

MARKET-BASED MANAGEMENT IN EDUCATION

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Over the past few decades politicians and education experts have done all they can to help improve the performance of schools. An endless stream of management fads has been imported into education from the private sector in the hope that schools may learn to operate more like world-class organisations working in free and competitive global markets. A fundamental problem arises, however, when schools attempt to introduce total quality management (TQM) which involves schools making the essential transition from a producer to a customer-driven organisation. TQM will now require schools to look towards parents to determine quality. But parents must be free to vote with their feet if they are not satisfied. The concept of quality therefore evolves into the pursuit of customer satisfaction. Unfortunately, whilst 90% of UK schools remain nationalised this task will be impossible, and the producer (the government) and not the customer (parents) will always be king.

Outside education, however, concepts such as TQM have long been surpassed by the more recent focus on the role and management of knowledge, which Peter Drucker believes has now become the key economic resource. In 1995 Nonaka and Takeuchi published *The Knowledge-creating Company*, which provided a new explanation of why Japanese companies had been so successful. They accumulated knowledge from the external environment, shared it within the organisation, stored it as part of their knowledge base and then ensured that it is used by those engaged in developing new products and services. It is this knowledge conversion process from outside to inside and back outside again which defines the knowledge-creating company, whose sole business is continual innovation.

Further research by Professor Gary Hamel into the entrepreneurial spirit inside Silicon Valley, where the innovation intensity of organisations is extraordinarily high, has found that success had not been based on its people and the unique concentration of brainpower (as is usually understood) but on how ideas, financial capital and human talent are allowed to circulate freely and are attracted to and located where they are most likely to generate innovation and wealth. This is in stark contrast to the traditional business model where ideas, capital and talent are controlled by a central authority (the senior management team). Real competition in the economy was therefore not occurring between individual companies but between different innovation regimes.

These findings correspond with a management approach first developed by Koch Industries in the USA who first began describing its management philosophy as market-based management (MBM) in 1991. The concept was subsequently introduced in a 1993 publication by Wayne Gable and Jerry Ellig (Gable and Ellig, 1993), who defined MBM as a framework that applies market process principles to improve organisational performance and profitability by fully utilising the knowledge of each employee. According to Koch Industries this is achieved by internalising the beneficial characteristics of a market economy, and eliminating the harmful effects of a command economy. The importance of this concept was reinforced in 1997 when the IEA published *Markets in the Firm* by Tyler Cowen and David Parker. They also suggest that firms can and should draw on some of the efficiency advantages of markets and conclude that if managers try to act like central planners their firms will usually fail eventually for the same reasons that central planning failed in Central and Eastern Europe. If market economies have proven effective in encouraging learning, adaptation and innovation then, according to Cowen and Parker, 'the challenge today is to design firms that can mimic these attributes of a market economy' (Cowen and Parker, 1997).

The question therefore remains – would schools in the UK benefit from introducing MBM and if so how can they be designed so that they mimic the attributes of a free market? Firstly, it is clear that schools, perhaps more than any other organisations, depend on knowledge as their principal means of value creation. This suggests they would benefit enormously from introducing MBM. Secondly, it is therefore tragic that whilst 90% of UK schools remain government controlled, MBM and the concept of a knowledge-creating school will remain completely out of their reach. Finally, with the gradual emergence of chains of private schools around the world, it is perhaps inevitable that MBM will eventually dramatically change the way some of these organisations operate.

References

- Cowen, T. and D. Parker (1997) *Markets in the Firm – A Market-process Approach to Management*, IEA Hobart Paper 134, London: Institute of Economic Affairs.
- Gable, W. and J. Ellig (1993) *Introduction to Market Based Management*, Center for the Study of Market Processes, George Mason University.

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