and innovation competitions.** A number of prestigious competitions for innovative ideas already exist at business schools and also in the market at-large (most generously, the multi-million dollar “X Prize,” initially offered for a radical breakthrough in personal spaceflight and now sponsoring competitions in the genomics and automotive fields.) While similar competitions in K–12 wouldn’t change the underlying compensation and rewards structure in the sector, they could fuel significant interest in educational entrepreneurship that might otherwise flow elsewhere. Another idea is to piggy-back on existing competitions by offering additional prize money or other benefits for the best submissions related to K–12 education. An example of such a supplement is the Annie E. Casey Foundation’s partnership with Harvard’s Innovation Awards to recognize innovation specifically in the child services arena.

Cultivate Promising Talent

- **Encourage school organizations to create positions that enable teachers to gain skills and explore entrepreneurial paths.** Although some individuals with considerable entrepreneurial potential certainly do enter K–12 as teachers, the teaching job offers few opportunities for them to develop their entrepreneurial skills. The creation or subsidization of hybrid jobs would allow these individuals to continue to work part-time as classroom teachers, while building skill sets and gaining experience in non-classroom contexts. This would permit educators to explore alternatives and gain diverse experiences, while reducing the pressure on energetic and highly capable young teachers to decide at a young age whether to become an administrator or leave education. Such positions would allow potential entrepreneurs to undergo some seasoning, connect with like-minded individuals and potential mentors, and get a taste of an alternate career path within K–12—all standard issue opportunities in thriving entrepreneurial sectors. Some steps have been taken in this

direction, such as TFA’s summer leadership institute for teaching corps members, and the NYC Center’s stipended weekly professional development days for teachers whom schools identify as “emerging leaders.” Because such positions might create inefficiencies for the host school, this could be a useful role for targeted philanthropy to play in nurturing the pipeline.

- **Support efforts by existing “watering holes” like TFA and TNTP to cultivate entrepreneurial talent within their ranks.** Both TFA and TNTP have expressed interest in supporting members and alumni who want to seek school leadership and entrepreneurial roles. TNTP, with its corps of mid-career professionals who have become teachers, has within its ranks many people with outside-of-education experience that could be usefully deployed. But, as mentioned above, TNTP faces counter-pressures: if its fellows leave the classroom, retention numbers drop, which are a key element of its sales pitch to districts and funders. Funding specifically to enable this kind of cultivation could serve as a useful counter, as could efforts to create public platforms (high-visibility awards, national scorecards, etc.) that recognize and reward large districts for producing entrepreneurial talent. Such mechanisms are always limited, but—as in the case of the Broad Prize—they can influence the way local officials, school boards, and superintendents make decisions.
- **Showcase winners; address embarrassments.** It is widely believed that talented individuals are discouraged from entering the sector by the overall mediocrity of results, even within the new schools segment. One approach to countering this is to do a better job of identifying the real success stories—and trumpeting them with sufficient fanfare for talented potential entrants to notice. Identifying winners could also have a collateral benefit if individuals working in winning organizations were networked. On the opposite end, the prevalence of mediocre providers and the negative effect they have had on the “charter school” brand, for instance, makes the sector less appealing to entrepreneurial personalities eager to make a difference and have their efforts recognized. Efforts to cull out weak performers and shysters could help make the sector more appealing to new entrants.

Provide Resources

- **Generate more venture capital for educational entrepreneurship.** Ultimately, it’s impossible to separate the human capital and financial capital equations. The supply of individual entrepreneurs will depend, in part, on whether they think they can raise the funds necessary to launch and grow their enterprises. While venture funds for CMOs have become fairly well-funded, there is still minimal venture capital for other kinds of educational enterprises. Both public and private sources for such funds could be tapped. While it is essential to figure out how to route more of the vast public education expenditure in this direction, public funds may not truly fuel entrepreneurship unless routed through private vehicles that could be nimble, risk-taking, and non-political. SBICs, or small business investment companies, are one existing federally funded model. On the private side, foundations aren’t immune to the same issues of risk aversion and sclerosis. Foundation trustees could be convened to discuss these issues and to cultivate a new generation of trustees with a different risk profile (e.g., hedge fund investors and managers). Another admittedly controversial idea is to change public policy to more easily enable foundations to

invest in risky ventures without publicly disclosing their involvement, thus decreasing their downside risk and increasing their tolerance for failure.

The continued difficulty charter schools face in finding affordable facilities is a deterrent to entry and therefore needs to be addressed. Recent years have seen a wide range of promising developments on this front, including a number of nonprofits funded by the federal credit enhancement program; Indianapolis's use of public bond authority for charter schools; special purpose facilities nonprofits supported by NewSchools (such as Civic Builders in NYC and EdBuild in D.C.); and the Charter School Growth Fund large facilities fund for CMOs. Ways to take these developments to the next level by accessing large, untapped pools of capital, like potential secondary markets and "program related investments" from foundation endowments, are necessary.

UNADDRESSED TOPICS

One notably absent strand is what steps—in addition to the macro efforts to change the political economy of K–12—might attract more entrepreneurial talent from outside of education. After all, it is not clear that those who choose to become classroom teachers, complete teacher training, operate in isolated classrooms, and gain little experience managing adults are inclined or equipped to be the entrepreneurs to reinvent American education. If few of them are, it makes sense to bring in more individuals from outside the sector. However, the tools, strategies, and approaches that might accomplish this received relatively limited attention in this discussion. While New Leaders for New Schools and the Broad Superintendents Academy are fascinating examples of what might be done, the lessons they could teach have not been closely examined. Nor is it clear what scale these models can reach, or what complementary approaches might prove promising.

Another unaddressed topic is the role of licensure and human resources operations in K–12. A charter-centric focus often neglects the manner in which licensing restrictions or HR recruiting and hiring practices may make for an environment inhospitable to entrepreneurial personalities. Licensure has received much attention, and HR has received some recent attention (due mostly to the work of The New Teacher Project), but both conversations tend to focus on school staffing rather than broader effects on entrepreneurial energy. This is another topic that would benefit from much more extensive consideration.

CONCLUSION

Stepping back from this raft of specific ideas, several closing observations emerge. There is a tendency in these kinds of discussions to veer toward charter schools and charter leaders—one key area of entrepreneurial need, but certainly not the only route into K–12 for entrepreneurs. Another cause for attention is the specific set of issues around recruiting people of color into the space. Given the limited interest researchers and scholars have shown in this area, much of what would be helpful to know remains unexamined. There is an abundance of questions related to the above strategies for researchers to address, and for sympathetic policymakers and philanthropists to begin to support. Finally, this conversation made clear that the network of individuals invested in fostering educational entrepreneurship would benefit from more communication as these ideas and experiments move forward.

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