

COMMENTARY

The Innovator's Dilemma Hits Higher Ed

Purdue's acquisition of Kaplan University is risky, unconventional, unexpected—and smart.



Purdue President Mitch Daniels in West Lafayette, Ind., 2012. PHOTO: MICHAEL CONROY/ASSOCIATED PRESS

By Alana Dunagan

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Last month's announcement that Indiana's Purdue University would acquire the for-profit Kaplan University shocked the world of higher education. The Purdue faculty are up in arms. The merger faces a series of regulatory obstacles. And it's unclear whether the "New U," as the entity is temporarily named, can be operationally viable or financially successful.

But Purdue's president, Mitch Daniels, is willing to give it a shot.

The venture is unexpected, unconventional and smart. The nature of the partnership—in which Kaplan will transfer its assets to Purdue, a public university—is unprecedented. It's also a rare instance of attempted self-disruption.

There are lessons here from the business world. In the seminal 1997 book, "The Innovator's Dilemma," Harvard professor Clayton Christensen describes how leading companies can do everything "right" and still be thwarted by disruptive competitors. In an effort to appease stakeholders, leaders focus resources on activities that target current customers, promise higher profits, build prestige, and help them play in substantial markets. As Mr. Christensen observes, they play the game the way it's supposed to be played. Meanwhile, a disruptive innovation is changing all the rules.

Facing the innovator's dilemma requires leaders to think beyond their current business model, identify the strategic conundrum in which they find themselves, and accurately assess their organization's capabilities to compete on entirely new terms. That may sound simple, but in practice it's often deeply counterintuitive. Initially, disruptive innovations offer products and services that underperform existing options, create lower profits, and can be sold only in less significant markets. That describes the earliest days of Airbnb, Amazon, Netflix, Uber, Wikipedia and a slew of other low-end providers that went on to dominate their markets.

The higher-education industry, full of brilliant and competent leaders, is ripe for disruption. Despite mounting political pressure—not to mention the struggles of indebted alumni—most college presidents believe that their institutions are providing students with good value. By and large, they remain comfortable making small, marginal tweaks to their business models. In the meantime, college becomes ever more expensive.

In contrast, Mr. Daniels has a long history of bold, innovative moves. He was an early supporter of Western Governors University, a leading competency-based education provider. He has also encouraged the development of income-share agreements at Purdue, which may make a big dent in the student-loan crisis.

Mr. Daniels explicated his motivations in an addendum to his announcement of the acquisition. He detailed three key “realities.”

- *Millions of potential students are unserved by the current higher education system.* No one would have faulted Mr. Daniels for limiting his view to the students already served by Purdue. It’s what most college presidents do. But looking past the confines of the current, mostly traditional-aged student body could produce big opportunities. By expanding access to thousands of potential students in Indiana and millions beyond, Purdue is recalibrating toward an unserved population—a key characteristic of disruptive innovation. It is rejecting a myopic status quo and instead making a strategic investment in nontraditional students who have been historically ignored.

- *Online education is growing.* Its expansion is impossible to ignore, but plenty of college administrators are in denial about its future impact. Led by nontraditional students, online enrollments continue to grow steadily. As of 2014, 29% of undergraduates were taking at least one class online; nearly half of those were taking their entire program online. Among graduate students, over a quarter are earning their degrees exclusively online.

When used to lower cost and increase access, these programs become the “enabling technology” requisite for disruption. That’s not to say that all online programs are disruptive—many college administrators simply tack on digital offerings to their existing business models, with programs often costing just as much as brick-and-mortar options. But as leaders begin combining these technologies with disruptive business models that make college radically affordable, millions of underserved potential students will finally be able to access college.

- *Purdue can’t build online capabilities, so it should buy them.* Admitting that something needs to be done—and that the organization doesn’t have the capability to get it done—is tough. Purdue estimated that it would take at least three years to build an online undergraduate program, assuming there was sufficient internal political will. That made acquisition a much faster and more certain path. Importantly, the acquisition route also enabled Purdue to structure its online efforts as an autonomous unit—the linchpin of self-disruption.

A further challenge of the innovator’s dilemma is that even after leaders realize they are being disrupted, disruptive innovations rarely thrive in the context of the traditional business model. Mr. Daniels has recognized that pitfall. Rather than attempt a true merger of Kaplan into Purdue, the new entity will remain autonomous. This structure emulates that of other disruptive schools, such as Southern New Hampshire University, which have moved beyond a brick-and-mortar legacy to become major players in online learning.

The innovator’s dilemma is one of the toughest strategic predicaments an organization can face, and in an era marked by technological upheaval and economic transition it is more common than ever. Mr. Daniels is setting Purdue on the right course, for good reasons, and he deserves a great deal of credit. As the saying goes, a journey of a thousand miles begins with a single step. For Purdue, the next thousand miles will consist of navigating regulatory approvals, winning the support of stakeholders, and, not least, the hard work of building New U. We can be hopeful, on behalf of those left behind by today’s higher education system, that Purdue treads a path that others can follow.

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