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A PUBLICATION OF THE GRASSROOT INSTITUTE OF HAWAII • JUNE 2003 • No. 5 • \$5.00

Making Public Schools Work

*Applying a business organization model that allows schools and parents...gasp!
control over funding as Hawaii moves towards decentralization*

BY LAURA BROWN

Nationwide, a failed public school system has provided the impetus for theoretical proposals and valiant efforts to establish charter schools and vouchers as the chosen methods of reform. These attempts can be likened to salmon swimming upstream, where the stream is the force of unions and status quo administrators protecting their turf, and the salmon, surprisingly, are not the parents of children in failing schools, but economists, businessmen, attorneys, think tanks, and the federal government. In the current system, principals and teachers are the lemmings, given orders to perform but none of the resources by their superiors and their union bosses. Edmonton Superintendent Angus McBeath explains it this way: "Always remember that Education is, first and foremost, an employment scheme." (1)

PERCEPTION IS EVERYTHING

It's not that parents have not heard that the Department of Education is a failing, top-down bureaucracy filled with waste, fraud, corruption, struggling teachers and students struggling to hold on. However, when parents send little Kimo and Keli to school, they see only a smiling teacher welcoming them at the door. Parents attend open houses with classrooms filled with cute little projects and lots of happy faces. Children bring home good grades.

Parents do not know that those grades are meaningless in a statewide education system that has no curriculum, no standard grading scale, and vague standards. Hawaii's parents often find out only after their children enter high school and receive the results of their college SAT/ACT tests that they have been duped and their children robbed of an education that will enable their acceptance to college. Approximately 26 percent of all adults 25 and older in

Hawaii have 4-year college degrees. (2) And yet, in 2002 only 58.9 percent of all Hawaii seniors who had entered high school as freshman in 1998 graduated. (3)

Individual student results don't matter much to politicians, because they and the general public perceive Hawaii's centralized education bureaucracy to be superior to mainland models. They believe the system is equitable. Funding for schools is not based on property values; therefore, it is perceived by the public that rich communities receive the same resources as poor communities. The desire for equity appears stronger than the desire for quality in a culture seemingly conditioned to accept whatever little bit they get. A quick comparison between Kaiser High School in Hawaii Kai and Nanakuli High School on the Leeward Coast will reveal severe inequities in terms of both facilities and resources, but the myth of equity, continually perpetuated by the media, influences public perception. (4)

PERCEPTION VS. STARK REALITY OF FAILURE

Hawaii's Department of Education is "the biggest business in the state," according to its superintendent. Indeed, this statewide agency is one of the top 10 largest school districts in the country, which include L.A. Unified, Chicago and New York City, with NAEP scores ranking at the bottom with California, Mississippi and Louisiana. (5) The question must then be: if the DOE is a "business" as well as a service of government, would applied principals of business management improve student performance? What are the benefits of decentralizing and what form should it take?

Endless deliberations and proposals before the legislature, Board of Education, and community forums to reform public education and improve student outcomes continue to miss the point: The bottom line is 1) schools must be allocated money and the power to make their own decisions 2) decisions must be transparent to taxpayers 3) money must follow the child and parents must have choice where to send their child to school and 4) principals must be held accountable for their decisions. The goal of public education must be student achievement. Any other discussion is a smokescreen disguising the employment scheme mentioned above.

BREAKTHROUGH ORGANIZATION STUDIES

Highly centralized, top-down businesses or agencies traditionally have had to reform or die. When an organization becomes overly centralized it cannot compete. Entrepreneurship is choked as local businesses are told what to do, what and how much to buy whether these decisions suit local needs or not. Who has not experienced this in Hawaii in mainland-based department stores full of heavy winter sweaters and coats that go unsold or in furniture stores that stock bulky pieces that would consume the pint-sized rooms of local homes?

Statistician and quality management guru W. Edwards Deming, noting America's management problems in the 1980's, said, "The problem now is not mass production. The problem is quality." World attention then focused on Japan's success in producing quality products at a lower price. The Japanese had implemented Deming's Total Quality Control, a customer-driven product planning process designed to continuously improve products and services in anticipation of the changing needs of the marketplace. (6)

UCLA Professor William Ouchi, in his book *Theory Z: How American Management Can Meet the Japanese Challenge* (1981) described the characteristics of Japanese companies that produced high employee commitment, motivation, and productivity. Meanwhile, the U.S. government responded to failing American businesses like General Motors and Chrysler by pumping millions of dollars into them. Ultimately, however, companies had to adapt and become more efficient at meeting customer's needs. *Theory Z* stated that if workers were given responsibility and authority, they would respond with creative ways to maximize their productivity. This approach considered employees to be experts in how best to perform their tasks. (7)

A successful business operates as optimally as its resources will allow with respect to its goals—a concept known as bounded rationality. Restructuring a centralized organization into autonomous sub-units allows greater flexibility to meet the

demands of the local market with greater efficiency. As a result, the multi-divisional, or M-form, is the dominant business structure, because it outperforms the U-form or top-down, centralized model. While extensive studies on business organization models validate this finding, no systematic study on the effect of school system organization and management was ever done.

However, a soon-to-be-published comparative study between centralized and decentralized school districts by Professor Ouchi at UCLA's Anderson School of Management, as well as his new book entitled *Making Schools Work: A Revolutionary Plan to Get Your Children the Education They Need*, to be published by Simon & Schuster in September 2003, offer compelling evidence that the current paradigm of formal organization is universal and applicable to school districts. (8)

RESTRUCTURING THE SYSTEM

Unlike businesses, most public schools operate as monopolies and have no need to compete or improve performance. Taxes fund government schools with ever increasing budgets and ever declining results. No incentive to perform exists, except perhaps for teachers and principals to tow the line as they climb the career ladder into higher pay in district and state administrative jobs. (9)

Hawaii's centralized school district uses a funding methodology to individual schools called Enrollment Ratio Formula (ERF). Amounts are allotted based on enrollment and student types, which correlates into numbers of staff, such as teachers, paraprofessionals and librarians. ERF restricts a principal's control over funds and limits decision-making on number and type of staff, money spent for teacher training, books and curriculum.

This system creates incentives for increasing staff, instead of encouraging performance outcomes. Highly paid centralized jobs can be awarded under this system to those who will respond with political loyalty.

A new system of budgeting that is taking hold in school districts around the country and in Canada known as Weighted Student Formula (WSF) allows money to go directly to benefit individual schools. WSF is successfully used in Edmonton, Seattle and Houston. Funds are "block granted" to each school on a per-student allocation basis and weighted to reflect the number of "categorical" funds for which the student qualifies. Students may choose any school they like and the funding follows the child.

WSF DECENTRALIZES DISTRICTS

Under this multi-divisional organization model, the statewide agency (SEA) monitors local agencies (LEA), a factor now missing in Hawaii's centralized system. Budgetary autonomy at the school level results in an increased number of employees reporting directly to the individual school principal instead of a central office. The percentage of the total district budget reaching individual classrooms and the percentage of the total district budget spent on teacher pay is higher.

As a comparison, Houston Independent School District is very similar to Hawaii's Department of Education. It has 208,672 students, a \$1.16 billion budget and 288 schools. Houston per pupil expenditure is \$5,558. Hawaii's public school system enrolls 180,000 students, has 261 schools and a \$1.5 billion budget, expending \$7,626 per pupil based on average enrollment or \$8,167 based on average attendance per student. (10) The difference is that Hawaii appropriates staff versus dollars under ERF while Houston employs WSF, allowing funds to flow directly

to individual schools. Houston principals control 58.6 percent of their budget, while Hawaii principals control only 4%. (11)

PRINCIPALS TAKE CHARGE

Under WSE, principals become the CEOs of their schools. Superintendents take on the role of coach in a decentralized district. Close supervision is not needed, because budgets and expenditures become transparent...to the penny. Every dollar saved can be kept at the school.

Principals would no longer be unionized. Instead, they would work under 4-year performance based management contracts. A direct correlation could then be made between executive decisions at the school and performance outcomes.

WSF BENEFITS TEACHERS

By allowing funding to follow each child, the percentage of dollars flowing directly to individual classrooms in the form of higher teacher salaries, benefits, paraprofessionals and aides, substitute teachers and classroom materials would increase.

The Hawaii Department of Education currently spends approximately \$600 million per year on teacher salaries or about 40 percent of its general fund appropriations. Los Angeles Unified School District spends only 45 percent of its resources in the classroom. In Edmonton, which uses WSE, 60.5 percent of its resources remain in individual classrooms. In Edmonton, teachers' pay is 51.8 percent of the total budget. Less expenditure on centralized administrative salaries allows for a higher proportion of the budget that may be spent on classroom teacher pay.

STUDENT PERFORMANCE INCREASES

Decentralization, especially in districts using a Weighted Student Formula, results in improving achievement across every ethnic group and every grade. In decentralized districts using WSE, African-American students under Title I low-income program score well above the district average for both reading and math. In contrast, students with the same demographics in centralized systems perform far below their counterparts. Houston Independent School District consistently outperforms Los Angeles Unified School District on SAT 9 tests by 10 percent in all areas. This phenomenon exists in spite of the fact that Los Angeles recycles its SAT tests every 3 years and Houston does not.

If the goal of schools is to allow each individual student within the system the resources that will allow them to be competitive and successful, funding must be based on individual student needs. For example, in Seattle, a high needs student with autism may carry the highest weight with over \$25,000 per year in funding, while a middle-class child under no special categorical need may carry the weight of \$2,800 per year. Schools would also receive a flat-based allocation to allow small schools to meet their costs. (12)

SCHOOL CHOICE

Under this system, parents chose where their student attends school, which would increase competition among schools, especially for heavily "weighted" students that carry higher funding, such as children with autism under Title I or immigrant children. Under the current system, high-risk children are

unwanted by school districts. They represent a burden in that they require extra staff and expense. With WSE, schools would compete to attract these children with their higher funding which would allow schools to create specialized programs or become magnet schools catering to these specific needs. In essence, each school would become unique, giving parents true choice.

Funding attached to the individual student would give parents the leverage needed to demand quality performance. If an individual school does not provide customer satisfaction, the consumer can shop for a better service provider.

COMPLIANCE IS GREATER

If each school were allowed to make its own decisions of who to hire, which books to use, how much to expend for teacher training versus having the office in downtown Honolulu dole out resources based on statewide formulas, accountability would follow.

Compliance accountability involves the monitoring of budgets and expenditures and controls waste, fraud and corruption. Performance accountability is the correlation between decisions and outcomes such as scores on standardized tests. Performance indicators include the level of output by students, teachers and principals. Monitoring of performance indicators allows for a greater ability to remove teachers and principals due to poor performance.

Rather than reliance on Inspector Generals and surveillance staff in a top-down model, decentralized districts use an "exceptions" approach, comparing current outcomes with past performance and intervening only when problems arise. Parents, teachers and community members all act as the eyes and ears that monitor funding at the local level.

Smaller budgets in decentralized districts are easier to track and audit, thus minimizing fraud. In ERF districts, tracking spending at the individual school level is very difficult, often resulting in systemic corruption.

RECOMMENDED ACTION

Hawaii can follow these steps used by Edmonton's Superintendent to reform education and increase student performance:

1. Demonstrate to the public the difference between richest school and poorest school in our current "equitable" system.
2. Depoliticize funding using weighted student formula, basing it on 3 guiding principles: 1) Resources follow the student 2) Resources provided in dollars, not FTE staff 3) Allocations based on categorical need of each student
3. Governor directs Budget Director to gather large committee of principals to work together towards consensus on fair formula.
4. Ensure public understands the system to be fair.
5. Consult with Edmonton experts and employ manual that trains principals step-by-step how to do the budget. (Training by Edmonton staff can be done for Hawaii principals in Hawaii.)
6. Calculate how much centralized services cost (incl. overhead and actual costs).
7. Give schools the option of purchasing centralized services or services from other vendors.
8. Create a service tracking system.
9. Schools create individual mission and programs.
10. Parents freely choose where to send their children statewide.
11. Statewide school board can audit individual schools.
12. State Board of Education develops policy on school choice.

13. Principals removed from the union, placed on performance based contracts.

14. Local school boards may be formed for policy, oversight and advocacy.

15. Quarterly fiscal reports from schools published and available for review by the general public, school boards and legislators.

SUMMARY

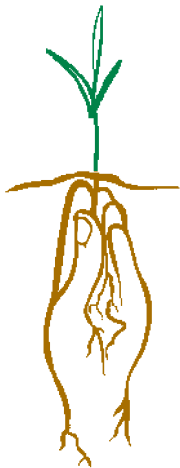
Hawaii's education system would operate more effectively under a decentralized, multi-divisional form due to the dispersed geographic nature of a multi-island state as well as the unique needs of individual communities. Weighted Student Formula and school choice represent an easy way to make public schools competitive and save them from their eventual demise. Public schools might even then compete for the more than 15 percent of school-aged children in Hawaii who attend private schools. (13)

The initial push to get this system in place must come from the Governor, followed by parents, teachers, principals, the Board of Education, legislators, and union leaders. Once developed, legislators must add the funding formula into law. The Board of Education must create new policy. Although opposition might initially come from union leaders protecting political positions at the state and district levels, principals and teachers would soon realize that if their leaders considered them more than just warm bodies added to union rolls to increase dues, they would lend support to allow them the resources to do their job. As a result, front line personnel would now have responsibility as well as the resources to do their jobs. Then, individual principals and teachers could be held accountable for performance.

Parents would at last be in charge of selecting the best educational program for their children and would have the leverage to demand that they get their money's worth. Weighted Student Formula would shine the light for taxpayers on the black hole of education funding, creating a transparent system of performance and accountability. Finally, students would get what they deserve: a quality education. Hawaii can, for once, be best, not last. Weighted Student Formula and school choice represent the first step towards that goal.

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