PRESIDENTIAL INNOVATION LAB

{WHITE PAPER SERIES}

Presidential Innovation Lab Participants

Joseph E. Aoun, President
Northeastern University (MA)

Chris Bustamante, President
Rio Salado College (AZ)

Scott S. Cowen, President Emeritus
Tulane University (LA)

Michael M. Crow, President
Arizona State University

John F. Ebersole, President
Excelsior College (NY)

Renu Khator, President
University of Houston and
Chancellor, University of Houston System

Paul J. LeBlanc, President
Southern New Hampshire University

Robert W. Mendenhall, President
Western Governors University (UT)

Vincent Price, Provost
The University of Pennsylvania

Mohammad H. Qayoumi, President
San José State University (CA)

L. Rafael Reif, President
Massachusetts Institute of Technology

Kevin P. Reilly, President Emeritus
University of Wisconsin System

A. Clayton Spencer, President
Bates College (ME)

Linda M. Thor, Chancellor
Foothill–De Anza Community
College District (CA)

www.acenet.edu/PIL

This series of Presidential Innovation Papers is edited by Cathy A. Sandeen, the American Council on Education's vice president for education attainment and innovation.

As part of a grant from the Bill & Melinda Gates Foundation, the American Council on Education convened the Presidential Innovation Laboratory (PIL).

The purpose of this effort was to examine and explore new models inspired by the disruptive potential of new educational innovations—technological, pedagogical, organizational, and structural—especially those that could increase the number of Americans able to earn a post-secondary degree, certificate, or credential.

Fourteen chief executive officers from a diverse group of colleges and universities participated in the PIL, which provided an opportunity for higher education leaders to engage in proactive thinking about the evolving dynamics of higher education and guide a national dialogue that will help colleges and universities serve students—and close persistent student attainment gaps—in the years ahead. Two-day convenings took place—one in July 2013, and one in October 2013—facilitated by the Institute for the Future, an independent, nonprofit research organization located in Palo Alto, California.

The goal was not to issue a series of recommendations, which is not really possible, the group agreed, given the vast diversity of higher education institutions in the United States. Instead, the goal was to engage in a robust and wide-ranging conversation about the various drivers of change and potential reactions to those drivers.

This series is a reflection of some of the important conversations of the group, with a focus on four somewhat overlapping areas: major drivers and signals of change; business model innovation; the changing faculty role; and the students of the future. We are pleased to be able to share some of this thinking with a wider audience.

This paper, *Beyond the Inflection Point: Reimagining Business Models for Higher Education,* explores issues raised in reaction to current challenges to the traditional higher education business model that in turn are largely driven by financial concerns. Several PIL participants were interviewed for this paper. The editor acknowledges and thanks Stephen G. Pelletier for his contributions toward this paper.

PRESIDENTIAL INNOVATION LAB

Beyond the Inflection Point: Reimagining Business Models for Higher Education

BUSINESS MODEL

"A business model describes the rationale of how an organization creates, delivers, and captures value." —*Ostervalder and Pigneur*

"A business model is nothing else than a representation of how an organization makes (or intends to make) money."
—*Peter Drucker*

Applied to higher education: What services do we provide and how do we fund the provision of those services?

The lexicon of higher education administration today simmers with the vocabulary of change. Powerful single words—disruption, unbundling, retrenchment—telegraph much of today's reality for colleges and universities. Borrowing terminology from business, experts suggest that, as an enterprise, higher education is at an inflection point: a critical strategic crossroads where transformative market forces proffer both threats and opportunities.

At one end of a spectrum, well-respected experts prognosticate that the wolves are at the door—that higher education as we know it is on the precipice of massive transformation, change on a scale that will turn all colleges and universities inside out and upside down, and that inevitably will prove fatal to some institutions. At the other extreme, equally well-regarded authorities suggest that colleges and universities have long been resilient and will again rise with equanimity to meet the challenges they face. It is a safe assumption that reality lies somewhere between those points of view.

Recognizing that no single business model fits every college or university—and that each institution in fact has several different business models, for different aspects of its operations—this paper examines business models in a broad sense. Our purpose here is to lift up insightful general observations that can inform campus conversations. We will explore many of the dynamics that affect business models in higher education, recognizing that we cannot frame an exhaustive look at what is ultimately an inexhaustible set of factors. Where appropriate, we will cite specifics that may apply only to certain subsets within higher education.

The point is not to provide a primer on higher education finance or to delve into the details of college and university economics, but rather to offer food for thought for college and university leaders and their colleagues as they chart the future of higher education in the second decade of the twenty-first century. In that spirit, we hope to be intentionally provocative. Rather than mapping specific strategies, we hope to instead suggest questions that will help inform and guide college and university communities as they explore the profound issues they must address as they make critical decisions about the future and shape the right strategies for serving students.

As higher education economist Jane Wellman sums it up: "We've got real challenges to our value proposition. Consumers and employers are questioning whether what they're spending on us is worth it. We've got a resource problem, particularly in revenues but also in how we use faculty. We have processes that are probably not helping us make decisions. We have a real problem in balancing our internal costs and revenues. We have a historic pattern of complicated cross-subsidies that require fairly substantial levels of institutional general fund subsidies that no longer exist." We need to consider business model and value from a variety of perspectives.

TODAY'S ENVIRONMENT IN PERSPECTIVE

Execution of any business model takes place not in a vacuum, of course, but in the context of countless environmental factors. As their leaders well know, colleges and universities today are buffeted by a confluence of challenges that have a direct, often powerful impact on business practices. This synopsis of some of the more pressing issues will seem quite familiar to leaders of colleges and universities:

- ***Public financial support for higher education is eroding.*** State financial allocations for higher education have been trending downward for several decades or more. Public support for research at universities is flat at best. Many legislatures are no longer the friends of higher education that they once were.
- ***Tuition levels (and discounting) may have reached a ceiling.*** As postsecondary institutions know, and as public surveys corroborate, students and parents are increasingly reluctant to pay tuition prices that they see as too high. Colleges and universities reliant on regular hikes in tuition and deeper tuition discounting are finding those strategies may be pushed to their limits.
- ***Trust in higher education is eroding.*** Public opinion polls document increasing skepticism about the intrinsic value of higher education. Surveys of business and industry substantiate frustration about how well colleges and universities prepare students for the workforce. The fundamental value propositions of higher education—that it prepares students well for good-paying jobs, for example—are being challenged by trends of unemployment and underemployment that seem to belie the promise of higher education.
- ***The quality and productivity of higher education are under a microscope.*** Higher education faces more pointed questions, from multiple stakeholders, about what students are learning and how well colleges and universities are teaching. Policymakers today seem more inclined to scrutinize institutions; the White House, for example, has challenged the efficacy of the tradition of voluntary accreditation in higher education.
- ***Changing student demographics challenge old assumptions.*** As the number of high school graduates declines in many areas, many institutions find it increasingly difficult to meet their undergraduate enrollment goals. At the same time, many institutions find themselves serving—and recruiting—more students outside the "typical" college-age demographic. (Other institutions have the opposite problem: trying to accommodate exploding demand for higher education from an expanding population.) Enrollments in some graduate programs—including ones that historically have been "cash cows"—have been decreasing.
- ***Operating expenses must be contained.*** Most institutions face growing pressure to contain their spending, even as costs continue to rise. University and college physical plants are expensive to maintain, and many institutions face the need to address long-deferred maintenance for fixed assets. Simultaneously, many institutions carry a significant debt load and some have seen their credit ratings decline.
- ***Higher education faces unprecedented competition from new challengers.*** Various entrepreneurial ventures in higher education, while confronting unique challenges of their own, command a growing share of the higher education market. From online

learning to credentials, an expanding wave of new companies is moving fast into markets and products that were once the sole province of colleges and universities.

- ***Technology offers avenues for transformation.*** Technology offers powerful solutions for rethinking higher education. The hybrid course, blending online learning with class time, is a good case in point. Apart from pedagogy, technology can help colleges and universities improve business performance—such as in the collection and analysis of data to drive business decisions and strategy. Technology, though, adds considerable expense to already-stretched institutional budgets.

Viewed together, these and many other challenges frame a landscape for higher education that is increasingly complicated and in turmoil. Not all the factors cited above affect every institution, of course, and the factors that do come into play affect given institutions in different ways. The reality is that higher education today faces unprecedented challenges that, considered together, create a landscape rather unlike that of the past.

TODAY'S CHALLENGES IN PERSPECTIVE

One of the historic strengths of U.S. higher education has been its ability to evolve to meet changing market demands. Many would argue that conditions today are such that if colleges and universities intend to remain relevant—and solvent—they need to accelerate the pace of that evolution. To that end, a range of new ideas are emerging that shed light on how institutions might meet the challenges they face.

The relatively few colleges and universities that enjoy both perpetually high demand from potential students and robust financial reserves will likely thrive, perhaps with modest adjustments, in this new environment. But the majority of U.S. institutions will likely need to change some of their behaviors in order to thrive—or perhaps even to survive—in the days ahead.

Part of planning a college or university's future today means giving serious consideration to deep changes in core business models. Long-held assumptions and traditional practices may need to be reenvisioned. New practices may need to be invented and implemented. Every institution needs to map its own path forward, but all of higher education can benefit from the palette of new thinking that is emerging. Such ideas can be found both in colleges and universities that are taking risks and charting new territory—and from nontraditional sources, including for-profit competitors.

SELECT CHALLENGES

Economics of online learning. Take a look at just the teaching function within higher education, for example—the rise of online learning is a case in point. Online courses disrupt long-held assumptions about how, when, and by whom courses are delivered—and even about what content courses contain and how that content is developed. A growing number of institutions are realizing cost savings in instructional costs and facilities use—as well as improved student academic success—through courses that blend online learning with classroom time. While many institutions are experimenting with online learning at the edges of their academic program, some have embraced it more fully and found it an effective avenue to new student populations and new revenue streams.

The implications for college and university business models are considerable. As more courses migrate partially or fully online, allocation of classroom space can be rethought—to say nothing of the way future facilities might be designed. Some institutions may even be able to reduce the size—and attendant expense—of their physical plants. Some institutions may be able to reallocate their use of faculty, including focusing premier teaching talent and other educational resources on upper-level courses.

Deeper thinking is needed, however, about the impact of online learning on business models in higher education. Online learning is at the heart of fundamental challenges to traditional models, especially from the private sector. The company StraighterLine, for example, provides first- and second-year general education courses online for a fraction of what brick-and-mortar institutions charge. Through the company's partnership agreements with colleges and universities—including popular public and private institutions—students can transfer those credits directly as they work toward a degree. Similarly, the American Public University System charges just $250 per credit hour for courses it delivers via distance learning. As these models expand in number and scope—and particularly as more students enroll in them and find that they meet their educational needs—they will continue to challenge the share of the student market historically commanded by traditional two- and four-year institutions.

It remains to be seen how quickly and to what extent erosion of traditional student markets might occur from such challengers. But as StraighterLine CEO Burke Smith observes, as more purveyors deliver online learning, there will be downward pressure on prices. Once the market reaches that tipping point, for example, institutions that price online learning like they do traditional classroom courses will find it increasingly difficult to maintain those margins.

Rethinking credentials. Higher education's traditional hold—some would call it a monopoly—on the awarding of academic credentials is undergoing unprecedented challenges. The rise of competency-based education, for example, is based on the premise that "what you know is more important than where or how you learned it," to quote the founding philosophy of the online institution Excelsior College. At Southern New Hampshire University's College for America, students master specific competencies through project-based learning in order to earn degrees. President Obama recently praised competency-based Western Governors University—which started in 1997 and today educates some 45,000 students—for implementing promising practices that "offer breakthroughs on cost, quality, or both."

The business-model implications of the rise of practices such as competency-based education and prior-learning assessment reach deep into fundamental financial structures and assumptions. Traditional higher education credentials are based on conventional thinking about credit hours and student seat time—requirements that in turn drive strategic directions in campus infrastructure, staffing, and allocation of resources. Take away some of those conventions and wholly new thinking is possible about those resource allocations. The expanding numbers of practitioners of alternative ways of credentialing higher education are building both a base of evidence that such alternatives work and a body of students who are convinced that an alternative path is the right path for them—two significant trends that will likely impact traditional higher education in the days ahead.

Implications for cross-institutional subsidies. Tectonic shifts of a different form are starting to be acknowledged around the standard operating procedure that revenues from money-making college and university programs subsidize operational expenses of other programs and such activities as research. The widespread practice of cross-subsidization creates a buffer of sorts that has helped institutions balance their budgets for many years. In today's environment, though, that buffer may be compromised. In general, as college and university budgeting practices gradually become more transparent—and as more institutions make wider use of business analytics—cross-subsidization practices will increasingly come under scrutiny. Part of this is an element of the unpacking that is transpiring around institutional budgeting process as more institutions rethink traditional processes to make them more efficient and as they seek better a understanding overall of how their budgeting processes work.

But other factors are also at play. Consider a scenario, for example, in which more students take introductory-level courses from purveyors who can deeply undercut the price that a typical college or university charges for such courses. Institutions that have traditionally relied on a steady stream of revenue from lower-division courses to subsidize other priorities may eventually see that pool of income dwindling. The point is that institutions need to ask themselves whether traditional sources of revenues used to subsidize programs are as secure as they perhaps once were. Revenues from schools of business and law, for example, may not be as robust going forward if student enrollments wane and if growing resistance to tuition hikes holds the potential for future revenues in check.

MAPPING NEW PATHWAYS FORWARD

The challenges outlined above essentially scratch the surface of environmental factors and trends that are likely to affect thinking about business models in traditional higher education. Assuming that only some of these prove to have lasting, game-changing impact, or that some have only modest impact, they nonetheless point to an era of potentially significant change in many institutions. Again, a very few institutions with deep fiscal resources and marquee brand names that are in perpetually high demand may be able to continue conducting business with relatively minor adjustments. The vast majority of colleges and universities, however, need to prepare themselves for a future that is likely to look little like the past.

As colleges and universities envision new futures and begin to design requisite new business models, a number of key questions in critical areas might help institutions and their leaders map new paths forward.

Can we expect to continue to increase tuition? Traditional models in higher education have been predicated on a fundamental assumption that the revenue stream from tuition could and would continue to go up. But in the face of more vociferous push-back from parents and students (and some legislators) about tuition levels and whether higher education is even worth attending, and in the context of the more than $1 trillion in debt that today's students carry, the impact on institutional enrollment and revenue is significant—with many ripple effects throughout budget models. Has your institution prepared sufficiently—and budgeted accordingly—for the possibility that in the near term both enrollment and pricing margins might remain flat? Has your institution devoted the requisite intellectual capital and time needed to evolve new strategies that can help it sustain a stronger future? From the standpoint solely of maintaining the revenue stream from tuition, is your institution doing all that it can to improve student retention and ensure that students stay at colleges or universities all the way to completion?

At the same time that colleges and universities need to exert continued vigilance about holding their expenditures down and containing costs, increasingly they also need to rethink pricing models. We have seen some significant efforts in this regard. Some colleges and universities have reduced tuition while reducing financial aid. Many institutions have come to rely on tuition and enrollment strategies, including international recruitment, that target students who pay full tuition. More institutions are experimenting with charging different prices for different programs. Some states have begun experiments based on radically different models, including "the $10,000 degree." Some states have recently advocated tuition-free models. Colleges and universities might also differentiate prices based on major, class time, credit hour, or even what year a student is in. There are of course many variations on these models.

What kind of financial support can we expect from public coffers in the future? The decline in state appropriations for public higher education over the last several decades has been well documented. Support further eroded during the Great Recession. Hope that this might be an anomaly that would correct itself over time has faded. In the states, other major priorities for spending—health care, for example—will continue to overshadow support for higher education. Institutions that derive any support from state appropriations will have to model future budgets based on assumptions that reduced support is the new normal. Locally, constricted municipal budgets—along with the general erosion in public opinion about higher education—are likely to impact future bond issues for universities. At the national level, support for research has been flat at best and it would be Pollyannaish to build future budgets based on expectations that research funding will be restored soon to levels of even a decade ago. At the same time, funding for Pell Grants is likely to remain level at best—even as student need increases.

How can we continue to contain costs—particularly those for teaching and learning? In the wake of the recent recession, most colleges and universities have trimmed costs. Many have made substantive cuts in programs and staff. While such cost containment often leads to short-term budgetary relief, it is not a sustainable strategy indefinitely.

Given that revenues from all sources are unlikely to increase appreciably, colleges and universities need to turn concerted attention to changing the basic economic assumptions and formulae through which they build institutional budgets. Bold new thinking is needed to reinvent the fundamental equations on which budget models are based. Are there different, more effective ways for your institution to deliver service and conduct basic elements of its business? How might your institution profit from further outsourcing? What kinds of new partnerships might help your institution advance toward its goals?

The focus should not be merely on "cutting costs." Rather, what is needed is intensive work designed to rethink, reengineer, and redesign the processes and assumptions that feed budget development. In other words, the goal should not be to tinker with budget outcomes, but rather to reenvision the constitution of budget models themselves so that expenditures align directly with an institution's core mission. Trimming around the edges needs to give way to a focus on core activities. Institutional debt needs to be brought under control.

In particular, for example, colleges and universities need to scrutinize every dimension of how they budget for teaching and learning. In general, institutions will likely need to be more intentional about implementing fiscal efficiencies across their academic programs. We are likely to witness hard decisions about the future of some academic programs and the right mix of curricular offerings. Part of the new budget modeling will be rethinking how and when courses are offered. Institutions may elect to work on engineering expenses out of a postsecondary degree. For example, some universities are exploring how the use of open educational resources (OER) might cut costs associated with curriculum development and reduce costs for students.

Which data can tell us what we need to know? One of the benefits of an institution's significant investment in technology is that it makes possible the collection and analysis of data from across the enterprise. If used optimally, those data can provide critical insights to inform important business decisions. Many institutions are effectively behind the curve, however, in their ability to mine data effectively. Fewer still have made the broad shifts in philosophy and processes that would ensure that the institution can rely on data regularly to make informed decisions. “Don’t trust the anecdotal sense of things,” says Paul LeBlanc, president of Southern New Hampshire University (SNHU). “Rather, have analytics in place so you can see what’s happening, what’s not happening, and so you can really test what you’re doing.”

How can we engage key stakeholders in new conversations about our future? Given that business models for higher education must and will evolve, a wide range of college or university stakeholders need to be brought into relevant conversations about finances and made aware of how and why circumstances are changing. It is critical, for example, that boards of trustees have a level of understanding about factors that are driving change that are parallel with those of the institution’s administration. But many other conversations, including some that are likely to be difficult, may be necessary.

Challenging conversations may be necessary with alumni, athletic boosters, or with donors who may wish to fund programs that are now outside an institution’s strategic focus—or may take issue with decisions to cut programs. From a different perspective, colleges and universities may need to learn more—and perhaps listen more closely—when businesses and industry share their needs for workforce skills.

Perhaps the most challenging of such conversations are those that are needed with the institution’s faculty. The professoriate is obviously pivotal in efforts to plan and effect change on the scale that many institutions need to undertake today. That central role is perhaps magnified when the challenge is rethinking traditional budget models and faculty roles at some institutions. Already, for example, we have seen some evolution away from lecturing to student mentoring, and much broader use of digital pedagogical tools. Emerging models, particularly those outside traditional higher education, portend possibly deeper changes in faculty roles—some for-profit educational vendors, for example, disaggregate teaching per se from such roles as curriculum development and assessment of student learning. Faculty who are comfortable with existing institutional practices need to be engaged and involved in conversations about change essential to a college or university’s sustainability.

What kinds of partnerships might help us move forward? Sustainability for some or perhaps most institutions will increasingly be predicated on institutional engagement in partnerships. The drive for institutions to operate as efficiently as possible will likely result in more common and comprehensive efforts such as joint purchasing, shared back-office functions, and the outsourcing of bookstores and food service. But deeper collaborations will also become the norm.

While we will likely see more full mergers of institutions, more common examples might include an increase in partnerships between institutions. Borrowing vocabulary from social media, the president of one prominent liberal arts college suggested that institutions that compete with one another may need to find more ways to become “frenemies”—that is, rather than focus on how they compete, institutions could instead elect to find mutual areas of interest where they could collaborate. We are likely to see more such collaboration between like institutions as well as between different types of institutions. We will see more collaborative cross-institutional programs, and more institutional partnerships with local and state entities. We will see more college and university partnerships across state and international borders. More colleges and universities will partner with business and industry in the design and delivery of academic programs. Partnerships will increasingly become a truly strategic component in institutional strategy, and therefore a critical part of college and university business models.

Can we use our physical plant more effectively? The very model of a traditional institution of higher education assumes a physical plant of some size. Even the smallest institutions have expensive buildings and grounds to maintain. Indeed, one significant drag on business models in the current environment is the significant debt that many institutions have incurred in developing those expensive campuses, and in the considerable deferred maintenance for those facilities that many institutions carry.

Hybrid courses create opportunities to rethink the use of physical space. Can your institution expand those considerations to realize deeper efficiencies? Moreover, can it draw on lessons learned via efficiencies from hybrid courses to engage in even deeper thinking about space overall, and perhaps find ways to optimize the use of expensive physical space?

ADDRESSING THE PROFOUND QUESTIONS

The vicissitudes of the landscape for higher education today argue strongly that every institution of higher education engage deeply and intentionally in reenvisioning and reengineering its business practices and business models. But process redesign is really part of a broader self-evaluation in which every institution ought to engage. Beyond the hard work of designing the business models that will ensure their sustainability, colleges and universities today may need to address a set of even more profound questions.

What business are we really in? When a college or university outsources its parking services or its grounds keeping, it is no doubt seeking cost efficiencies. But usually, broader considerations are also at play. A college or university is of course not primarily a parking vendor or lawn-mowing service; it is, of course, in the business of education and research. Increasingly, colleges and universities are electing to dive more deeply into how they can best focus on those core components of their mission.

Many institutions contend with the effects of the mission creep that took root when colleges and universities could comfortably add programs essentially at will. But the days when every institution could offer a fully comprehensive range of programs are behind us. Many are now trimming programs that they can no longer afford. Some are evolving toward a bifurcated, “bricks and clicks” model wherein they provide full residential services for students interested in that type of education but are also fully positioned to serve the many students, including a large number of nontraditional students, who prefer a more streamlined educational model focused on courses only, perhaps even exclusively online.

Experts suggest that many of the institutions that have pursued a strategy based on constant growth may now need to rethink that assumption. Some experts suggest that institutional strategies—and spending—predicated on an implicit or explicit desire to see the college or university move up the rankings may no longer be a sustainable goal. In those regards, for example, we are seeing more institutions that have consciously decided to “grow smaller” and more specialized.

In many respects it makes good business sense to outsource operational functions that are not central to teaching and learning. But what if we push that paradigm a bit? Under the right circumstances, might it make sense to in essence outsource components of the educational program—such as common introductory and developmental courses—and focus on building distinctive value in upper-level courses? Can and should an institution reduce the number of majors or programs it offers in the context of focusing on a relatively few areas that it does extraordinarily well? Might an institution profit from deciding not to pursue growth (or ratings) at any price? If those kinds of fundamentals are on the table, what opportunities might be created for reenvisioning and strengthening the institution?

How can we best differentiate ourselves? As many institutions now trim their curricula, some are drawing on lessons learned from that exercise to ask hard questions about how they might distinguish themselves in a crowded marketplace. Differentiation—or, to use marketing parlance, defining a unique brand—becomes of even more paramount importance when quite similar institutions, perhaps concentrated in a fairly small geographic region, must compete aggressively for a shrinking pool of students, with reduced financial resources. In a marketplace where many institutions look alike to students and parents, how can your institution stand apart? As it redesigns business practices, can it make strategic decisions that will help it define and hone its unique characteristics?

How might we reframe our value proposition? With higher education at a crossroads in terms of both a general decline in public opinion about its relevance and quality and significant challenges to its financial sustainability, many experts both inside and outside the academy are suggesting that the time is right for institutions of higher education to clarify their essential value propositions. Every college and university needs to think about such fundamental questions. In exchange for four years of education and an often considerable sum of money, exactly what does your institution provide? How can it demonstrate that value to an increasingly skeptical public? How can your college or university effectively answer increasingly pointed questions about the connection between higher education and success in the workforce?

How can we think creatively and act boldly? Current economic constraints are driving change in higher education that goes far beyond what most academicians have experienced. Many institutions have permanently cut academic programs and faculty. Others have shut down varsity sports programs. An increasing number of colleges and universities are forging partnerships that would have been unheard of just a few years ago, including many relationships with for-profit entities. Some institutions have merged, and a few have closed. While the precise nature of change in the future cannot be foreseen, it is likely that we are going to continue to see unprecedented challenges that will continue to create a pressing need for institutional reform.

The traditions that make higher education a cornerstone of society and that have built great colleges and universities over time have also helped create cultures within individual institutions that are innately skeptical about new ideas and change. Colleges and universities that are genuinely interested in redesigning business models and practices must decide to do so intentionally and aggressively, lest such efforts fall victim to natural pressures to uphold the status quo.

"If you want to do real business-model innovation," says SNHU President Paul LeBlanc, "separate the unit and give it room to breathe and break rules." Moreover, LeBlanc observes, a lot of business model innovation tries to serve existing markets. "Business model innovation is a lot smoother if you can reach or find the markets that are either dramatically underserved or that you don't serve now," he says. "That also takes away some of the threat to stakeholders who often feel very threatened by change."

THE IMPERATIVE FOR REFORM

The central challenge for many colleges and universities is having the courage needed to take strong, concerted steps to change their habitual ways of doing business and transform themselves from within.

Going far beyond the scope of traditional strategic plans, deep thinking is needed about fundamental questions: What business should our institution pursue? Where can we excel? Where can we secure the resources that will carry us forward? What parts of our current mission no longer serve our goals for the future? In what new places and around what new activities might we find strategic partners? How can we better use technology to help us succeed in the future?

The most forward-thinking of change-oriented institutions recognize that reform on the scale that today's challenges in higher education seem to mandate requires an evolution in institutional culture. Accordingly, for example, some colleges and universities have begun to adapt principles of design thinking to reengineer their business models and iterate changes in business procedures and practices. Scaling change on that order assumes that institutions summon the wherewithal to ask deep questions of themselves. Are our current business models stale and too tradition-bound to serve us effectively in this new era for higher education?

Renu Khator, chancellor of the University of Houston System and president of the University of Houston, says that colleges and universities "have to realize that things are going to change much faster in the next 10 years than they have changed the last 10 years. Not knowing precisely every detail of the change coming, the only insurance we have is simply to have the nimbleness and agility to move and shift and find our course. It's almost like white-water rafting: You can never exactly predict your course—even when you know your destination—you just have to be ready to change."

"We can't be resistant to change or afraid of it," Khator says. "If an idea seems like it might work, this is a time when we may have to take a risk and try to implement it."

The upside of change, of course, is that it comes wrapped around many different kinds of opportunities. The mandate for every college and university is to unpack those opportunities in ways that will best advance the institution to a truly successful and sustainable future.

REFERENCES

Bogaty, Eva. 2013. *Industry Outlook: 2014 Outlook—US Higher Education, Not-for-Profits, and Independent Schools*. New York: Moody's Investors Service.

Christensen, Clayton M., and Henry J. Eyring. 2011. *The Innovative University: Changing the DNA of Higher Education from the Inside Out*. San Francisco: Jossey-Bass.

Christensen, Clayton M., Michael B. Horn, and Curtis W. Johnson. 2008. *Disrupting Class: How Disruptive Innovation Will Change the Way the World Learns*. New York: McGraw-Hill.

Christensen, Clayton M., Michael B. Horn, Louis Caldera, and Louis Soares. 2011. *Disrupting College: How Disruptive Innovation Can Deliver Quality and Affordability to Postsecondary Education*. Center for American Progress and Innosight Institute.

Davis Educational Foundation and New England Board of Higher Education. 2014. "Davis Educational Foundation/NEBHE Project on Costs and New Business Models in Higher Education." Website and gateway to many relevant publications and videos, including the report *An Inquiry into the Rising Cost of Higher Education: Summary of Responses from Seventy College and University Presidents*. http://www.nebhe.org/cost-in-higher-education/.

Denneen, Jeff, and Tom Dretler. 2012. *The Financially Sustainable University*. Bain & Company. http://www.bain.com/Images/BAIN_BRIEF_The_financially_sustainable_university.pdf.

Katz, Richard N. 2013. "Higher Education at the Inflection Point: Toward edu@2025." Lecture presented as part of the Philip H. Knight Dean of Libraries Distinguished Speaker Series, University of Oregon, April 16.

Marcus, Jon. 2013. "Why Some Small Colleges Are in Big Trouble." *The Boston Globe*, April 14.

Riddell, Roger. 2014. "4 Higher Ed Tech Startups Mark Cuban Is Betting On." *Education Dive,* May 1. http://www.educationdive.com/news/4-higher-ed-tech-startups-mark-cuban-is-betting-on/258000.

Selingo, Jeffrey J. 2013. *College Unbound: The Future of Higher Education and What It Means for Students*. Boston/New York: New Harvest, Houghton Mifflin Harcourt.

Sheets, Robert, Stephen Crawford, and Louis Soares. 2012. *Rethinking Higher Education Business Models: Steps Toward a Disruptive Innovation Approach to Understanding and Improving Higher Education Outcomes*. Center for American Progress and EDUCAUSE.