

**The Third-Sector and Innovation:
Competitive Strategies, Incentives, and Impediments to Change**

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Submitted to the *Journal of Educational Administration*

October, 2018

Revision submitted January 2019

ABSTRACT:

Purpose:

Much of the justification for third sector involvement in education advances from the notion that attributes from the business and non-profit fields could benefit state-run public schools. This analysis explores this issue by examining the theoretical underpinnings and expectations for third sector participation in public education systems, particularly with respect to educational innovations and improvements, and the structural opportunities, incentives and impediments for such innovation.

Design:

The question emerges regarding the extent to which third sector participation shapes the rate, nature, and types of innovations in education as schools interact in response to competitive pressures. In this conceptual analysis of the role of the third sector in fostering innovation, we examine the political-economic features and structures of the sector, with reference to the empirical record on the US sector that was specifically positioned to enhance the innovative capacity of publicly funded education.

Findings:

The analysis indicates that it is not at all clear that educational innovations are more prevalent in or because of the third sector, nor that they are commonly shared as was intended by reformers. Moreover, it appears that schools often respond to competitive incentives in ways not anticipated by policymakers, such as school marketing rather than instructional improvement, as well as in ways which may be detrimental to goals set out for public education, such as social sorting. In fact, instead of the third sector simply developing or incentivizing innovations, we note evidence that this sector has adopted innovations developed in the state sector.

Implications:

The analysis suggest that a third sector based more on a professional as opposed to a competitive model may better facilitate the development of innovative capacity in education.

The Third-Sector and Innovation: Competitive Strategies, Incentives, and Impediments to Change

The past few decades have seen a global movement to draw models and mechanisms from non-state sectors into public administration, including in education. Indeed, the third sector has been nurtured and leveraged by policymakers in part so that public education would adopt new more entrepreneurial strategies, often from business and non-profit models. Yet, outside of expanding the third sector at the expense of more direct public control of schooling, the impacts from efforts to borrow private-sector mechanisms such as competition, choice and autonomy are far from clear. Indeed, some of the stated intentions for third-sector oriented policies, such as enhancing the innovative capacity of schools, appear to be not only potentially useful policy objectives, but also effective rhetorical strategies for advancing these policies in an era infatuated with innovation. But while competition sparked by the third sector may, at least in theory, increase the rate of innovation in education (Becker, 1999), there are also considerations regarding the nature of such innovations, including their portability and desirability.

A range of policymakers have demonstrated a widespread and deepening appreciation for the third sector in its ability to access some of the known advantages of the business sector while maintaining crucial public benefits and accountability. Removed from direct state control and regulation, and fueled by both social benefit and competitive impulses, it is often assumed that third sector organizations have the ability and incentive to work with a range of stakeholders, experiment with new and different approaches, and respond to the unique needs and preferences of underserved communities. In doing so, they can spark creative disruption of what some see as

the public sector “monopoly” on public schools, inducing them to adopt more innovative and effective practices for the benefit of all (Brandl, 1998; Christensen, Horn, & Johnson, 2008; Forstmann, 1999; Kolderie, 1990; Narodowski, 2008; Nathan, 1996). However, in examining the structures of different sectors, we argue that regardless of the source and types of innovation, the interface between the third sector and the state sector may make useful innovations not only difficult to produce, but difficult to share, as pathologies from the market dynamics in a public-good endeavor necessarily perverts possible sources and pathways for innovation.

In this conceptual analysis of the role of the third sector in shaping innovations, we examine the political economy around the third sector that structures both its internal logic and its interactions with the state sector. In doing so, we focus on a sector that was explicitly positioned to enhance the innovative capacity of publicly funded education. Rather than charting the diffusion of innovations, our goal in this endeavor is instead to understand the structures shaping opportunities and impediments to innovation. That is, we are interested not only in the relative innovative capacity of different sectors, but also in how that capacity might be reshaped through the interface of the third sector with other sectors.

To that end, the next section offers an explanation of how we are conceptualizing the third sector, considers some of the thinking behind the increasing emphasis on third sector approaches, and describes some of the primary players in that sector and its expansion. Moreover, it discusses some of the imperative for innovation placed on that sector. Then we offer a brief synopsis of the empirical record regarding the patterns of innovation associated with the third sector, focusing on the charter school movement in the United States. That synopsis points to

some of the possibilities and problems around the third sector as a source of innovation, and highlights evidence that, instead of simply developing and disseminating innovations, the third sector also adopts innovations from state-run schools. The concluding discussion revisits the thinking behind positioning the third sector as a space to incentivize educational innovation, noting some obstacles to innovation in more competitive environments. We argue that the way the third sector has been structured in the US around a more competitive model pre-empts possibilities for innovation from professional impulses, and presents impediments for the dissemination of improvements in schooling.

The Third Sector in Education

Historically, the third sector has been involved in education in two ways: through the creation and provision of educational inputs, and more recently, through support for or provision of education that is conceptualized as an alternative to public schooling. Throughout the history of schooling in the US and many other countries, the third sector has played a large role in the creation and development of educational inputs, such as textbooks, curriculum materials, teaching and learning resources, and professional development opportunities. Indeed, many if not most educational inputs used in schools are developed by third sector actors. On the other hand, the third sector's involvement in the funding, sponsorship, operation and/or ownership of alternative forms of schooling in the US — at least since the common school era reforms of the 19th century — has been a small but constant and significant presence, one which has been steadily growing in influence over the last few decades. In this article, we are exclusively interested in third sector involvement in forms of education that compete with traditional forms

of public schooling; our analysis does not include third sector involvement in the provision of educational resources or services.

The idea of leveraging the third sector to reform and improve education systems is evident around the globe. In the United Kingdom, the most recent move away from state control of schooling with the rise of academization and free schools has seen the rise of non-state, non-profit charitable organizations that manage publicly funded schools. Many of these groups, such as ARK, emerged from the private investment community, and are positioned to bring business acumen to state-funded schools, and provide competition with schools still administered by local authorities. In New Zealand, after decades of decentralized state schooling, the previous government allowed for community groups, businesses, and other entities to run “Partnership Schools” to offer further alternatives to families, particularly from minority or marginalized communities. In this model, non-state actors approved by the government could access public funds, while still enjoying substantial autonomy from state requirements, in some ways similar to the autonomy afforded to church-run schools integrated into the publicly funded system. Developing countries are also seeing similar growth of the third sector, often in response to, and between, a moribund and under-performing state system and a fee-charging for-profit sector. In a number of nations, such as Liberia and India, governments and edu-businesses have formed public-private partnerships (PPPs) to expand subsidized access to higher quality school options beyond the traditional state or private sectors (Chaudhry & Uboweja, 2014; Olmedo, 2016; Srivastava, 2016).

While it takes on different manifestations within and across nations, the general idea is to enhance entities that are removed from both direct state control, as well as from the for-profit impetus of the business sector (Kolleck, 2016; Nathan, 1996). Construed broadly, this third sector can include a range of actors, including philanthropies, think tanks, NGOs and non-profit management organizations, religious institutions, grass-roots community organizations, and even — one could argue — for-profit companies such as benefit corporations adopting a corporate social responsibility ethos, or pursuing a positive social impact (Eyal & Berkovich, 2019; Yemini & Sagie, 2015). The key factors here are that such actors are essentially independent of the government, and have some orientation at their core toward socially desirable outcomes. As we have noted elsewhere, the rise of the third sector increasingly blurs boundaries between public and private sectors as they have been traditionally understood (Lubienski, 2001). This happens either through creating hybridized organizational forms that defy traditional categorizations as a state or a business entity, establishing alternative organizational arrangements such as PPPs, or by reconfiguring the environment in which different entities operate, so that traditional forms as a “public” or “private” endeavor become less important (Gulosino & Lubienski, 2011). In that regard, for-profit organizations can also participate in the third sector. What matters most is the institutional arrangements, and in particular an organization’s institutional environment and consequent behavior — its dispositions, orientation, etc. — since state organizations may take on profit-maximizing behaviors, while business firms may adopt socially beneficent objectives (Henig, Holyoke, Lacireno-Paquet, & Moser, 2003; Weisbrod, 1998). Thus, the growth of the third sector does not necessarily require simple privatization processes, but can also result from marketization of a sector, as well as “out-

sourcing” government functions or otherwise encouraging the entry of private interest groups into public policymaking processes (Whitty & Power, 2000; Lubienski, 2016).

Thus, there are two areas in education where the rising influence of the third sector is most evident. First, and most pertinent to this analysis of innovation, is the growth of schools run by non-state organizations. These are typically publicly funded schools operated by independent, non-state organizations, but can also include schools contracting with the government, as with PPPs, non-profit private schools, such as those run by religious or community organizations, or even for-profit schools that are either directly or indirectly subsidized by the state, philanthropies, or other funding agencies. But, secondly, the third sector is being shaped not only at the school level, but at the governance and policymaking levels as well (Kolleck, 2019). While the third, or “voluntary” sector has traditionally been an arena for civic and community organizations, the growth of non-state schools, and the influence of private interests in schooling, has also meant increasing influence for non-state actors in education governance and policymaking (Au & Lubienski, 2016; Kolleck, 2019; Lubienski, 2016; Lubienski, Brewer & LaLonde, 2016; Reckhow & Snyder, 2014). Although church groups have traditionally had some degree of influence in many contexts, particularly in “integrated” systems such as New Zealand or Australia, or in otherwise subsidized systems such as with vouchers in Chile, the entrance of new types of actors in school management has diversified the third sector. Now, additional charitable organizations, consultancies, contractors, employer and training concerns, social advocacy organizations, and an almost unlimited range of other types of organizations can offer schooling, and thus demand policy influence on how school is offered (Gunter & Mills, 2016). Moreover, in addition to the expectation that school managers should have some say on

policy, as states have contracted with non-state entities such as philanthropies or consultancies to essentially make policy, or have otherwise abrogated or retreated from much of their governing responsibilities, they have created a space in which private managers, funders, and other interests can assume or share policymaking responsibilities (Ball & Junemann, 2012; Layton, 2014; Verger, Lubienski, & Steiner-Khamsi, 2016).

In that respect, one of the most important forces in the enhancement of the third sector is, in addition to neoliberal policymakers, third-sector organizations themselves, with philanthropies and think tanks in particular leading the charge. Such institutions have been instrumental in laying the intellectual groundwork for a move away from state-administered services, both by funding that intellectual work as well as nurturing the advocacy infrastructure necessary to advance those ideas through the policy process (Hess in Barr et al., 2008; Lubienski, Brewer & LaLonde, 2016). In fact, research has shown discernable networks with these philanthropies as primary movers in education policy, whose agendas are then operationalized through think tanks and other intermediary actors such as advocacy organizations, community groups, or policy entrepreneurs, bloggers and normalized through media outlets (Au & Ferrare, 2014; Kolleck, 2016; Lubienski, 2018; Olmedo, 2016; Scott & Jabbar, 2014; Tamir, Yemini & Tucker, 2019). The increasing influence of private interests in public policy through philanthropy or “philanthrocapitalism” represents a new form of the older humanitarian traditions of the wealthy, with a new focus on evidence for effectiveness, business-sector sensibilities, political strategies, and venture-style investing (Hogan, 2014; Hogan, Sellar, & Lingard, 2016). Thus, despite a rhetoric of improving opportunities for poor children, critics argue that these forces tend to strengthen existing systems of inequality (Giridharadas, 2018; Saltman, 2010).

In advancing agendas favoring the third sector, these groups have been drawing from a specific diagnosis and remedy regarding state administration of public services in general, and education in particular. On the one hand, state administration of public services is seen in this perspective as inherently ineffective. Drawing from Public-Choice perspectives, theorists contend that administration through state agencies prioritizes not the public that is supposed to be served, but more importantly an entrenched, self-serving monopoly of government bureaucracies and special interest groups (MacLean, 2017). Therefore, in this logic, direct state administration of public services leads not to innovation and improvement, but to calcification and unresponsiveness to the preferences of those using state services. The argument that the public interest requires direct public administration does not hold sway in this way of thinking, since democratic or “political” control of education is often captured — it is argued — by these self-maximizing special interests, at the expense of both service “users” (i.e. children or their parents) as well as non-government sources of ideas and expertise (Walberg & Bast, 2003).

On the other hand, many (but not all) of those promoting third-sector options also cast a suspicious eye on the idea of moving more fully toward the private sector to address the ineffectiveness of direct state administration, with New Labour in the UK, and New Democrats in the US epitomizing this perspective. They express concerns about market failures, treating children as consumers or schooling as a commodity, exacerbating exclusivity and inequitable outcomes through markets, and enabling greater (self-)segregation through parental choice (Lubienski & Weitzel, 2009; Nathan, 1996). Still others see the dangers of public administration, while minimizing the problems with private control, and see third-sector options

as a useful strategy for eventually moving toward a more privatized system (Friedman, 1955, 1995).

Consequently, for different reasons, many have come to advocate for quasi-market models and mechanisms, such as promoting parental choice and competition between providers, or opening up entry to third-sector management and policy organizations to strengthen a third-sector in both schooling as well as in education governance and policymaking (Olmedo, 2016). In practice, this often means public funding or loose public oversight that has largely been outsourced to nongovernmental organizations (Ball & Junemann, 2012). This, they argue, offers the best of both — public and private sector — worlds. In this logic, education is a sector where private interests such as families of school-aged children or independent, non-governmental (and typically non-profit) organizations either make decisions or make public policy, respectively.

Thus, in general, the third sector has been advanced largely by thinking that perceives the state sector as too restrictive and inward-serving. While the business sector might also not be directly applicable for organizing and providing public education, policymakers and reformers believe that the third sector offers a site where mechanisms and models from the private business sector can be leveraged to improve the administration of public services. These include attributes such as competitive incentives, opportunities for entrepreneurialism, freedom from regulation and often from collective bargaining agreements, sensitivity to consumer preferences, and ability to innovate.

This question of innovation is particularly important because, under this theory of change, it is a — if not *the* — key factor for improvements in quality, efficiency, and responsiveness, in schools as well as in policymaking. Innovation is linked with the notion of experimentation and finding new approaches for educating children, especially those marginalized in state systems. These result in achieving superior outcomes, finding more cost-effective ways of achieving those outcomes, or better reaching the needs of different users. Indeed, rather than identifying specific innovations, one could argue that if there are improvements, innovation has occurred.

Of course, the problem that many reformers identify is in freeing up individuals and organizations to be more innovative (Coulson, 1999; Kolderie, 2014; Moe & Chubb, 2009). In this logic, the public sector, as a realm governed by rules and regulations (such as employment contracts) is inherently inhospitable to innovation, so that new ideas are slow or even impossible to bring to fruition in that environment. Instead, the private sector is seen as inherently favorable to innovation since organizations are forced to experiment and adapt in order to successfully compete for resources in a sink-or-swim environment. Thus, in lieu of direct privatization of state entities such as schools, policymakers embracing this view look to the third sector as a site where marketization can make schooling more amenable for innovation, and then force state organizations into competitive arrangements within the third sector so that they are induced to adopt innovations created in the third sector, or else develop their own. Consequently, many student will benefit from more innovative, effective, and responsive learning experiences.

But for the third sector to play a key role in benefiting substantial populations of students, it is not simply a matter of producing innovations, if indeed it has any special advantages in doing so.

Additionally, there must be opportunities, incentives, structures and channels by which such innovations can be conveyed to larger sets of schools serving those students, a factor that is presumably addressed as schools outside the third sector are incentivized to adopt or develop such innovations. This then highlights the question we address in the remainder of the paper: While policymakers often assume that the third sector can serve as a font of innovation for mass school systems as a whole, even if it can, how is that sector situated in ways that can encourage or impede the adoption of such innovations?

Shaping the Third Sector in the US

There has been a global trend toward utilizing the third sector as a space for education innovation and reform. Some countries, as noted above, have pushed their state schools into more market-like environments that approximate a third sector, in terms of relatively little direct state control and substantial involvement from private interests, or have formed new types of schools to inhabit the third sector. Australia in particular has seen a dramatic growth in the market share of non-state schools since the 1970s, when the federal government began to provide public subsidies to non-government schools, with some states allowing for “independent public schools” that have greater managerial autonomy (Australian Bureau of Statistics, 2018; Watson & Ryan, 2010). Other countries, such as Chile and Sweden, have appealed more directly to the private, for-profit sector in shaping a third sector for schooling. Chile moved to a voucher system in the 1980s, creating a sector in which municipalities, non-profit, and for-profit organizations could administer schools. Similarly, Sweden adopted market-style education reforms in the 1990s, and has seen substantial penetration of for-profit companies running school

chains. In these instances, it is clear that policy innovations in shaping the third sector have led to innovative governance and management arrangements, but it is less clear that they have resulted in instructional innovations (Carnoy, 1998a; Espínola, 1993; Gauri, 1998; Lubienski, 2009).

While a number of countries have embraced the third sector for education reform in different ways, we focus here on the United States to help understand how third sectors may relate to educational innovation. The US has seen a relatively recent sea-change in education policy that has profoundly shaped the structure and composition of the emerging third sector. Until recently in the US, a traditional separation of church and state has largely prevented a third sector from flourishing, since non-state schools and the organizations that run them have typically been prevented from accessing taxpayer funding for public education, so that the third sector was primarily funded by families enrolling their children in church-run schools. Indeed, going back to the origins of the public system in the 19th century, for-profit private providers have been essentially excluded from offering primary and secondary schooling in most places, although they have participated in early childhood, supplementary, as well as tertiary (usually vocational) education. Instead, compulsory education in the US has been dominated by the state, largely through local authorities and a constellation of affiliated interest groups, mostly non-profits, such as teachers unions and professional associations, as well as some influence from a few for-profit interests such as the testing and publishing industries.

But there has also been significant involvement from the private, non-profit sector, both in terms of support and management. Regarding the financial and institutional support many (but not all)

private schools enjoy, one way that the US is rather unique is in providing relatively generous tax structures that encourage private giving. By way of contrast, in Australia, for instance, philanthropic activity in education is rare, and mostly involves the promotion of initiatives and programs in schools, not the establishment, operation or funding of schools *per se*. For example, one of the largest philanthropic organisations involved with education in Australia is the Smith Family Foundation, which provides funding and support to disadvantaged students and communities through clubs, programs, and direct sponsorship of students and families.

Compared to countries such as that, in the US, philanthropy plays a much larger role, largely due to tax incentives and correspondingly a more vibrant tradition of philanthropy, and not only among extremely wealthy families. Consequently, middle-class families get a tax benefit in many states for private school expenses or other gifts (to public and private schools), and the rich such as the Walton family and Bill Gates enjoy tax advantages for funding schools, such as elite private schools and charter school chains. Similarly, the tax structure also incentivizes them to fund philanthropies, think tanks, media outlets, advocacy organizations and other entities that are involved in issues around private and third-sector schools (Saltman, 2010; Scott & Jabbar, 2014).

In terms of school management, for decades, private, tuition-charging schools have occupied about 10-12% of the K-12 education market in the US (Lubienski & Lubienski, 2014). With few exceptions, these have been almost exclusively sectarian schools, with the Catholic church until recently operating the majority, although conservative Christian evangelical schools have recently achieved a plurality (Lubienski & Lubienski, 2014). Essentially, then, the US has a long history of substantial but limited participation from non-state actors in primary and secondary education, which has been dominated by state and associated forces. The third sector, as it

existed, was composed largely of a few philanthropies funding, but not necessarily directing, local and limited efforts at reform.

Traditionally, the public, state-funded sector, and the private, church-based sectors, co-existed. Competition between the two sectors was minimal. As much as it happened, competition had been largely at the policy level in previous decades when Catholic leaders in some cities had sought to access public tax dollars, but were effectively excluded from that through Federal and State constitutional measures separating church and state (Justice, 2007; Viteritti, 1998). Even with Milton Friedman's (1955) voucher proposal, the subsequent rise of white-flight academies initially supported by tax-funded vouchers were quickly brought in line with America's traditional and legal conceptions of strict separation of church and state as had been understood for generations. Instead, public and private schools occupied distinct and largely stable market segments, and eschewed competitive strategies across or within sectors. While the public sector may have arguably been more "innovative" in terms of more quickly adopting trends in teaching in learning, often in a very "faddish" and trend-sensitive way, parents and policymakers did not necessarily look to school sectors for innovation, since market-style logic had not really been applied to schools (Ravitch, 2000, 2003). Practices were relatively similar across sectors, indicating some sharing or otherwise diffusion of ideas. Differences that did exist between school sectors were largely reflections of the nature of those sectors, with private schools having the freedom to adopt more exclusive practices, such as uniforms, single-sex schooling, and narrower, more academic curricula, while public schools generally had to avoid such practices in order to meet their mandate of serving all (Bryk, Lee, & Holland, 1993; Coleman & Hoffer, 1987).

However, in the last quarter-century, the US has embarked on a major shift in policy — the suddenness of which was not always evident because of the decentralized nature of education governance. Starting in the 1990s, states as well as the federal government started to incorporate non-state actors into the wider public education system in a number of roles which would together re-shape the third sector in education. While this has been a multi-faceted movement, two elements in particular have contributed to this trend.

First, what has become to be known as the education reform movement in the US and elsewhere was arranged largely around the idea of moving public education away from a strict public-sector basis by inviting private interests into education governance, and in doing so, creating a new, third sector for education. Perhaps the heart of this reform movement has been school choice policies, and in particular charter schools, which were themselves an explicit effort to bring down the traditional boundaries between public and private sectors in order to access greater levels of innovation, which policymakers (although probably not parents) now expected from schools as a way to improve educational equity and outcomes (Lubienski, 2003). Charter schools reflect a direct attempt to import business-style practices into public education, particularly with the emphasis that policymakers placed on competition, autonomy, and innovation (Weitzel & Lubienski, 2010). One of the key aspects of charter schools is their rather unique management, whereby non-state actors can run public schools. Not only has this diminution of traditional sector boundaries meant that community groups, civic organizations, non-profit and even for-profit management companies have entered and expanded the third sector through this route of operating charter schools, but that such groups have then taken a

larger role in pushing the third sector into political action and policy advocacy, which has further expanded the role of the third sector. However, despite the participation of non-profit groups, it should be emphasized that a third sector structured on business-style competition may force even non-profit organizations to adopt for-profit style behaviors, as state and non-profit organizations can be transformed by the competitive climate in which they suddenly find themselves, or by the profit-maximizing organizations with which they may partner (Au & Lubienski, 2016; Eyal & Gross Yarm, 2018; Gulosino & Lubienski, 2011; Lubienski, Gulosino & Weitzel; 2009; Weisbrod, 1998).

Secondly, one of the biggest forces behind the school choice movement has been the rising influence of private philanthropies, which have been particularly instrumental in the expansion of school choice in general, and charter schools in particular. In 2014, corporations donated almost 18 billion US dollars, while foundations gave almost 54 billion (Au & Lubienski, 2016). Certainly, in the past, philanthropies such as Ford, Annenberg, and Carnegie have been active in education, leveraging their great wealth to support improvements in public education; however, the Gates Foundation alone, the largest philanthropy ever, now leverages more than twice the funding of Carnegie and Rockefeller combined (Saltman, 2010, p. 33). More importantly, in recent years, this sense of social duty has been supplanted by the “venture philanthropy” movement in which those controlling great fortunes — typically from the business community — target their giving as an investment for which they expect to see evidence of impact (Saltman, 2010). Thus, they often support a business-style model for addressing social problems, and seek to overcome democratic processes that they often cast as impeding social processes. Consequently, edu-philanthropies often nurture advocacy and research organizations that will

“influence the political process and policymaking” and foster “jurisdictional challenges” that create third-sector alternatives to public education such as through charter schools, alternative educator preparation, and grooming a new generation of sympathetic policy leaders (Reckhow & Snyder, 2014, p. 187; Lubienski, Brewer & LaLonde, 2016). Such strategies by the most active six large philanthropies (the Broad, Dell, Fisher, Gates, Robertson, and Walton foundations) are notably aligned in their goals and approaches, with substantial efforts going to creating an alternative, third sector of schooling supported by a heterarchical, public/private policymaking infrastructure (Ball & Junemann, 2012; Scott & Jabbar, 2014).

Together, these two factors have been largely responsible for shaping a third sector in US education around market-style principles. Drawing from a business logic of the benefits of competition and deregulation, education reformers have argued specifically that such policies are desirable because they will lead to greater innovation in education, just as they have in information technology, retail, and other sectors from which many of these philanthropists gained substantial wealth.

The Third Sector and Innovation

The question then emerges as to the evidence regarding the extent to which third sector participation enhances the rate, nature, and dissemination of innovations in education.

“Innovation” can be conceptualized in different ways, such as creating a substantively novel process or product, or simply creating the appearance of newness in a local context (Lubienski, 2003; see also Rogers, 1995). As we have discussed such different conceptualizations

previously, we are less concerned here with defining whether each given practice is “innovative,” and instead consider whether it is reported as an innovative addition at the system level. In that regard, evidence from multiple countries with competitive education systems suggests that innovations may be uneven across institutions (Lubienski, 2009). Although competitive pressures may be related to the creation of some innovations, those may tend to be more in terms of organizational factors such as administration and governance, marketing, or in some cases delivery, rather than in classroom-level improvements. For instance, Australia has higher levels of competition between schools of any OECD country (OECD, 2013). While market logic would suggest that this would increase innovation in classrooms, Australian academic results are flat and notable generation and transfer of educational innovation between schools and/or sectors has not been documented, although schools are developing innovative ways of shaping their enrollments (Ho, 2018).

As another example, the longstanding voucher-based policies in Chile moved education away from a primarily state-run model to include non- and for-profit providers, but have not resulted in substantial improvements in learning practices or outcomes, and instead are associated with innovations in school marketing and increases in student social segregation; where educational innovations have occurred, they have come from the state bureaucracy (Carnoy, 1998b; Elacqua, 2012; Espínola, 1993; Gauri, 1998; Gonzalez, 2017; Hsieh & Urquiola, 2002; McEwan & Carnoy, 2000; Parry, 1997a, 1997b; Treviño, Valenzuela, & Villalobos, 2016). Similarly, Sweden’s experiment with market-style competition has brought the participation of for-profit companies to compete with state schools, but has not resulted in improved outcomes, although there has been growing levels of segregation and increased emphasis on school marketing

(Björklund, Clark, Edin, Fredriksson, & Krueger, 2005; Carnoy, 1998b; Daun, 2003; Lindbom, 2010; Verger, Fontdevila, & Zancajo, 2016).

However, the third sector in US education is somewhat different. While that sector has been characterized by the involvement of non-profit NGOs, it has also increasingly been based on a competitive model of schools of different types being positioned to pursue competitive advantages in the marketplace. Myriad organizational forms, spurred on by prominent philanthropies, have become influential in education policy and governance, although, with a few exceptions, schools in the third sector themselves tend to be not-for-profit (although for-profits are the predominant players in a few cases). Still, there is a general consensus in the research that innovations are more apparent again at the organizational level, in areas such as governance, employment and contractual arrangements, expansion, and marketing; while policymakers established competitive conditions explicitly to foster classroom-level innovations, those are much more difficult to perceive (Lake, 2008; Lubienski, 2003).

But aside from the development of innovations in the third sector, there is the larger question of innovations *from* the third sector, as it has been positioned as a source of research and development for the wider publicly-funded system (Rofes, 1998; see e.g., Kolderie, 2014; Nathan, 1996; Vanourek, Manno, Finn & Bierlein, 1997). With regard to organizational and administrative innovations, it must first be remembered that third sector schools are themselves essentially a result of an innovation in policy, as reformers created the space for publicly funded but privately managed schools. While a few local education authorities in the state sector have voluntarily attempted to embrace that model in order to gain some competitive advantage in an

emerging education market, much of the effort to expand this policy innovation is coming from private philanthropies seeking to use public policy to force state school systems to adopt this model — for instance, witness the Broad Foundation’s attempts to expand charter schools across the Los Angeles Unified School District through electoral means, or the Walton and Broad Foundations’ funding of the Progressive Policy Institute’s campaign to make all state schools into charter schools (Guzman-Lopez, 2015; Progressive Policy Institute, 2015).

Regarding the classroom-level, in light of a weak record of producing substantial innovations in teaching and learning, the third sector has instead been more successful in adopting and often amplifying innovations, or at least practices, *from state schools*. For instance, many of the practices claimed as innovations in charter schools were already in use in public schools (Lubienski, 2003). Some famous approaches associated with charter schools, such as the focus on chants, engagement and discipline in KIPP charter schools were actually developed in the state schools (Hill, 2001; Robelen, 2011), supporting Eyal’s (2009) suggestion that the public sector may also be a fruitful source of innovation. Others classroom practices represent a direct appeal back to practices associated with traditional education, with the connotation that public schools have turned their back on proven approaches, or at least those associated with “real” schooling (Metz, 1990).

On the other hand, some of the “innovative” administrative practices reportedly produced in the third sector schools, such as contracting with private providers for ancillary services like food or janitorial service providers, are also being adopted in the state system, which is often also under the similar fiscal pressures to reduce expenses, although for perhaps different reasons. At the

same time, some specific practices in the third sector, such as parent interviews for school admission, are largely non-transferable to the state sector because of its mandate to accept all students. Other practices, such as investing in marketing to attract students away from other school options, are being embraced across sectors, as schools, no matter their organizational form, are increasingly forced into an environment where they must compete for students (Brouillette, 1999). While this innovative practice may be associated with greater levels of student sorting instead of improvements in effectiveness, what is of interest for the present purposes is their dissemination across sectors due to the pressures of increasingly competitive institutional environments sparked by policy changes.

Conclusion: A Fine Mess

The patterns of innovation development and dissemination in and from the third sector in US schooling suggest some pathologies, either within the incentive structures of that sector, or in the interface along the increasingly indistinct boundaries between the third and the state sectors. By “pathologies,” we mean not full-blown market failure, but inherent defects such as inefficiencies and perverse incentives as market mechanisms operate in a quasi-public good such as public education, and more specifically as the public education sector interfaces with the private and third sectors (Lubienski, 2006). In this concluding discussion, we highlight some of the factors that might help explain some of these patterns, including issues of incentives, channels, models, and strategies. In general, we argue that in disrupting established sector boundaries to foster what could be seen as creative chaos, policymakers gave little thought to the question of the development of innovations, much less their dissemination, relying instead on unexamined

assumptions about the power of market mechanisms as applied to public education. While drawing on the US case, our conclusions raise questions which may be useful for understanding third sector engagement in other national contexts, as well as for developing theoretical insights more generally.

Indeed, in shaping the modern third sector in education, US policymakers pursued an agenda of disrupting the state system by creating an essentially undefined sector that straddled public and private institutional environments, organizational logics, and accountability systems (e.g., Christensen, Horn, & Johnson, 2008). In eradicating traditional boundaries and fostering a hybridized model, they appear to have been guided by the idea of disrupting the public sector by scrambling traditional boundaries in the hopes that competition would then cause innovations to emerge, perhaps organically from the chaos, but particularly from the new third sector institutions freed from government constraints (Hess & Maranto, 2000). This involved importing private sector mechanisms such as competition, organizational autonomy, and consumer choice into the public sector in order to access some of the advantages associated — rightly or not — with the business world, including effectiveness, efficiency, responsiveness, and innovation (Weitzel & Lubienski, 2010). Instead, what seems to have happened is that some of those assumptions about the benefits of the private sector were misguided, and, perhaps more importantly, the logic undergirding such perceived advantages may not be operational, but instead pathological, when applied to the institution of public education.

Looking more specifically at expectations for the development of innovations, policymakers clearly assumed that, free of much state regulation, the third sector would produce more

innovations, particularly at the classroom level. They were clear in positioning charter schools as “laboratories” and “research and development” centers for new approaches to “teaching and learning,” without considering the obstacles and disincentives in the third sector that might hinder such innovations, including the imperative for legitimacy, for appealing to consumers who wanted more traditional approaches, and for limiting risk by adopting proven methods (see e.g., Kolderie, 2014; Nathan, 1996; Vanourek, Manno, Finn & Bierlein, 1997). While there have been innovations, these are much more evident and clearer at the organizational level, in areas such as marketing and employment arrangements, than at the classroom level where policymakers explicitly expected to see change.

There are a number of possible ways of understanding these patterns of innovation at different levels. It is clear that there is an entrenched conservatism in how teaching is conceptualized and approached, with sanctions (often from parents as proxy-consumers) on providers that offer teaching that is too innovative or different (Metz, 1990). Indeed, it is not at all clear that most consumers choose schools largely on classroom-level practices (although some certainly do). Instead, consumers often consider the clientele being served, rather than *what* they are being served, as an indicator of quality (Schneider & Buckley, 2002). In a sense, and especially in view of the importance of a student’s peer group, the clientele is itself the product being sold, thus diminishing the incentive for classroom improvements and instead incentivizing student selection (Epple & Romano, 1998; Hanushek, Markman, Kain & Rivkin, 2003). Likewise, the very fact that subsidies are used to fund public and charter schools may undercut competitive incentives for more entrepreneurial approaches to teaching (Eyal, 2007). Indeed, faced with a competitive climate, a school (positioned as a business) has a number of strategic options

available to it, as would any business firm. But competition through pricing is generally not an option for schools serving the public, while — as noted — innovations in classroom practice are often difficult and not appreciated by consumers, not to mention uncertain and potentially ineffective and therefore costly. Instead, innovating at the organizational level, in areas such as marketing and student selection, may offer more comparative advantages. In fact, inasmuch as schools are increasingly emulating profit-seeking behavior, cost-efficiencies at the organizational level may be a higher priority than improvement in classroom practice.

But more significantly, even if classroom-level innovations were to be developed, policymakers gave little to no attention to the issue of the mobility of innovations within the third sector or across the third- and public-sector interface. While one might assume that the competition policymakers promoted between schools would cause lower-performing schools to adopt the practices of schools that are more successful in educating students, just as firms in other sectors might emulate the practices of more successful rivals, there are problems with such an assumption in a market-driven education system. For one, factors inherent to the state sector, such as the need to be open for all, can prevent them from adopting practices of exclusion that are used in some third sector schools to shape student enrollments. Practices such as marketing can be apparent and easily emulated, while policies such as behavior and dress codes are more difficult to enforce in open-access institutions. Moreover, in order to emulate a more successful competitor, the practices responsible for that success need to be apparent. But while the visibility of a marketing strategy is obvious by definition, classroom-level practices and improvements, often discreet and nuanced, are more difficult to observe, and thus more difficult to emulate. Indeed, in a competitive climate, organizations and individuals may be incentivized

to limit the visibility of useful innovations so as not to lose a competitive advantage over rivals, and therefore this may seek to guard innovations as private, proprietary information. Certainly, some public and third-sector organizations develop and share innovations out of a professional motivation to provide better education for more children. But that professional ethos is nonetheless at odds with clear disincentives built into a competitive model of schooling increasingly animated by the rise of the third sector in education.

Thus, a primary concern here is that policymakers have pushed education more squarely into a market model, which has on its own both advantages, as admired by policymakers, and disadvantages that policymakers appear to have neglected. Moreover, some of the advantages of the market model are compromised or even pathologized when applied to a non-market enterprise, including a quasi-public good such as education. In such cases, incentives for self-maximizing behavior run into social and professional mandates for equitable access to a quality common good.

In fact, the nature of public education as a quasi-public good with private good aspects reflects different, often conflicting, models. As recent third-sector reforms in the US indicate, there are indeed market aspects to education, such as the individual benefit enjoyed by consumers, more opportunities for organizational responsiveness to consumer preferences, and allocative efficiency as choosing can lead to more effective matches between students and schools. In that regard, market forces could indeed produce greater levels of innovation, although the evidence suggests that it is likely to be limited and dependent on optimal conditions, and that there are disincentives for dissemination in a market environment. But education also exhibits

characteristics that point to non-market modes of organization. For instance, the externalities associated with widespread access to schooling (or lack thereof; Friedman, 1955), the imperative for social cohesion, and the multiple and conflicting goals for education (Aristotle, 1946; Aristotle [Howie], 1968; Curren, 2000; Labaree, 1997, 2000) suggest a need for public funding, and — by most accounts — administration and accountability. Furthermore, there are technical aspects of education, such as identifying learning styles and interventions, that would lend themselves to more influence by professionals with expertise in arcane, specialized knowledge. In these cases, innovation is encouraged not by competitive incentives but by professional impulses to provide the best service possible, as indicated by the many innovations that emerge from the public and professional sector.

Moreover, the professional model does not create the same structure impediments and disincentives for dissemination of innovations. Motivated by the professional mandate to find and implement improvements that can benefit both immediate clients and the larger society, educators in a professionalized system are better positioned to freely share innovations within their own organizations as well as across organizational and sector boundaries. Indeed, the original idea for charter schools very much embodied a professional model, eschewing competitive incentives in favor of professional opportunities for teachers to try new and different approaches to educating children (Budde, 1988, 1989; Shanker, 1988a, 1988b). It was only when market-oriented reformers and policymakers co-opted the charter school movement that this element was lost, and innovation was relocated to the organizational level as education management organizations would be incentivized to innovate.

There is nothing inherent to the third sector that makes it necessarily amenable to, or hostile to, innovation. Instead, the key factor is the essential nature of such a sector as it has been configured through policies and institutions, and the internal and institutional arrangements and orientations of organizations within those sectors. Those may be adversarial, characterized by competitive pressures towards innovation or organizational conservatism, towards privatization and protectionism of ideas. Or they may be professional and cooperative, as evidenced by a desire to find and spread solutions to chronic challenges facing schools.

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