Tavenner: Hey, Michael.

Horn: Hey, Diane.

Tavenner: Michael, I feel like I'm living in a movie or a psychological experiment or both.

Horn: I hear you. And just so listeners know why we're saying this, they will know more than what we know when they're actually listening to this episode because we are recording this on Monday morning, following the run and then the closure of Silicon Valley Bank, and it is quite a time.

Tavenner: It's quite a time. And as of Sunday, the government has stepped in so maybe it won't be as bad, but even then, Michael, I'll admit before this weekend, all I really knew about a bank run was what I learned from the movie, It's A Wonderful Life, and unlike in that movie, there was no George Bailey standing in the Silicon Valley Bank lobby on Friday handing out money from his honeymoon fund to keep customers from withdrawing everything and closing the bank. A bank run, I mean instead, we had this classic prisoner's dilemma thought experiment predictably playing out where some people panicked and withdrew all their money for the bank to save themselves and that caused a rush on the bank until literally, it ran out of money and there were people standing there in the parking lot and it had to close. Whereas if everyone had just stuck together and not withdrawn, they likely could have made it through, or at least the theory says that would've been true.

Horn: Yeah, yeah. Well, I confess I hadn't thought about the prisoner's dilemma angle to this, but I'm just struck, Diane, how much history seems to be rhyming these last few years with events from the past that, frankly speaking, I thought we wouldn't have to deal with in our lifetime but here we are. It is March Madness, as they say.

Tavenner: It is March Madness on multiple levels. Michael, I certainly don't want to overreact or add to the frenzy, and I will just say that we started this podcast at the beginning of the COVID pandemic because we believed that it would be a profoundly impactful event with, yes, hugely negative consequences. And we were really hopeful that if positive could come from it, perhaps it would be a redesigning of our schools to be more focused on the needs of current students in our society.

And then there was the racial reckoning ignited by the murder of George Floyd, which added a second significant event. And I'm honestly wondering if in our fourth season, we might be encountering a third in our financial systems, and like you, I don't want to like overreact, but there are some pattern matching going on here and I sincerely hope I'm wrong, but I can't help but find all of this a bit spooky, and people might find this hard to believe, but the topic I wanted to discuss with you today, and I swear I decided this before this past set of events, is money.

Horn: So that's uncanny, I will say that. You wanted to talk about money with me, and that was before all the banking challenges went down. I feel kind of like, Diane, that we ought to have an expert in the financial system though if you want to have that conversation.

Tavenner: No, of course not. I don't want to talk about that bank crisis, at least not on this podcast. But I do want to talk about money in the school system, Michael, and I think you're perfectly qualified for that. And so we've gone deep on innovation this season in our conversations, and I'm sure at the same time, it's the reality of me living innovations and school budgets that's bringing this up for me. I think there are some real tensions and disconnects and I just want to unpack them with you.

Horn: All right, well, I'm intrigued Diane, and I'm much happier to hear that we're landing there instead of bank crises. And I want to know what's on your mind because we, of course, welcomed Margarite Rosa back on 2021 to this show and she's perhaps the foremost expert on money in schools, and we asked her a bunch of our questions then. So I want to know what's on your mind. What other questions do you have at the moment?

Tavenner: Let's start, here's puzzling me, Michael. As a general rule in schools, we just don't talk about money. And actually, let me take that back. We talk about money all the time in schools and education, but what gets talked about is how there isn't enough and how we need more. And if it goes deeper than that, it usually is about how we need more for teacher salaries because they don't get paid enough and how we don't have enough for art and music. I mean that's usually the conversation that's happening.

And as a general rule, schools are very different places from businesses in that we don't really manage our schools with money in mind. And I'm saying that not as a critique of the people running schools, but really as an observation of how the entire system is set up so that people managing the schools or districts don't have a lot of control over a lot of the items in their budgets. And for that matter, a lot of control over revenues and I mean your sort of traditional levers in running an organization. And so they can't pull them.

And this seems to be in stark contrast to the businesses that Lean Startup or Discovery-Driven Planning are describing. And so as we are using those as models around innovation, I started wondering if we can actually follow innovation playbooks in schools without seriously rethinking our relationship to money.

Horn: This is super interesting, Diane. And I'll say that the dynamic you just described is one that has always bothered me a bit about the system, but before I react more than that, I just want you to go one click deeper. If you could give an example or two to make this a little bit more concrete of what this looks like in a school, say?

Tavenner: Well, the one that comes to mind Michael, is sort of illustrative of the complexity of the conversation we're about to have because when I say it, people are going to get really uncomfortable, I'm getting a little nervous right now and many will think it's inappropriate for me to raise it. So I'll just give that upfront. It's not going to stop me, but it's partly why I'm raising this whole conversation. So let's just hope that folks can hang with us through the nuance because I think it's important.

Here's my example. In my view, a critically important element of what I'm talking about is that federal law gives students the right to what's called an individualized learning plan, or more commonly referred to as an IEP, or most people would know this as sort of special education access when they have a diagnosis, a diagnosed learning disability that causes a discrepancy between their school performance and their perceived ability. And obviously I'm simplifying there, but that's basically the idea. And these plans enable students to receive accommodations in school and services beyond what's offered to all students.

Now, to determine the accommodations and the services, an IEP team meets and discusses and decides upon them, the teams composed of generally the student's parents or caregivers, their teachers and education specialists, maybe the principal, a variety of folks like that. But here's the catch, Michael, it's against the law to consider finances when making decisions about accommodations or services.

Now, why do I think this is an example of this thing that's troubling me? Well, in my view and experience, there's a massive opportunity to design significantly more effective and cost-efficient accommodations and services for students that would benefit the student and their learning and be less expensive for the school, which seems like a win-win all the way around to me. And there is a real incentive because so many families with IEPs feel like they aren't being well served. And almost every public school in America spends more money on IEP services than they're funded for, which means they are "encroaching", that's the word we use, on the funds allocated for other students to cover these costs. And so it seemed to me this is the perfect place for innovation and it should be urgent and viewed as a huge opportunity. So why isn't it?

Horn: It's a super interesting example, Diane, and I hope people do stay through the whole explanation and unpacking of it, but I guess it helps explain why perhaps you could argue the most obvious place for innovation and personalizing learning in special education, we just haven't seen as much innovation there as you might have predicted or certainly I would've predicted. And I think on the one hand, this points to something simple, which is to say that when we have mandates around inputs and even outputs of the system, but we don't enable the education leaders closest to the children to be able to have control over their budgets and how they allocate resources to help serve those children, you're limited in what you see because they're not pulling on all those levers and thinking holistically.

And you would never design a business this way for what it's worth. I mean you might mandate a, can you imagine if you mandated like a profit margin for someone who led a division but said, "You're not allowed to control any of the resources at your disposal," and to go achieve that? That'd be insane. But if I connect to your specific question where you framed it in terms of Discovery-Driven Planning or Lean Startup and general principles for innovating, I guess my second thought is that in some ways you could argue that if you looked at the system historically, perhaps we actually followed some of these ideas when the country's education system was originally built.

Now, people are going to have to hear me out on this because I don't think what I'm about to say is at all intuitive, but I hope there's some logic to it, and yes, I'll just say upfront, this is despite our education system not ever being designed to optimize each and every student's learning as we've discussed over the episodes. And yes, it's despite not ever being designed to help every child fulfill their human potential, but in spite of those points, our education system was, in fact, successful for decades in the sense that for a long time when we were in an industrial economy, it helped students learn enough such that they could get good jobs and middle class wages. And this arrangement worked really well for a long time until really I think the arrangement started to break down in the late 1970s. And that's when technology and globalization really started to change the equation so that all of a sudden you almost needed to have a college degree to have that ticket to a middle class.

But then of course we started sending more and more kids to colleges and they didn't have the foundational knowledge and skills that they needed to succeed because we hadn't built a system to ever optimize their learning. And so now we're stuck in this place where, maybe to your point, we needed a different approach. And so maybe let me play this out a little bit. The way discovery-driven growth would work is that you would state what your success looks like on the front end and then you would take a designed innovation and document all the assumptions that we're making that have to prove true for it to be successful. It'd be like saying, again to make it more tangible in an elementary school, one goal we could say is 100% of third graders should be able to read by the end of the year. And then maybe-

Tavenner: It's a good goal, by the way.

Horn: Which is a good goal and it should be attainable also, and then maybe we would design, say, I'm going to get you to boo here in a moment, not cheer, but say design a blended learning model that uses the three queuing method of reading instruction, so you're booing now. And then you'd say that these assumptions, these are the assumptions that have to prove true for us to realize success. And then you would find the cheapest possible way to test those assumptions. And the ones that started to prove true, you would start to double down on with bigger and bigger dollars to really put the new system in action. And if it didn't, then you would not do that. You would stop the experiment, right? And in this case, in my example, a key test would be just to read the research and realize that a three queuing method has literally zero chance of getting 100% of your students to read by third grade. And so you wouldn't keep investing behind that.

That's obviously not at all what has happened over the last many, many years in this country. So if I'm catching where you're going with this, and then you can correct me in a moment, Diane, it seems to me that what you're saying is we have started to say we need different outcomes in this education system. We've transitioned from that industrial economy to one in which we're saying, "We do need to make sure we optimize each and every child's learning," but we haven't allowed the funding which funded that original successful system to work in concert with that to, in essence, start with some small tests, experiments, and so forth, and then actually invest in double down on those things that are actually working when they start to prove successful, or at least more successful than the system we have at the moment, which, and this system right now is clearly not building and preparing all individuals for the 21st century and to be an informed citizenry. And so if that's the case, you would start to move funding away from what's not working toward the things that are.

Tavenner: Exactly. Exactly, Michael. In my mind, there are really two places that money is not playing the critical role it should for us to innovate. One is as simple as using a cost-effective criteria for cost effectiveness in making decisions and to drive innovation. And the second, I mean we don't even use it as a criteria, we don't even talk about it or think about it, and the second is using it as part of the innovation cycle and as you're saying, deploying more capital if something is truly performing as predicted and expected versus you just gave a perfect example of the reverse happening, literally money continues to pour into a method that is completely debunked.

Okay. I think one of the biggest challenges, Michael, is so much of school budgets are locked in and not really under control of the people running the school. And I think unless you're in it and you experience this, you don't even realize it. And I think a lot of school people don't come from other worlds, so they don't even know that there's a different way. I'm just, maybe that's what's going on it. It seems to me that one huge difference between a school and a business is that in a business, if you do better and/or grow, you'll make more money and then you have more resources. But in schools, the money just doesn't work that way. Really, school sites have two potential levers to increase revenue; enrollment and attendance.

Generally the more students you have and the better the attendance, the more money you get. But even those two things are pretty nuanced and constrained, and I'm really overgeneralizing now because it's different in different states, but that's kind of where things are. So I guess I'm wondering, can you really do innovation given these circumstances? There must be a way, even if we're operating a huge existing base of schools and can just, we can't just turn that upside down overnight, as much as we would both like to magic wand that, that's not possible. I'm wondering if we can learn from, I don't know, maybe big companies who innovate. I mean some of them do, we know some of them don't, but some of them do. But is there some learning there about how we might tackle this?

Horn: Yeah. I mean can you imagine, first of all, if you got funded for outcomes and actual learning growth of children instead of enrollment and attendance? But I think what you said more broadly is the exact right way to think about this. And sadly, I might also say, I think your point is probably correct about the limits on innovation. We're just not set up for it. Which again, and so folks have a definition in mind when I say the word innovation, I define it as new offerings or just changes, like continuous improvement, that help people make progress. It's not any idea you're throwing at the wall regardless of whether it works, it's something that actually gets results.

And I'll take your point then another step forward because what I think you really want to see is among that huge install base is that we actually start to see different schools and models and really a portfolio, if you will, of bets or options that hopefully promise you tremendous upside in realizing outcomes for each and every single child. And there's another theory on this that I think may be helpful. It's one that Clay Christensen loved, he called it Good Money, Bad Money, and the basic question that he and his co-author, Michael Rainer, in the innovator solution we're asking was this, which is, what's the best type of funding for a new venture?

And their basic take was that the traditional categorization schemes say venture capital versus corporate growth capital versus loans, you can imagine the taxonomy were the wrong way to think about the world. And what they concluded was that new ventures should be taken capital that was initially patient for growth, so it was not looking to scale dramatically, but it was impatient for profit, meaning that the urgency around growing at all costs should be low, but that the urgency around making sure you have a viable successful model that actually works in an ongoing way should be really high. Now, this is obviously the opposite of how many in Silicon Valley think, Diane, so I don't know how that lands.

Tavenner: Well, yeah, I'm laughing. That's an entirely different conversation, I'm going to have to reflect on that. But Michael, I think what you're saying is really more relevant to schools. I'm not sure it benefits every school to be driving to dramatically increase enrollment, but they most certainly should have urgency around having a viable successful model. And here's the little interesting twist that may be not for every child, I mean maybe one of our problems is this comprehensive nature that we're all caught up in, and I think people get scared and think, ooh, what happens if this school only suits X number of kids? At some point we have to trust that if there's demand in the market, things will come up and fill it, but I think that gets scary for people.

Horn: Yeah, I think that's really well said. And I'll say, you that as someone who has designed a school for a heterogeneous, in terms of income and race and so forth, groups of students. So we're not talking about that kind of segregation, we're talking about fits from a cognitive and needs perspective to best serve and based on interests and passions and things of that nature. But I guess while I think that the theory I'm about to draw on lacks some circumstance thinking about where it could be more predictive, and I won't go there right now except just to say that I think there are anomalies, like Facebook, that suggested the theory needs more nuance.

What I do think is that particularly in large and more mature enterprises, it's actually a really helpful theory, this Good Money, Bad Money. Because basically what Michael Rainer and Clay Christensen pointed out is that if the new things that you're investing in to be the wave of future growth, or in this case the wave of future success, are not profitable early on, the moment things turn south for the main enterprise, they're going to cut back all that investment and the new stuff that's losing money and just drive it at the core, the thing that they've always been doing, try to protect what they've been doing.

But there are examples that if the new thing is profitable and self-sustaining, well then you can actually protect it and you can have it keep operating and be the promising wave, again in the corporate example of growth in the future in schools, I think it's talking about student success in the future.

Tavenner: Oh, this is so interesting, Michael. I want to get practical again for a moment because, as you know, that's how I make these theories actually make sense to me. So we've been talking all season about the importance of pilots and how we've been looking really closely at a pilot we've been doing on school leadership and really digging into the elements and nuance and just determining that pilots are really important. And as I listen to you and reflect, one of the drivers behind this pilot that we've been working on that we think is a more cost-effective model. That really is behind the pilot we've been talking about.

That said, you've heard me talk about our measures of success and never once have I said cost savings or efficacy. Oh my gosh, why not? This is one of those moments where it seems so obvious and now I'm catching myself. So I know that's a reflection question for me. I'm just really frustrated with myself. I think about the practicality of having cost and money as meaningful drivers of decisions in schools, and I don't think it would be well received by most people. I guess that probably sounds like a cop out right now, but I say that from some very meaningful and real experiences.

Horn: Yeah. Well, so I hear you Diane, and I don't think you should beat yourself up because I think this very much is how the system has been engineered, but let's think about how we could bring this into school settings in a way that's authentic and sensitive to the culture of schools. And let me just give you a little bit more about what the theory says needs to be done in order to avoid the cutting of the innovations and the things that will actually help you be successful in the future the second that budgets tighten, which oh, by the way, that's about to happen and so our schools are about to face this, and yet we both want innovation and improvement to continue. So let me name the three part process and let's brainstorm how to do them without being attacked.

So essentially, Rainer and Christensen said you need to do three things. Number one, start early. You need to be launching new innovations when your core is still healthy and it can be patient for growth. The second thing they said is start small. So keep dividing up your business units, and again, I'm saying this in the corporate language, so that as the corporation becomes increasingly large, that decisions to launch growth vendors continue to be made with organizational units that can be patient for growth because they're small enough to benefit from investing in small opportunities. And then third, they said, demand early success. Be impatient for profit or success. And so I'd love you, as the person in schools, to reflect on that, but it strikes me that if we changed the word profit to sustainable and successful outcomes for students, and then we thought about having a rhythm of investments in new models and improvements, start early and start small, then you might take a very different approach to creating new waves of improvement or innovation in our large, as you said, relatively monolithic public school system today. Thoughts?

Tavenner: Okay, this is really interesting, Michael. Here's what's coming to me. First, a lot of states are trying to incentivize innovation with waivers of policies, we've talked about that before, exposure to innovative opportunities. I mean I've participated in lots of state-level kind of PD experiences where they're offering this exposure and even financial incentives for innovating. I'm not aware of any of those efforts that explicitly require that criteria for success include cost effectiveness or, as you said, fiscal sustainability, which might be more palatable. It seems to me that this could be a meaningful and impactful change that would begin to shift mindsets in a positive way. I mean just imagine if someone had incentivized my pilot, and that was just one of the things I would've included, it's a signal to me to like, "Oh, not only is it okay to think about that, but it is a thing I should be thinking about." And I think we need to infuse that into our system.

The second thought I have takes me back to our last episode when we talked about not only how to scale or make sustainable our successful pilots, but more importantly, how to clear out the old thing that's being replaced. And it seems to me that the clearing out and the clearing it off the budget as a way to make cost sustainable for the new stuff is really critical. And I have rarely, if ever, experienced that part of the coaching guidance and criteria for innovation. That was a really sort of revelation of a conversation. And so just huge amplification of that idea, as it may potentially be useful here because when resources are finite, then if you clear out the old stuff, you have more.

And I think finally, and this is super big picture, but I really think it's important, I think we have to shift the conversation in education from centering on the idea that we can never have enough money and we always need more to something different, which is like, what's a reasonable amount to have or what do we have and what are we going to prioritize getting for that amount? It's ridiculously basic, and yet, to my knowledge, that's a framing and a question that literally never, ever comes up. I'm not sure those are directly related to the three points, but those are the things that are coming to me right now as things we could potentially do to make space.

Horn: I think that's a dynamite set of points, Diane, and just to bring me back from the theory to the on the ground reality, I guess my reflection as I hear you say that is I see urban districts around the country with 25,000, 30,000, sometimes even more per student, and yet my sense is a lot of that money does not flow down to the school, let alone the classroom level. And I really wonder how behavior might change if schools, school leaders were on the hook for successful outcomes, but had far more autonomy in how they allocated and chose their resources and budgets to go realize them.

And then they could have a focus on innovation that freed up resources to spend on other things that you and I know are critical for students to be prepared for this even more complex today world in which they will be entering. That would be a great thing to be able to use those resources on other things, and it doesn't generally happen. So I think we've given our listeners a way to think optimistically about how they might move to this, and I hope it spurs some action, but before we leave, just curious what you're watching, what you're reading, what's sort of outside of the school conversation for Diane right now?

Tavenner: Well, Michael, yeah, I'm going to go, because I spend a lot of time thinking about crazy big things like this, and so I'm going to tell you something I'm looking forward to, it hasn't quite arrived yet, but it's season three of Ted Lasso. It's about to be released and I hope it's going to continue to deliver that positivity and joy that I felt watching it the first two seasons. So yeah, I'm looking forward to that and how about you?

Horn: Well, us too, Diane. We're actually, we've been hooked on Shrinking on Apple TV, but frankly it's great, but we've also been sort of doing it to bide time to delve into the weekly Lasso releases that should be coming soon, and when people are listening to this episode, will already be out, we should say that.

But I want to share one more book that I actually finished recently, which is it called She Would Be King by Wayetu Moore, I hope I'm pronouncing that correctly. It's a fantastical, fictional book that tells the story of the founding of Liberia. And so it was something I picked up before I went and then finished it just as I came back. And I confess, I struggled a bit to get into it because I was just, to place all the different story elements and some of the mysticism and magic, I struggled with it initially, but once I got into the characters and saw how they all came together as strands into the founding and fight for freedom in Liberia, it was just a breathtaking story and very helpful in further understanding elements of Liberia's challenging founding story and challenging circumstances today. So-

Tavenner: I couldn't agree more. I love that book. It-

Horn: You've read it?

Tavenner: Yeah, it's amazing.

Horn: Makes me feel even better that you also perhaps struggled up front and then loved it. So with that, we will leave you all and thank you for joining us on another episode of Class Disruptive.