Business Model Innovation:

A Blueprint for Higher Education

By Christine Flanagan

Business model innovation is one of the most challenging components of 21st-century leadership. Making incremental improvements to a business model—creating new efficiencies, expanding into adjacent markets—is hard enough. Developing and experimenting with new business models that truly transform how an institution delivers value (while continuing to drive the performance of the current business model) is exceptionally difficult. Yet nowhere is the imperative for business model innovation more prevalent or more relevant than in higher education, which is under intense scrutiny and facing rising costs and potential disruption from all angles.
To compete in a world where the shelf life of business models is shortening, higher education leaders need the tools, skills, and experience to envision, test, and implement new business models. They must believe in the power of experimenting in the real world, with a network of collaborators who have the audacity to change everything. As the legendary innovation mastermind Clayton Christensen says: “You don’t change a company by giving them ideas. You change them by training them to think in a different way.”

Turning Threat into Opportunity

A business model is an organization’s blueprint for creating, delivering, and capturing value and for generating the revenue needed to cover costs, reward stakeholders, and reinvest funds in order to remain competitive. All organizations, both for-profit and nonprofit, have a business model, whether or not that business model is explicit.

To understand how to think about business model innovation in a different way, higher education leaders first need to abandon long-held beliefs about what innovation is, how it works, and what makes it successful. They then must engineer and architect a true platform for transformation—a place where the intractable system that is higher education can design and test proposed solutions in a real-world environment. Moreover, leaders must establish an ongoing process to explore new models for delivering value—even those models that are disruptive to current operations.

As an institution entrenched in legacy systems, behemoth operating models, and disruptions coming from all directions, how can a college or university experiment with innovative approaches? First, it is important that new ventures—both public and private—have a solid foundation for success. Enabling the creation of an autonomous place to pursue alternative channels without hindering the institution’s current value network is thus critical. In other words, institutional leaders must seek or build a place where sound innovation theory can be applied in a safe, manageable, and real-world environment.

It’s easy to see why start-ups have a much easier time creating innovative business models. For them, new models represent pure opportunity. For established institutions, this is a wholly different story. Following a potentially disruptive, new business model strategy involves fear, risk, and possible cannibalization. As Christensen notes: “Current customers [in this case, students, faculty, and alumni] are the lifeblood of the company; they must be protected at all costs.”

Unfortunately, these fears often become self-fulfilling prophecies. So, what can higher education leaders do? The answer may seem counterintuitive, but leaders should not invest dollars trying to advance the existing model to please existing customers in the existing value network. Doing so, according to Christensen, will “force the disruptive technology to compete on a sustaining basis” and will “nearly always fail.”

Instead, leaders should shift responsibility to an autonomous organization that can then frame the new model as an opportunity. This organization can pursue alternative channels, suppliers, and services. Most important, the organization can do so without hindering the current business model and while giving new growth ventures a solid foundation for success.

The Higher Education Innovation Factory

Moving from the idea of an autonomous place for business model experimentation to the elements of such an approach, let’s start with a myth-buster: New ventures that overturn old industries or reignite established ones are often driven by underlying networks of individuals and organizations. The greatest challenges and opportunities reside with those who can see and build these networks first.

A modern business example that epitomizes the value of network design is Apple. Through the iPod, Apple changed the way we buy, share, and listen to music. Apple didn’t do this alone, and in actuality, there was very little inventing going on within the walls of the Apple headquarters. To create this new business model, the company collaborated with hardware and software vendors, record labels, and artists to compete in a wholly new fashion.

Apple understood what education leaders must embrace: Network innovations connect rather than create value. Whether a higher education institution offers a product (a degree) or a service (knowledge, competency, or skill sets) or a social good (the creation of 21st-century citizens), it needs to determine what value it creates within the value chain. Is the institution helping or hindering the flow of value? Creating business model innovation through disparate capabilities (is there a more disparate system than higher education?), starts with the following steps.

1. Getting the right people on the bus and thinking outside the current knowledge base. This means tapping into silos outside the organization and looking beyond the current skill sets. It also means working with institutions that have the capacity and motivation for trying new things—that is, not just making tweaks to the way things work today but trying true transformational approaches. Leaders need to look beyond functional skill sets like finance and engineering and move away from reductionist perspectives that hinder holistic systems thinking. Larry Keeley, co-founder and president of the innovation and strategy consulting firm Doblin, notes: “Although historically innovation
The new workforce is highly social, mobile and accustomed to an on-demand, technology-driven lifestyle. Do you have the technology tools to empower your faculty, staff and students to work anywhere, on any device?

Find out more at necam.com/highered
was used to keep people out, now you use it to invite people in.”

2. Thinking adjacently. It’s not easy to untangle existing capabilities from outside contexts and then to put them together in new ways. To do that, leaders need to focus attention and energy on how things are the same—which means an idea that works somewhere else should not be automatically dismissed because it comes from a different industry or a different customer or a different material. “The best ideas won’t come looking like they’re just right,” says UC-Davis Professor Andrew Hargadon.

3. Embracing the discomfort zone. Sitting between worlds can be a disarming place, especially when the seat rests consistently on a steep learning curve. Yet that’s precisely the place to be. To be a coalition-builder means accepting that you’re not going to be as smart in one network as you are in another. Yet “the benefit of this discomfort lies in freedom from the binding (and blinding) ties of any one small world,” explains Hargadon.

4. Thinking big, starting small, scaling fast. In the end, an institution’s ability to move between various disciplines and industries and to see possible recombinations of innovation is not enough. It is at the point of intersection that the hard work starts. Stefan Thomke, the author of Experimentation Matters, says that integral to innovation is the ability to experiment quickly: “Rapid feedback shapes new ideas by reinforcing, modifying, or complementing existing knowledge.” At the same time, while you are experimenting frequently, don’t overload your organization. Thomke adds: “A good experimentation strategy balances the value of early information against the cost of repeated testing.”

A Radical Approach: Putting Students in the Driver’s Seat

Although many educational institutions seek to put the student at the center of their transformation effort, they often fail due to institutional barriers between departments and disciplines, incoherent engagement strategies that fail to deliver on the needs of the student, insufficient innovation processes, inabilities to experiment, and general inertia toward new and novel solutions. Sound familiar?

As an obsessive investigator into the root causes of innovation failure, Keeley states: “Almost everything about the way innovation is taught and practiced is wrong.” Since innovation fails about 96 percent of the time, he wonders why people even bother to listen to innovation “experts.” He adds that generally, the field has advanced to “about the same state as medicine when leeches, liniments and mystery potions were the sophisticated treatments of the day.” Part of this problem can be attributed to the field persistently remaining stuck in old patterns of seeing and acting.

So, what if we change our perception of “expert” and switch things up? What if we put students in the business model driver’s seat?

Instead of designing a new business model and hoping students engage and embrace it, what if we enabled the students themselves to participate directly in the process?

Solving the Student-University Engagement Gap

In 2010, the Student Experience Lab partnered with Utah State University to give undergraduates the opportunity to use real-world research and design methodologies to transform how they understand, evaluate, and articulate the skills, competencies, and capabilities they learn in college.

Over the course of a year, students traveled through a “participatory design” cycle of discovery, prototyping, and experimentation. Ultimately, the goal of this initiative was to find fresh, new approaches to support student success and timely and appropriate progress toward degree completion.

The USU students, ranging in age from freshman to graduating senior, designed and developed a vision of the future for a “holistic” student service delivery model that is both seamless and democratic—a web-based, “one-stop-shop” that is tightly linked to a student’s evolving personal, strategic, academic, and financial objectives.

The delivery model they designed

- connects independent support services together to learn from and engage with one another for the betterment of the student;
- provides an easily navigable process for student self-discovery and self-actualization; and
- allows students to conveniently build their own personal web of support based on need, issue, or circumstance.

The new model that the students designed shifts the digital environment away from a framework in which knowledge and expertise are insulated and siloed toward an environment in which knowledge is connected and shared and is personal to the students. It also provides a seamless flow of experience, allowing all students the opportunity to understand how complex student services relate to one another.

The pilot launch of this new platform is slated for January 2013.
What can you learn from your students?

Find out which IT services they’re using, what they value, and which devices they’re bringing to campus. Read this year’s ECAR study of undergraduate students and IT and sign up to participate in 2013 at educause.edu/student-study.
Instead of designing a new business model and hoping students engage and embrace it (think about how many new student service efforts fall by the wayside each year), what if we enabled the students themselves to participate directly in the process? What if instead of designing a new model based on a deep understanding of the student experience, we give the innovation keys directly to students and support them in the design, prototyping, and testing of new models?

This is the scenario currently being played out in the Business Innovation Factory’s Student Experience Lab (http://www.businessinnovationfactory.com/sxl). For the past three years, the Lab has been exploring how good design can improve the quality of the learning experience for students by not only listening to students but also engaging them in the conceptual development of wholly new educational experiences.

Through “participatory design,” students act as both participant and designer, boldly creating the experience that is right for them while leveraging the expertise and experience of all players in the system. By encouraging this deeper level of learning and doing, we begin to create an awareness of the larger whole, leading to actions that can drive us toward genuine business model innovation. Likewise, by building young people’s capacity, skills, and competencies and strengthening their ownership of the results, higher education institutions can construct the right kind of environment for ongoing experimentation, culture change, and radical student engagement. It’s the missing link to systemic change.

This is not an attempt to belittle the role of expertise at the academic and administrative levels. Specialized training and workplace experience, both technical and interpersonal, are critical. In the participatory model, however, this special expertise is yet another resource rather than a source of unchallenged power and authority.

This way of thinking can be a stumbling block for many in higher education—especially for those with analytically-geared minds that prefer probabilities over possibilities, statistics over instincts, and algorithms over mysteries. But through participatory design, meaningful partnerships are created between implementer and user, teacher and student, administrator and teacher—partnerships in which everyone takes responsibility for the success of the challenge. This is an easily replicable model for institutional innovation.

A Call to Experimental Arms

In our nation’s ongoing effort to increase both the attainment level and the quality of higher education, a key stakeholder is often missing from the equation: the student. If we are to design a student experience for a 21st-century educational system in which all students can succeed—regardless of learning style or life circumstance—then we must bring their experience to life in actionable and relevant ways. This can be obtained only through business model innovation.

Higher education needs to adopt a vision of the world a few years from now. Innovation—whether student-led, student-driven, or student-centered—will be just another routine competence, much like budgeting or auditing, that...
With more than 100 competitively bid contracts to choose from, E&I members collectively saved over $200 million last year. And unlike other group purchasing organizations, E&I members are also the owners of the cooperative. As such, they participate directly in the regional and national contracting processes, creating more and better contracts for everyone to use. Contact us today to learn more about joining E&I.
Business Model Innovation: A Blueprint for Higher Education

Christine Flanagan
cflanagan@businessinnovationfactory.com

Established in 2004, BIF designs, prototypes, and tests new models in education, health care, and entrepreneurship in a real-world environment.

Notes
3. Ibid.
5. Hargadon quoted in “Report from the Field: Designing Networks for Innovation,” BIF website, http://www.businessinnovationfactory.com/weblog/archives/2008/04/report_from_the_field.html. For more about “thinking adjacently,” check out IDEO co-founder Bill Moggridge’s book Designing Interactions (Cambridge: MIT Press, 2007), which traces the evolution of many networked ideas from creation to valuation. One reason companies such as IDEO (a product-design firm) are able to exploit the networked innovation process is that they freely share the problems and solutions they come across through their broad access to diverse industries and projects.

© 2012 Christine Flanagan

Your Campus

Multiple Departments

One Comprehensive Solution
Web Calendaring • Event Management • Academic Scheduling

WWW.DEA.COM/EDUC

See you at EDUCAUSE Booth #1721

EDUCAUSE Review November/December 2012
Pushback has always been the great destroyer of initiatives to institute enterprise-wide automation of administrative processes—until now.

Find out how colleges and universities like The Texas A&M University System are achieving the seemingly impossible: enterprise-wide automation initiatives that departments and business units are racing to embrace.

Educause 2012 Booth #521  laserfiche.com/tamu
Old cars are classics.

Old SIS are obsolete.

If your SIS vendor built its system before the Internet, it's not vintage — it's a liability. With the right innovations for higher education engineered into CampusVue® Student, institutions are winning the hearts and minds of constituents on a more efficient centralized system. So, before overhauling your old system again, test drive the most proven brand in the industry. Experience the Student Information System that's serving leaders in higher education worldwide.

www.campusmanagement.com/vue
Old cars are classics. Old SIS are obsolete.

If your SIS vendor built its system before the Internet, it’s not vintage — it’s a liability. With the right innovations for higher education engineered into CampusVue® Student, institutions are winning the hearts and minds of constituents on a more efficient centralized system. So, before overhauling your old system again, test drive the most proven brand in the industry. Experience the Student Information System that’s serving leaders in higher education worldwide.

www.campusmanagement.com/vue