

THE IMPACT OF ORGANIZATION ON THE PERFORMANCE OF NINE SCHOOL SYSTEMS: LESSONS FOR CALIFORNIA

William G. Ouchi, The Anderson School, UCLA

Bruce S. Cooper, Graduate School of Education, Fordham University

Lydia G. Segal,* John Jay College of Criminal Justice, City University of New York

The Failure of California's Schools

California enrolls approximately 6 million students in its public schools, 12.5% of the nation's total. By most measures, these schools are failing in their mission. On the 2000 National Assessment of Educational Progress – Science Examination, California's eighth graders tied for last in the nation with those of Hawaii. California's fourth graders had sole claim to last place in the nation. In the 2001 TIMSS international mathematics test, California again ranked dead last in the U.S., this time tied with Mississippi. A 2000 study by RAND concluded that California ranks last in the nation when reading and math scores are compared for students of the same socio-economic categories. Fewer than 25% of California students scored either *proficient* or *advanced* in reading. An analysis by the Los Angeles County Alliance for Student Achievement (2001) produced the following additional results:

- High school graduation rates declined from 71.2% in 1985 to 68.7% in 2000.
- Only 50% of California's high school graduates go to college, compared to the national average of 66%.
- Of those who attend college, 61% go to community colleges. California ranks 48th among the states in percent who attend four-year colleges.
- A study by Los Angeles Mayor Jim Hahn (2002) reveals that most new jobs require a bachelor's college degree or higher, but the study by the Los Angeles County Alliance for Student Achievement (2001) reports that only 27% of California adults have that degree.
- California has a large and persistent race gap, with Latino and African-American students less likely to graduate from high school and to attend college.
- Across the state, 12.5% of teachers are rated as *underqualified*, lacking proper education in the subjects that they teach. In urban districts, an alarming 20% of teachers are rated as *underqualified*. Students of color have 27% *underqualified* teachers.

And most recently, an October 1, 2002 *San Francisco Chronicle* story by Nanette Asimov reported on results in the state's new High School Exit Exam. Beginning in 2004, students must pass the exam in order to receive a diploma. Students

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will have multiple opportunities to pass the exam before graduation. The test is geared to knowledge that should have been taught in grades six through ten. The early results do not look good. According to the news story, of the 431,000 tenth-graders who took the test, only 48% passed both the math and the language arts tests. Among Black students, only 28% passed both portions of the test, and among Latino students, 30% passed both. The prospect that half of the graduating high school seniors might be denied a diploma is causing a public outcry across the state.

Twenty years ago, the National Commission on Excellence in Education declared that we are *A Nation at Risk* (1983) and called for school reform. Since that time, educators have increased the emphasis on educational standards, introduced new achievement tests, raised the requirements for teacher certification, and reduced class size. While these inputs to education have changed, the outcomes for students have not.

The Problem is Not Funding

The problem is not that California spends too little on education, as many believe. During the 1999-2000 school year, for example, total operating spending, excluding construction costs for school buildings, but including all state and federal funding, was \$44.28 billion (Izumi and Coburn, 2000: 60). If we divide that by the total number of students, 5.96 million, the total operating expenditure per student was \$7,535, well above the U.S. average of \$6,508 per student (Izumi and Coburn, 2000: 63). In the Los Angeles Unified School District, which is 90% minority and 73.5% low-income families, the figure was much higher, at \$9,638 per student for the 2000-2001 school year. In other comparisons, a study by the *Los Angeles Business Journal* (August 7, 2000) reported that for 25 independent schools in Los Angeles, the average annual tuition was \$7,091. A study by Ouchi and Segal found that the 298 Catholic schools in Los Angeles spend an average of about \$2,500 per student in elementary schools and \$5,100 per student in high school (2003, forthcoming).

If we factor in school facility construction costs, the Los Angeles Unified School District spent a total of \$13,267 per student for the 2000-2001 school year. The comparable figure for the New York City Board of Education was \$14,292 per student, according to a study by Ouchi, et al. (2002). By comparison, the 851 independent day schools that report to the National Association of Independent Schools charged an annual tuition of \$11,246 in that year. Contrary to what many believe, these independent schools typically receive only modest additional revenue from annual gifts and endowments.

The issues of money, class size, and teacher preparation are important to the success of students. Nevertheless, it is by now clear that attention to these matters is not enough to bring about a fundamental change in student achievement. This paper adds one missing ingredient to our understanding of what makes schools and students successful – the organization of a school district. While the literature of education is replete with multiple studies of curriculum design, teaching method, and leadership in individual schools, there are virtually no systematic studies of the organization and management of

entire school districts. The study on which this paper reports finds a dramatic relationship between the organization of a school district and the success of its students.

Top-Down Management Fails, but Bottom-Up School Districts Succeed

We begin this section by summarizing the study, which is fully described in a book by Ouchi and Segal (2003, forthcoming) and in a working paper by Ouchi et al. (2002). We then lay out the basic hypothesis, which is that among schools, as is true for companies, an organizational approach that balances local autonomy with clear accountability produces superior results. This hypothesis is so largely because each child is unique, and each collection of children poses a unique challenge in staffing, curriculum, and teaching approach. If a school district operates in a top-down, centralized fashion, each local school is handcuffed and cannot easily make adaptations that fit the needs of the community.

Where local autonomy is provided and families have a choice of schools, on the other hand, competitive forces will spur each school to improve. Similar forces act on the institutions of higher education in California: each campus of the University of California competes for students and faculty against the others and against many public and private universities in California and in other states. The same is true for the California State University campuses and for the Community College campuses. Our study identifies several urban school districts that have adopted a similar model – although one in which competition and choice are limited to public schools only. These school districts have produced dramatic results in student achievement, cost containment, and control of fraud and corruption.

Description of the Study

Our sample consisted of four different types of schools. First, the three largest school systems in the United States – the New York City Board of Education, the Los Angeles Unified School District, and the Chicago Public Schools. Second, the three radically decentralized urban schools districts in North America – Edmonton, Canada, Seattle, and Houston. Third, the three largest Catholic Archdiocesan school systems in the U.S. – Chicago, New York City, and Los Angeles. Fourth, a set of six independent schools. Table 1 outlines the relative size and composition of each of the three systems, not including the six independent schools.

TABLE 1
THE NINE SCHOOL SYSTEMS, 2000-2001

| <u>System</u> | <u>Enrollment</u> | <u>Number of Schools</u> | <u>%Low-Income</u> |
|-------------------------|-------------------|--------------------------|--------------------|
| Public Schools | | | |
| New York City | 1,066,516 | 1,213 | 71.9% |
| Los Angeles | 721,346 | 659 | 73.5% |
| Chicago | 435,261 | 602 | 85.5% |
| Houston | 208,462 | 289 | 70.7% |
| Edmonton | 80,862 | 209 | n.a. |
| Seattle | 47,575 | 119 | 37.5% |
| Catholic Schools | | | |
| Chicago | 130,000 | 302 | 30% |
| New York City | 115,000 | 286 | 32% |
| Los Angeles | 100,000 | 269 | 16% |

Note that Edmonton does not record any student measure which can be used as a proxy for low-income in the way that U.S. schools record student eligibility for Federal Title I programs. Note also that the enrollment numbers for the three Catholic Archdiocesan systems are approximate, because these schools consist of loose federations of very autonomous schools, and thus centralized record-keeping is at a bare minimum.

Although these school districts represent a large range in student numbers, all of them would rank among the 100 largest of the 16,992 U.S. public school districts – with more than 45,000 students each (Young, 2002:1-2). Together, these very large districts educate 23% of all public school students. They were chosen because they are large enough to clearly display any organizational effects that might be present. Blau and Schoenherr (1971:64) have reported that most organizational effects appear at a size of fewer than 3,000 employees in their study of government agencies. All of these nine districts are above that size threshold in number of employees.

Our research team, which was as large at twelve people at its peak, visited at least 5% of the schools in each of these nine systems. For example, we visited 66 schools in New York City, 40 in Los Angeles, and 31 in Chicago. In each case, we interviewed the principal, performed a detailed analysis with her or him of the school's budget, and took with us records of student achievement test scores. We made repeated visits to the central office of each system, where in each case we interviewed the Chief Executive Officer, the Chief Financial Officer, and other senior staff. We performed a detailed analysis of the budget, the accountability systems, student achievement on standardized tests, and other

aspects of the organization and management of each system. We employed the budget analysis framework developed by Cooper and Associates (1994).

Our sample has at least one limitation that merits comment. School systems are among the most visible of public institutions today. It is rare that a day goes by without some mention of the public schools in the press. In fact, our study is unusual in part because few scholars have been able to gain access to the central office of any major school system, let alone nine of them. We were able to prevail on several good friends to arrange access for us to the leader of each of these systems, and all nine consented to be interviewed and also granted us access to their central staff as well as to their principals. However, we did not choose the schools that we visited; they were selected by the district in every case. We asked each district to give us about one-third each of struggling schools, average schools, and excellent schools. We have no way of knowing what proportions they actually chose, but a prudent person would expect that they over-weighted our sample with their best schools. Despite any bias in the sample, we visited many average and struggling schools in each district, along with a few very good ones. We should also point out that our sample of nine school districts is very small for a scientific study, although it is the first detailed study of the organization of large school districts.

We checked our sample in each city against the total population of public schools with respect to the average number of students and the proportion of students from low-income families. What we found was that on the size variable, only in Chicago did our overall sample differ from the population, with our sample having schools that, on average, were larger than those in the district. On the low-income test, we found that among the public districts, only the Los Angeles sample differed from the population, with our sample having an average of 59% Title I students in the elementary grades, *versus* 82% for the district as a whole. The corresponding figure for the 100 largest school districts is 53.4% and for all U.S. public school districts it is 39.3% (Young, 2002:6).

The M-Form Hypothesis: Local Autonomy with Accountability is Best

Studies of businesses and of government agencies have consistently found that among large organizations, decentralization of decision authority produces a higher level of performance (see Ouchi, et al., 2002 for a review). One particularly influential framework is that proposed first in 1975 by U.C. Berkeley Professor Oliver Williamson (1975). Williamson proposed that organizations be classified into one of three basic types, known as the U-Form, the M-Form, and the H-Form.

The U-Form, or unitary organization, is more commonly known as the functional structure in which, for example, all engineers report to a head of corporate engineering, all salespeople report to the Vice-President for Sales, and so on. Almost all public school districts are of this type, with one Assistant Superintendent in charge of all schools and principals, another in charge of teacher training, another in charge of budgets, and so on. In each school, the principal in effect reports to several central office supervisors - one for social studies, another for math curriculum, and yet another for special education.

Decisions about what books to use, what professional development courses to offer for teachers, and what mathematics curriculum should be implemented in the eighth grade, for example, are made at the central office rather than at the local school.

The H-Form, or holding company, is a loose federation of very autonomous units. In business, these are the conglomerates, the huge companies made up of more than one hundred independent businesses. The central office staff in these cases is extremely small, and its only task is the financial review of each company. Catholic Archdiocesan school systems are often described as being this type of organization – loose federations of independent schools (Bryk, Lee, and Holland, 1993).

The M-Form, or multidivisional organization, is mid-way between the other two types when it comes to centralization. In the M-Form, the central office takes advantage of economies of scale where they are very large by maintaining central staffs to provide, for example, insurance, payroll, and information technology for all schools. For other matters, such as whether to have more credentialed teachers or more teachers' aides, what professional development to offer to teachers, and what books to use, schools are the independent decision-makers. Until very recently, no school districts in the U.S. used the M-Form approach, although it has for fifty years been the dominant form among U.S. companies, having outperformed the U-Form that it replaced. In a sense, the M-Form is capable of combining the best of both the U-Form and of the H-Form by centralizing that which makes compelling sense and decentralizing everything else. It is also, in another sense, an organizational version of the U.S. Constitution, striking a balance between powers granted to the federal government *versus* the states.

Another feature of the M-Form is that it lends itself more readily to accountability. According to Williamson, the fact that M-Form organizations are composed of relatively self-contained sub-units – such as autonomous schools – simplifies greatly the monitoring process. Because each principal in these schools is responsible for, and has authority over, most of the budget, there are few excuses that can be made for either failures of *compliance* with anti-corruption rules or for failures of *performance* in student achievement (Segal, 1997, 2003). Although it may seem paradoxical, it has long been recognized in business that self-contained, autonomous divisions or other sub-units are easier to monitor, unless intentional fraud takes place, as seems to have been the case with the Enron Corporation. Intentional fraud, though, is more difficult to uncover in complex centralized organizations than in decentralized structures.

Williamson's M-Form hypothesis is that, in business, the M-Form will outperform all other forms among large organizations. We have applied Williamson's framework to the analysis of school districts. Our central hypothesis is that among large school systems, the M-Form will produce superior performance.

Study Results

The results of our study permitted us to classify the school systems by type: U-Form, M-Form, and H-Form. This classification is based on two criteria: (1) the relative

number of full-time equivalent employees assigned to the central office (many of whom work in schools, but under the direction of a central office staff manager); (2) the percent of the school's budget that is controlled locally, typically by the principal. Table 2 illustrates that all of the public school districts have relatively large central office staffs, there being no statistically significant difference between the numbers in the U-Form and the M-Form districts. The H-Form districts, though, have much smaller central office staffs, thus confirming that they are loosely held federations of mostly autonomous schools.

School boards in New York City and Los Angeles can only wonder how the Chicago Archdiocese, for example, can run a system of 302 schools and 130,000 students with a total central office staff of only 22 people, including secretaries! The answer, of course, is that a fully decentralized system requires little by way of central coordination. No one in the central office has to study which textbooks schools should have, what professional development courses teachers should take, or how many minutes should be devoted to the teaching of reading or math, because each school makes those decisions for itself, with a minimum of fuss. It may seem that this example has little or no application to public schools, but we believe that there is a strong application. Many decisions, such as choice of textbooks, are difficult and thus time-consuming to make if a wide variety of very different schools must all hew to one single book. If, however, each local school is granted the autonomy to choose for itself whatever books it feels best suit the needs of its students, so long as the choice meets the established state standards, these decisions become relatively simple to make.

With respect to local budgetary control, the differences between the three types of school systems are dramatic. Table 2 shows that the average school in U-Form districts controls only 10.7% of their own budgets, while the figure for M-Form districts is 76.5%, and for the Catholic Archdiocesan districts it is 74.9%. It is notable, surprising even, that public school systems like those in Seattle and in Edmonton have been able to achieve as much, and even more local school autonomy than even the Catholic Archdiocesan systems, which are famous for their local school freedom. The result is that principals in these M-Form school districts consistently praise the management of their district, and teachers there told us that they were able to make adjustments quickly in adding reading coaches, math tutors, or re-arranging schedules, because they didn't have to go "downtown" for approval. They only needed to ask their principal.

TABLE 2
CLASSIFICATION OF THE NINE SCHOOL SYSTEMS
BY ORGANIZATIONAL TYPE

| <u>System</u> | <u>Total Central Office Payroll</u> | <u>Central Office Payroll per 100,000 students</u> | <u>Local Budget Control</u> |
|--------------------------------|-------------------------------------|--|-----------------------------|
| U-Form School Districts | | | |
| New York City | 25,500 | 2,311 | 6.1% |
| Los Angeles | 11,896 | 1,646 | 6.7% |
| Chicago | 4,279 | 983 | 19.3% |
| M-Form School Districts | | | |
| Houston | 3,730 | 1,787 | 58.6% |
| Seattle | 1,613 | 3,401 | 79.3% |
| Edmonton | 437 | 540 | 91.7% |
| H-Form School Districts | | | |
| New York Catholic | 22 | 20 | 54.4% |
| Chicago Catholic | 28 | 21 | 77.9% |
| Los Angeles Catholic | 24 | 24 | 92.5% |

Perhaps the single most important result, though, is the difference in student performance that accompanies decentralization through the M-Form structure. There are many different standardized tests, and districts that use different tests cannot be compared. We were fortunate, though, because our study included three school systems that all use the same test, the Stanford 9, and among those three, there was one of each of our three organizational types. Table 3 presents these Stanford 9 results for two years, 1999 and 2001.

The most important comparison is between the Los Angeles Unified School District and the Houston Independent School District. Both districts have 90% minority students, and both are heavily low-income, with Los Angeles at 74% and Houston at 71%. Given these similarities, it is striking that Houston students outperform those of Los Angeles by nine or ten points in reading, and by six or seven points in mathematics – on the same Stanford 9 test. Our research also shows that the gap in scores between African-American and Latino students on the one hand, and

TABLE 3
STANFORD 9 ACHIEVEMENT TEST RESULTS
FOR THREE SCHOOL DISTRICTS

| <u>System</u> | <u>1999 Average Score</u> | <u>2001 Average Score</u> | |
|-------------------------------|---------------------------|---------------------------|---|
| Reading Scores | | | |
| Los Angeles (U-Form) | 28 | 3 | 3 |
| Houston (M-Form) | 38 | 4 | 2 |
| Los Angeles Catholic (H-Form) | 53 | 5 | 3 |
| Mathematics Scores | | | |
| Los Angeles (U-Form) | 36 | 4 | 2 |
| Houston (M-Form) | 42 | 4 | 9 |
| Los Angeles Catholic (H-Form) | 51 | 4 | 9 |

White and Asians on the other, declined each year in Houston, but not in Los Angeles (Ouchi et al., 2002). Although Los Angeles students have made large gains in the elementary grades over the past five years, and dramatic gains in the 2002 SAT-9 test, the race gap actually increased between White and Asian students as compared to Black and Latino students in the 2002 test results. All four groups of elementary students improved their scores, but the scores of the White and Asian students rose more rapidly than did the others. A study by the Council of the Great City Schools (Snipes, Doolittle, and Herlihy, 2002: 98-99) confirms the results for Houston and also shows gains for Sacramento, which has more recently implemented Weighted Student Formula (pp. 132-133).

The Catholic Archdiocesan students in Los Angeles outperformed the public school students in both Houston and Los Angeles in both reading and mathematics. Given our very small sample of only nine school districts, we cannot conclude that this superior test performance is due to the more decentralized organizational form of the Catholic Archdiocesan schools. It is likely that the self-selection of families who choose to pay tuitions of \$2,200 in Catholic elementary schools and of \$4,500 in Catholic high schools yields a pool of more highly motivated students. The study by Bryk, Lee, and Holland (1993) shows that Catholic schools do not have students nor teachers of higher ability than public schools, though. Our interviews strongly suggest that local school independence plays a large role in the academic success of these schools. Many of the principals of these Catholic schools told us in interviews that their freedom to make micro-adjustments in staffing, curriculum, and in every other way were crucial to their success with students.

Vigilance over the expenditure of public funds is always an important issue for all public agencies including schools. In every district that had them, we reviewed 100% of

school audits, investigations, and reports by the Inspectors General. We also evaluated the reports of all relevant civil and criminal grand juries, state and local commissions, and private watchdog groups from 1998 through early 2002. In districts that do not have an Inspector General but do have a school district auditor, we reviewed a sample of the many audit reports since 1998 selected for us by the Chief Auditor. In Seattle, which has neither an Inspector General nor an internal auditor as a separate function, we reviewed 100% of the school district's fraud and compliance audits performed by the Washington State Auditor Office since 1998.

In every district, we interviewed the Inspector General or the Chief Auditor. In Seattle, we interviewed the Director of Special Investigations of the Washington State Auditor's Fraud Unit and the Director of the State Auditor's Audit Management and Resolution Unit.

Lastly, we searched the Lexis-Nexis database for all articles on school corruption in all six public school districts since 1998. In the Archdiocesan Catholic school districts, the central office staffs are so small that corruption is rare and typically occurs only in minor ways at local schools. In Edmonton, where the Lexis-Nexis search turned up no cases, we interviewed a fifteen-year veteran of one of the two local newspapers and asked her to conduct a search of the newspaper's archives. The search came up empty. Based on this review, we created a "Corruption Score" for each district.

Our study found that M-Form districts such as Edmonton, Seattle, and Houston have less fraud and corruption with smaller central audit staff per 100,000 students than do the centralized districts of New York City, Los Angeles, and Chicago. Thus, it does appear that the *compliance* aspect of accountability is superior where decentralization to the local schools is in force. Segal (1997) has noted, though, that partial decentralization of decision authority from the central office to sub-districts or regions of several schools each can produce an increase in corruption. However, when M-Form structures are adopted, the control over money passes not to intermediate regional organizations but all the way to the local school, where many pairs of eyes, including those of parents and teachers, are watching each dollar.

In the case of *performance* accountability, we found that our hypothesis was not confirmed. M-Form districts are not more apt to dismiss teachers or principals for poor performance than are other districts, nor are they more likely to adopt merit-based pay systems. Chicago, for example, which is relatively centralized, has adopted a very strict, perhaps even punitive, approach to both principals and teachers, while Edmonton has not.

The Use of Weighted Student Formula to Create M-Form School Districts

The next question, of course, is, what did Edmonton, Seattle, and Houston do to achieve this decentralized M-Form? The answer is: they all adopted a radically innovative budgeting system known as Weighted Student Formula, in which the money follows the child, and each child is free to choose any public school in the district. Weighted Student Formula began in 1973 and was developed by Edmonton Superintendent Mike Strembitsky, who was only 38 years of age at the time of his

appointment. Strembitsky had been a teacher and a principal in the Edmonton schools. He, like other principals, was constantly at odds with what he felt was a tyrannical, top-down central office bureaucracy that was fond of telling principals how to run their schools.

Edmonton

When Strembitsky became superintendent, he resolved to find a way to pass control of the money to each principal. Critics argued that the Edmonton principals had no experience at financial management, that they would flounder with this much authority, and that they should be focused on teaching, not on budgets. Strembitsky knew better. He knew that one school, for example, might work best with a staff made up of 25 credentialed teachers and only 2 teachers' aides, while another school of the same size but in a different socio-economic setting might be better off with a different staffing mix, say of 23 credentialed teachers and 7 aides. The budgeting system used in California school districts does not permit that kind of local flexibility, nor did the budgeting system in Edmonton or anywhere else in North America at that time. For another example, Strembitsky knew that far too often, the central office required all 8th grade math teachers or all elementary teachers to go through a required professional development program. It would be far superior, he thought, to give control over that professional development money to each school and let them decide for themselves what professional development would do them the most good.

Step-by-step, over the next twenty-plus years, Mike Strembitsky devolved one central office budget after another to the local principals. He found that the principals welcomed this new freedom, and that most of them rose to the challenge of learning how to manage a budget. A few took early retirement, but most, even the ones who had seemed to be fast asleep, were energized by this new empowerment. Today, Edmonton principals control nearly 92% of the district's budget. Edmonton has in place one of the best systems in North America for selecting and training new Assistant Principals, and another, rigorous program for selecting and training new principals. The attitude of the central office staff is that there are no "stars" in the central office. Current Superintendent Angus McBeath tells his staff, "If you want to be a star, then apply for a job as a principal".

Seattle

In 1995, the Seattle Public Schools were in a state of crisis. A committee chaired by state legislator Gary Locke had commissioned a consultant's evaluation of the district in 1991. The resulting report created an uproar and a broad public demand for change. By 1995, several school reform groups had coalesced into The Alliance for Education. The Alliance pushed for a new, non-traditional superintendent. The school board hired retired Army Major General John Stanford, who was working as the County Administrator in Fulton County, Georgia. Stanford, in turn, hired investment banker Joseph Olchefske as his Chief Financial Officer, and the two of them set off to visit Mike Strembitsky, because they had heard of great success from the city to the north. The very next year, the two Seattle school district leaders began their implementation of Weighted Student Formula. Three years later, General John Stanford died of leukemia, but

Superintendent Joseph Olchefske has continued the Weighted Student Formula revolution.

The Seattle implementation of Weighted Student Formula could be a model for California school districts large and small. The process is politically complex but administratively simple. All that is needed is to capture the several state-allocated categorical funds, such as those for Special Education, Reading Programs, and GATE (Gifted and Talented Education) and assign the money to the student who qualifies for each special fund. Thus, the money follows the student. In the Seattle system, a “minimum” student – one who qualifies for no categorical funds, receives only his or her per capita basic state allocation. The “maximum” student – one who has multiple learning disabilities, is from a low-income home, and who is a non-English speaker, carries a weighting of up to 9.2 times the basic allocation. In addition, each school receives a flat block grant of more than \$200,000, so that smaller schools can meet their basic costs.

In addition to the rule that the money follows the student, Weighted Student Formula has a second rule, that each family has a choice of any public school in the system. If a family chooses an out-of-area school, and if the child does not qualify for transportation funding, the family must transport the child to that distant school. Schools must compete for students, and under Weighted Student Formula, they actively seek to enroll Special Education and other students who bring additional Weighted Student Formula funding. The families are empowered by this system, and schools must respond to the needs of families, or suffer declining enrollments. If a school’s enrollment falls to the point that it can no longer meet its costs, the school is reduced to the status of a “program”, the principal is removed, and program director is appointed, working under the oversight of a nearby successful principal. A weak school may also be permanently merged into a stronger neighboring school. In some cases, elementary schools have been merged into stronger middle schools, for example.

Houston

Houston, following Seattle, began implementation of Weighted Student Formula in the 2000-2001 school year, with 100% of Houston schools going on the system during the 2001-2002 school year. In Houston, as in Seattle, there were political hurdles to overcome. Under Weighted Student Formula, the existing budget is redistributed so that schools that serve students from wealthy families receive less money than under the old system. Those families who pay more tax money objected, some of them loud and long. However, they soon came to realize that under the new system, their neighborhood school would no longer be tethered to the programs and books of the district, many of which were poorly suited to their children. Very quickly, those complaints subsided in both Seattle and Houston, once families had gained some experience with Weighted Student Formula.

Lessons from Weighted Student Formula School Districts

More recently, Sacramento and Cincinnati have implemented Weighted Student Formula, and in 1996, a team of central office administrators from New York City visited Edmonton to learn about the system. It is clear that this system is popular with the very

strong teachers' unions of Edmonton and Seattle, as it is with the "weak" unions in Houston. Weighted Student Formula does not create a punitive environment for teachers and does not increase the number of teachers who are subject to discipline or to dismissal. Principals are more publicly accountable under the system, although in Edmonton, it is rare for a principal to be dismissed. In Seattle, a few principals have been dismissed, and in Houston principals work under four-year contracts under which they can earn performance bonuses of up to \$5,000 per year. Overall, though, Weighted Student Formula gives families, principals, and teachers what they want, which is more say over what goes on in their own school.

Our data show that central office staffs are not necessarily smaller under Weighted Student Formula, although time may produce a gradual shrinking of these central office staff, some of which are no longer necessary. In other cases, such as in Seattle, the central staff is the same size as before, but very different in composition and in role. The central staffs no longer dream up new rules and programs that they dictate to the schools. Instead, most of the central staff is composed of professionals who deliver services to students and to teachers at the request of the schools.

Implications for California's Schools

California and Hawaii are often said to have the most centralized public school systems in the United States. In California, this is a consequence of the tax reforms that swept the state in earlier decades. These reforms produced a system in which local property taxes are aggregated in Sacramento and then re-allocated to school districts on a per-capita basis. In Houston, by comparison, the Houston Independent School District levies local property taxes as its source of funds. For the 1999-2000 school year, California allocated \$33 billion in Proposition 98 Revenues and another \$11 billion in Federal Funds, State Lottery Funds, and other revenues to primary and secondary education, for a total of \$44 billion. Of this amount, approximately two-thirds of it is allocated to school districts as general revenues, with no strings attached. However, each local school district then allocates people rather than dollars to the individual schools, and then dictates by formula how many credentialed teachers, aides, clerks, and so on the school may have. A local school may petition the central office for a waiver from these standards, but principals rarely go this route because the process is typically so cumbersome.

The other one-third of the money goes to the districts in the form of categorical funds, each one earmarked for a special purpose. Currently, there are more than eighty such categorical funds which flow to the school districts each year (Izumi and Coburn, 2000:60). Again, local school districts typically do not leave it up to each local school to determine how best to use those categorical funds in their unique local situation, but instead specify exactly how many staff of which type each school must have. In many cases, the central office or the teachers' union contract even specifies which people will get those jobs, rather than allowing the school to choose from among those who are eligible.

The result of this system is that decisions that affect the classroom are being made far away, in Sacramento. Both General Revenue Funds and Categorical Funds flow not directly to schools, but to school district central offices. California's school districts, like those elsewhere in the U.S., have a tendency that is common among bureaucracies to want to control the school money in the central office. That, combined with the conditions set in Sacramento on categorical funds, has handcuffed local school principals and teachers. In other states, the same bureaucratic tendency may exist in the school district, but each district must raise its own funds locally, and those systems are more responsive to local needs as a result.

In recent years, the State of California has taken what could be the first steps towards encouraging the decentralization of the state's school districts. The STAR system and the Academic Performance Index both emphasize the performance of individual schools rather than that of school districts as a whole. Through these widely publicized measures, the responsibility for student achievement has been placed squarely on the local school and the principal, which is where it belongs. However, that responsibility has been delegated to schools without the necessary authority to make spending decisions locally. Principals are today held up to public scrutiny for the performance of children, yet they have no control over the staffing or budgets of their schools, without which they cannot take the steps to produce improvement. It is little wonder that the recruitment of school principals has become difficult in California, while it is a position that is much sought after in Edmonton, Seattle, and Houston.

California could and should have the premier management training academies for principals and other school administrators, but today it does not. New programs for those who seek to become assistant principals have recently been launched, and these programs are to be encouraged. More, though, is needed. Even veteran principals need refresher, non-degree training, especially on how to develop a school instructional strategy, how to plan and manage a budget, and how to establish effective student performance measurement systems for use within the school. Rather than establish new principal training programs by fiat from Sacramento, though, the money to support these programs should be allocated to school districts for them to use in creating the programs that will best serve their needs.

During the past few decades, California's schools have suffered through waves of great changes that have over-stressed the abilities of the old organizational forms and the old ways of managing public schools. The combination of massive growth in enrollments and the unintended centralization of school funding mechanisms, has produced a public school enterprise that does not function effectively. What were once small school districts operating under a decentralized funding scheme are now large school districts operating under one of the most centralized funding systems in the United States. It is an old saw among scholars of organization that as times and environments change, so, too, must the structure of organizations adapt. The time has come for California to adopt a new solution that permits these large and very large school districts to function in a way that permits them to adapt their programs to the needs of the local neighborhoods that they serve.

Education continues to be the gateway to the future for California's children, and public school is the only option for most of them. Five years ago, there were no proven alternatives to the existing centralized, top-down method of allocating funds to schools. Today, with the success of Weighted Student Formula and its companion, Public School Choice for Families, that option exists. If California's schools embrace Weighted Student Formula, the state legislature can continue to allocate categorical funds to meet emerging educational needs, while schools can have the freedom to decide how best to apply those funds in their own unique situations.

The winds of change are blowing, and now is the time for California to be a leader in bringing the management of its school systems into the new age. In Sacramento, San Diego, and Los Angeles, new Superintendents and reform-oriented school boards are leading the way. Parents and the public at large are more than supportive of throwing out the old ways of running schools. If California's leaders recognize that there is nothing wrong with our students or our teachers, that it's the management that needs reform, our schools can once again rise to be among the best in the world.

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