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A Transformation Manifesto

BY RICHARD LYNCH AND JACK CALHOUN

Transformation is not about external forces, they are inevitable. It's not about reorganisations, they don't work. There are more profound issues with the very nature of business models and design of work. Misaligned leadership, functional hierarchy, obsolete business models, archaic governance models, and the lack of strategy to execution (S2E) processes are the issues transformation must address.

In Moving Beyond the Anecdotal – What It will Take To Create Your Digital 2.0 Business Model, we noted that entire industries continue to be disrupted due to rapidly changing behaviors in how humans interact with technology and information. Companies that traverse this chasm will discover not just that they need a Digital 2.0 Business Model, but they need a roadmap to direct, execute and deliver on that model.

Next in *Talent Management 2.0*, we built the case that talent management must become an even more integral part of business strategy. Technology and processes can be copied. People know-how, experience, ability to collaborate, and glean insights can't be. Already, new groundbreaking practices are emerging in companies like Tesla, Netflix, Pepsi and Google. What's emerging is a newer view of strategic Human Resources: one that demands talent analytics to inform business decisions, addresses organisation capability gaps, and is delivered in a more distributed way. New cloud-based platforms enable talent management capabilities across the organisation; where and when needed.

That said, transformation is not about external forces such as digitisation, they are inevitable. It's not about reorganisations, they don't work.

There are more profound issues with the very nature of business models and design of work. Don't count on process improvement; it never leads to transformation. It's only a flare for incremental change.

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Ten Principles that Guide Business Transformation

Our colleagues, Jim Champy and the late Mike Hammer provocatively used the term "manifesto" in their book, *Reengineering the Corporation: A Manifesto for Business Revolution*.

We believe an amendment is needed.

A Transformation Manifesto

We proposed the following tenets:

1. The ability to run, improve, and transform the business simultaneously is leadership's major focus.
2. A strategy to execution process is cultivated and includes many contributors. Without this, run/improve the business will fail and transformation will be impossible.
3. The strategy to execution process is driven by vision and inspiration. The best type of transformation is value innovation driven; not a response to market forces.
4. Fundamental rethinking of the business-operating model is embraced. Forget hierarchy; it's all about capability development and deployment.
5. There is a deliberate shift away from command and control models to new networked models of work.
6. The adoption of new capability-based behaviors, metrics, and responsibilities is widespread.

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7. Transformation requires the use of new techniques; capability modeling, business value analysis, heat mapping, investment road mapping, and enterprise architecture.
8. Higher velocity is created by using agile/scrum for the business and IT.
9. Inspired stumbling forward is encouraged and rewarded.
10. Transformation starts with CEO and C-suite leadership and centers on Talent Management. Leadership demands more from HR and IT to leverage talent for better collaboration and to create the conditions for innovation and growth.

Where better to test the implications of the manifesto than in Higher Education?

Higher Education's Tipping Point

Higher education claims that they are different.

Undeniably they are.

Colleges and universities share a rich and special tradition. Students and parents place their trust in the institution to help the student explore new possibilities, grow and mature; and get a higher paying job. Despite the criticism of higher costs, graduates earn significantly more than workers without a degree. What's more, the gap is widening. In 2002, a Bachelor's degree-holder could expect to earn 75 percent more over a lifetime than someone with only a high school diploma. Today that premium is 84 percent.[1]

In the United States, despite spiraling tuition costs and massive student debt (at $1.2 trillion student debt now tops credit card debt), demand is still strong at many colleges and universities; especially from more profitable international applicants.[2]

Faculty members have employment security in the tenure system and administration staff and operating costs are exploding at a rate higher than all other industries including healthcare.

In the United States, federally funded research dollars keep flowing in, dictating the research agenda. In Europe, publicly funded block grants have been curtailed and targeted funding is more common.

Annual salary increases, employee benefits and retirement plans continue to be among the best offered.

As billion dollar businesses, many universities have not had to act like a business: especially when it comes to getting lean.

Why change?

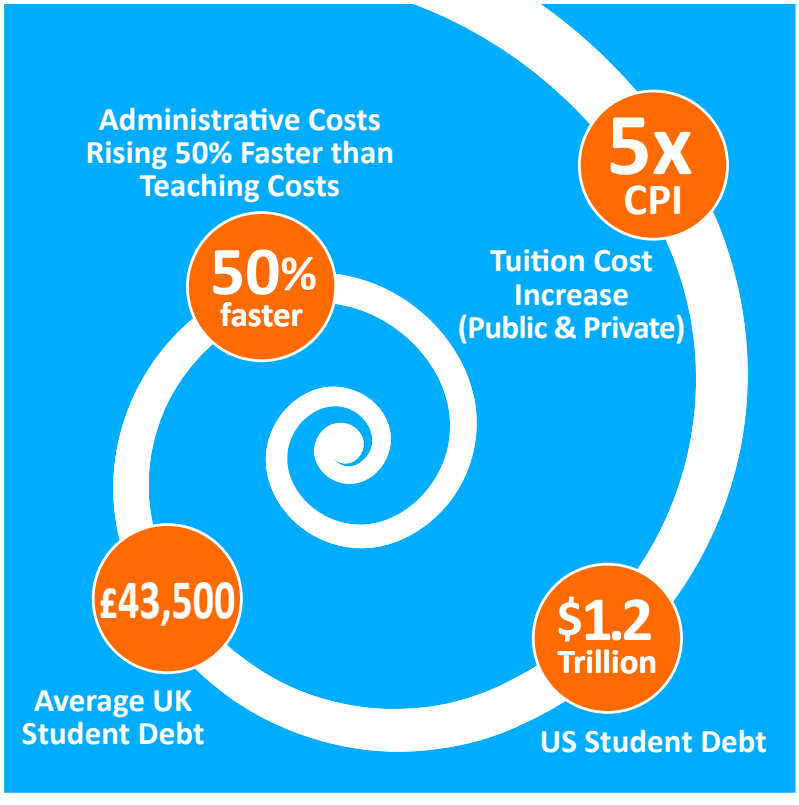
The simple answer is that higher education has hit a tipping point and has to transform.

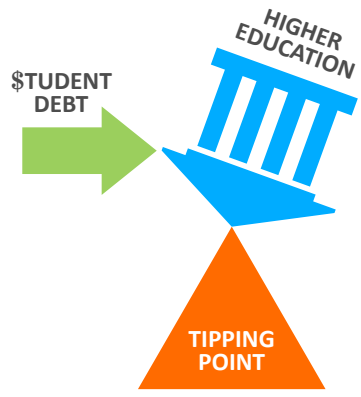
Harvard Professor and disruptive innovation expert, Clayton Christensen claims that while higher education institutions in the United States have been very successful for centuries, things are changing because the scale and the cost is so enormous. *"Higher Education has a product that is so expensive that a lot of people can't pay for it, and they have to go into debt. And it just isn't viable."*

The same is true in European Universities. In the UK, student debt is exploding: reaching an average graduate debt of £43,500. In other countries where tuition fees are paid for or highly subsidised by the government, the tipping point is taxpayer burden.

But universities today around the globe are caught up in the game of beating your rivals; not just on the football field but also in the school rankings and the number of spa-like facilities. As a result, the mission of educating becomes obfuscated and there is an excuse to raise tuitions.

Figure 1: Is the higher education business model sustainable?





Julian L. Alssid, Chief Workforce Strategist at the College for America, summarises the magnitude of the changes needed.

"Systemic change (goes) beyond individuals, individual programs, beyond even enlightened leaders. It needs the ground to shift. It needs larger planets to align. As we enter 2015, I believe the ground under education is really shifting. And in my amateur astrological way, I believe three important planets have moved into alignment: (1) Economy and Demography. (2) Industry/Business Engagement and (3) Politics and Public Policy."

Economy and Demography

Consumer behaviors have changed since the Great Recession of 2007 in the US and the European Financial Crisis; people are taking less risk and incurring less debt. Today, college costs and the value received is under scrutiny; the central theme in Andrew Rossi's 2014 documentary film 'Ivory Tower'.

Workforce strategies are changing as well. Businesses openly recognise a skill/experience gap in the marketplace but are spending less on training; transferring the burden to the worker. Employers expect schools and individuals to close the gap.

Generational shifts are compounding these issues. Retiring Boomers are creating skills gaps while Boomers who remain in the workforce need retraining. On the other end of the spectrum, Millennials are forced to leap frog from job to job to advance and increase their salary. This practice creates higher turnover which can lead to periodic skills gaps as well.

At the same time there is high demand for new skills such as business intelligence and analytics, Science, Technology, Engineering and Math (so called STEM skills). European governments have responded with targeted funding in these disciplines.

New trends such as increasingly cost conscious and risk adverse consumers; reductions in industry's investment in training; and increasing skill gaps in the workplace and highly focused demand for STEM skills aren't going away soon. Coupled with the continuing decline in undergraduate student progression and graduation rates[3] these trends have exposed an Achilles heel in higher education: outdated business models.

Industry/Business Engagement

To partially offset the economic, demographic, and public policy issues some businesses are engaging with higher education institutions to shape curricula to make them more relevant to business and industry needs. This is resulting in closer collaboration between institutions of higher education and businesses *in the workplace environment.*

Schools like Boston-based Northeastern University are filling the gap in strategic markets impacted by cuts in state funding such as California. According to Northeastern, they are opening *"a series of educational hubs embedded in select companies across the Bay area in California."* Already, leaders in experiential learning and with a global network of 3,000 business partners worldwide, Northeastern is bringing STEM skills to the front door; co-locating within Integrated Device Technology (IDT) in Silicon Valley. Part of the strategy includes attracting minorities and women.[4]

Politics and Public Policy

In the United States, as state and other government education funding pull back and administrative costs continue to pile up, the financial burden shifts to the student; an increasingly political hot potato!

On the national scale there is a move towards skills-based educational alternatives such as Wisconsin and Capella University's competency-based education (CBE).

This situation leads many to ask a profound public policy question: is traditional higher education only a right for the wealthy?

In response, many colleges and universities are going global and offering new hybrid forms of online and in-class courses. Others are offering certifications and programs outside of the traditional four-year programs. Some leading universities are partnering with businesses to offer experiential learning to meet targeted/hot skill demands.

The Impact

University leaders (presidents, provosts, deans, and function heads) are starting to think about how to pivot their operating model to become more relevant in a changing world. Rather than operate in silos as many universities and colleges do today, some Universities like Michigan and Northeastern are experimenting with hybrid models that seek to leverage common resources across schools while allowing individual schools budget autonomy.[5] A major goal is getting closer to customer segments and markets in support of long range plans. Equally as important is the recognition to make efficient use of

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resources; including cross-unit collaboration for leverage and central administrative units or shared services for efficiencies.

Still many higher education organisations are slow to make changes.

Even if there is a recognition of the need to change, how do you undertake large scale change in an institution with deeply held beliefs and entrenched behaviors?

Challenges

The shift to global markets, hybrid and experiential learning and alternatives to traditional four-year degrees is forcing university administrators and faculty out of their comfort zone and into areas where they are not necessarily the experts. As universities seek to transform in response to fiscal realities, new customer dynamics and technologies, some are recognising that the challenge is like starting a new venture built on 100 year-old infrastructure.

The adoption of contemporary technology platforms and free and paid digital content will be central to their chances of success. Not many institutions have invested sufficiently in these tools. Just a short time ago, technology platforms were all 'on premise.' Integration largely required human intervention doing batch data loads between ERP, Supply Chain, and HRIS systems. The operation required complex human-to-human process communication and human-to-machine process support or rather intervention.

Today with cloud technology, embedded platform business process management and enterprise service bus (ESB) technologies, the automation of information flow between different enterprise support systems and functional departments is changing how we think of process engineering.

CRM Platforms like HubSpot, HRIS platforms like Workday and cloud ESB technologies like Mulesoft are not just empty technologies looking for data to be inserted. They actually come with built-in processes to help the business improve inter and cross-department communication and information flow. To implement Hubspot while ignoring their Inbound Marketing process would equate to buying a car and pushing it (and rewarding the pushers) as opposed to using the car's technologies to make the car run.

Talent Management is just as crucial for colleges and universities looking to change. The reasons are worth repeating. Technology and processes can be copied. People know-how, their experience, their ability to collaborate, and their ability to glean insights can't be. Already, new groundbreaking Talent Management practices are emerging in companies like Tesla, Netflix, Pepsi, and Google. These companies have adopted a newer view of Talent Management: one that demands talent analytics to inform business decisions, address organisational capability gaps, and is delivered in a more distributed way. Cloud-based platforms discussed above enable talent management capabilities across the organisation; where and when needed. Solutions like Workday come with not only prescriptive analytics but predictive ones as well. For example, illustrating things that will happen in your organisation - like who is a flight risk - allows universities to course correct quicker and more efficiently.

In the case of Talent Management, higher education is no different from other industries. In fact, it may be more important in higher education to manage their talent strategically with faculty and administrative search costs soaring. In many instances it takes a year to select a new President – does your institution have a year to run rudderless?

Higher Education – From 'Strategy to Execution'

According to Grant Thornton, higher education will have to acknowledge the elephants in the room. But the elephants such as differed maintenance are just the tip of the iceberg.

The issues run deeper.

Larry Ladd, Grant Thornton's Director, National Higher Education Practice estimates that only about 25% of University Administrators believe the existing business model will be sustainable for more than 5 years. Therefore, it's time for Universities to re-examine their strategies from their mission to their investment plans.

Do they invest in new rock climbing walls or more modern approaches to corral spiraling costs?

Strategy to execution requires college and university presidents to answer 10 questions to more clearly define their strategic and operating response to higher educations' tipping point:

1. Has our mission changed or should we revise our mission?
   a) Who are our customers, where do we serve, and to what extent?
   b) Is our spending proportionate to the mission?
2. What is our university's operating model?
   a) Do we operate like a Holding Company (schools act in their own interests), Allied Company (some local autonomy based on market needs and a strong desire to share some services) or an Integrated Company (one strategy for all parts of the university and common systems throughout)? There are big cost ramifications of this choice.
   b) To what extent or not do we share resources, agree to common platforms, and utilise shared services?
   c) What technologies are needed to support our model? Are we confident that we have embraced the right model to achieve our objectives?
3. Do we have a revenue exposure?
   a) To what extent will Massive Open Online Courses (as they evolve), short-term and certificate programs, virtual classrooms and other technologies impact our school's four-year, on-campus undergraduate degree programs and revenue?
   b) What is our school's growth strategy to close revenue gaps? What are the organic opportunities (e.g. raise fees, fund raising, adjacencies and new growth platforms, etc.)
   c) Are there acquisition or joint venture opportunities?
   d) How can colleges and universities reshape our market?
4. Does our business strategy need to change?
   a) Most universities have been focused on capacity (fill seats and research labs) and provide value through high quality curricula.
   b) Are these a given today and do universities need to compete on getting closer to customer and markets?
   c) Do universities need to move the value discussion to innovation and the customer experience across channels?
5. How do we pivot our business models to respond to vastly different plausible scenarios (Political, Economic, Social, and Technology)?
   a) Can our university respond quickly?
   b) How can agile techniques be adopted or adapted when we have made decisions slowly?
6. How do we promote our university brand and compete in new markets?
   a) In a crowded field, how do we standout?
   b) How does our brand address local diversity and cultural issues while preserving what's unique about us?
7. What capabilities do we need to invest in to execute our strategy and growth plans?
   a) What missing capabilities are needed and where should they reside?
   b) How do we better leverage knowledge resources across the university?
   c) What capabilities can we buy, broker or borrow to close gaps?
8. How do we assess the complicated and interrelated sourcing, organisation and technology platform issues?
   a) If we implement new platforms, it opens up new locations of work possibilities, including self-service.
   b) If we outsource many capabilities, we may not need new platforms. Pick the Business Process Outsourcer with the best technologies.
9. Are we clear on where we can target cost reductions without impacting students or increasing risk so that we can pursue growth?
   a) How can our school invest in needed capabilities and digital technologies and get leaner at the same time?
   b) Can administrative groups adopt lean and process improvement techniques to reduce waste?
10. How do we manage the change?
    a) Do we have enough leaders with the backbone to set a course of change, walk the talk, communicate across and down powerfully from the heart and the head and hold others accountable?
    b) How do we help staff cope with these changes and stay productive?

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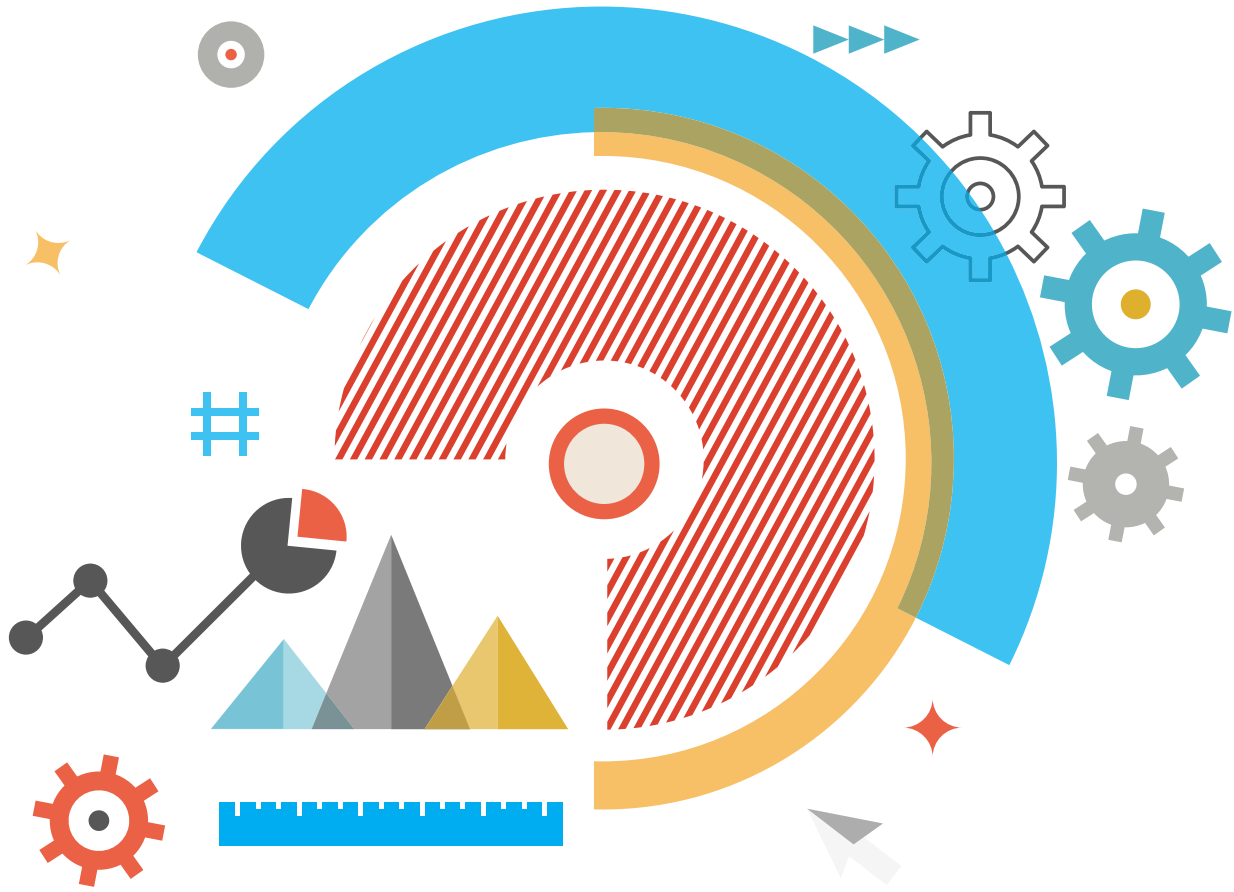

Summary

Whether higher education, healthcare, retail, energy, financial or just about every other industry it is time for leaders to address the transformation questions above. This will require a disciplined strategy to execution process to address today's market changes, growth challenges and outdated business models. It will also require challenging sacred cows, deeply ingrained beliefs and organisation cultures.

The Transformation Manifesto principles are a good place to start the conversation.

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About the Authors

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