



CASE STUDY

# Region 4 Educational Service Center: Tapping Entrepreneurialism to Survive Funding Cuts and to Better Serve Districts

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# Region 4 Educational Service Center: *Tapping Entrepreneurialism to Survive Funding Cuts and to Better Serve Districts*

When you walk the halls of the Houston-based Region 4 Education Service Center (Region 4), it does not take long to recognize that this is a unique organization. The center's distinction owes to the work of its leadership team. Led by Executive Director Dr. Bill McKinney, the team transformed both the service center and, in turn, the manner in which the center now supports education in Texas and beyond. When the team predicted an impending decline in Region 4's grant resources, it realized the situation demanded innovation and viewed the funding cliff as an opportunity to revolutionize the center's operations. Almost a decade later, Region 4 has overcome significant budget losses to become a self-sustaining, valued resource for school districts throughout Texas as well as across the country and internationally. Region 4's leadership team drove a philosophical change within the organization—altering the center's organizational structures, rethinking how key data is used to drive Region 4's goal of unparalleled customer support, and cultivating an entrepreneurial approach to help school districts tackle diverse challenges.

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**R**egion 4 was established in 1967 when the Texas Legislature authorized the creation of 20 regional education service centers (ESC) to serve as resources for Texas school districts. In the years that followed, the legislature refined the purpose of these centers to reflect three primary goals: assist school districts in improving student performance, enhance economy and efficiency, and advance state initiatives. Region 4 covers part of southeastern Texas, including cities such as Houston and Galveston. It serves 53 school districts representing over 1,000,000 students and more than 85,000 professional educators.

Like many other ESCs, Region 4 has a history of providing quality professional development and technical assistance to school districts in its specified region. But, nearly ten years ago, the Region 4 leadership team began to see signs of a decline in funding for

the regional education service centers in Texas. All economic and political factors pointed to an inevitable and potentially significant reduction in both state and federal grants. At that time, these types of funds constituted approximately 65% of the center's revenue. Region 4's leadership team began to strategize how to survive if and when this funding shift became a reality. Andy Pechacek, now Region 4's chief financial officer, recalls those leadership meetings. "We talked about what our goals were and what our future looked like," said Pechacek. "We realized that we needed to move away from relying on grants and become financially self-sufficient."

The leadership team diligently set to work charting a new course for the organization. Building on Region 4's core values of Excellence, Service, and Children, it developed a core purpose statement of "Revolutionizing education to inspire and advance future generations."



Region 4 ESC headquarters, Houston, Texas

Using the well-known work of management theorists Collins and Porras, the team defined the center’s “Big, Hairy, Audacious Goal” or “BHAG” as the authors call it.<sup>1</sup> Region 4’s BHAG is “Creating solutions that are the worldwide standard for educational excellence.” The game plan for achieving both the core purpose and the BHAG revolved around three primary strategic goals: 1) make every customer a raving fan (taken from Ken Blanchard’s work *Raving Fan*), 2) be financially self-sufficient, and 3) increase employee and organizational capacity.<sup>2</sup>

As it was developing this strategic plan, the leadership team had no idea how critical it would be to the organization’s survival. When it started work on the plan, it expected to have at least five years to implement this strategy. As it turned out, when the legislature met the very next year, a financial bombshell was dropped on regional ESCs in the state of Texas. Region 4 lost 91% of its state funding and suffered a significant reduction in federal grant dollars as well. In addition, the state asked the ESCs to return any unspent grant dollars, which required Region 4 to send approximately \$16 million back to the state with virtually no warning. This dramatic and sudden loss of funding also forced the center to lay off approximately 350 people from a staff of nearly 700.

### **Unleashing Entrepreneurialism and Increasing Employee Capacity**

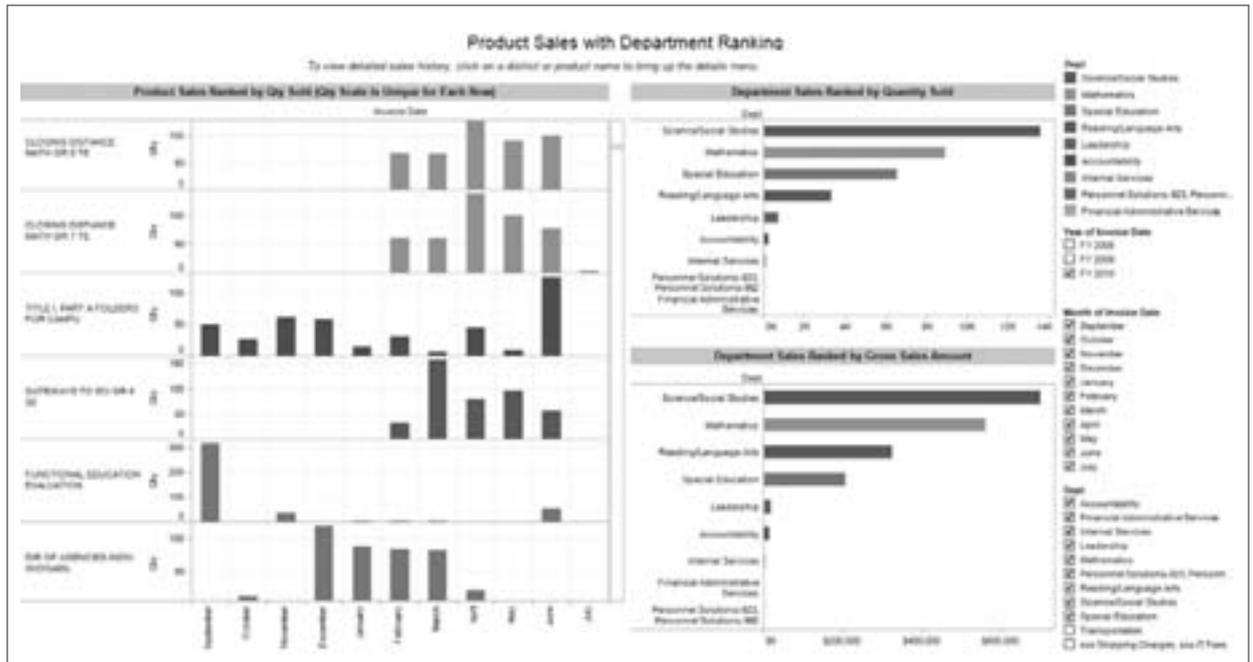
In light of the sudden loss of revenue and the devastating layoff of coworkers, the leadership team ramped up the implementation of the new strategy. The team took a hard look at each department to assess its value to the organization. In this analysis, each department was

evaluated based on its impact on classroom/student performance and its ability to generate revenue from outside the organization, or based on its ability to provide support to the revenue-generating departments. As a result of these reviews, Region 4 reorganized itself into 18 entrepreneurial departments that had responsibility to produce revenue for the center and five internal departments that served as support functions to the rest of the organization. The funding crisis caused Region 4 to focus on those activities that were of prime importance to the success of the organization and to place everything else aside.

Like many school districts, Region 4 had a history of internal silos that was reinforced by the cost-recovery accounting protocols required to support a traditional grant-based revenue model. Every support activity completed by each internal support department had a fee, which served to ensure that Region 4 covered its costs under the grant-based funding model. For example, there were fees based on the amount of square footage a department utilized for office space; there were fees based on the number of computers and printers a department had; and there were fees on the convenience copiers utilized by a department. These service fees between departments led to internal competition for resources that was not conducive to supporting an entrepreneurial approach, according to Pechacek. Therefore, it was imperative to substantially revise the center’s accounting model and budgeting philosophy in order to align incentives and promote greater flexibility and, ultimately, improve responsiveness to district needs.

In order to effect these changes, the Region 4 leadership team analyzed the budgets of all departments. It turned out that all of the internal support costs totaled less than 20% of the predicted revenue that would be >

FIGURE 1



An example of data-tracking at Region 4

generated by the entrepreneurial departments. This realization allowed the business office to set a 20% flat fee as an administrative cost for entrepreneurial departments and eliminate all of the interdepartmental billing that had been occurring for support functions. By implementing this change to the accounting model, Region 4’s leadership was able to remove incentives that led to internal competition and was able to take a significant step toward breaking down silos.

As the center’s leader, McKinney showed flexibility and courage in allowing this very different approach to budgeting and operations. The new focus and reorganization also reinforced key internal practices. McKinney has always thought it important to know every employee’s name, background, and current job at Region 4, but this reorganization furthered that connectivity. Since McKinney’s arrival, Region 4 has held employee award ceremonies to recognize service, but as a result of the reorganization, people could see more clearly the value of their contribution, which, in turn, increased their productivity. The leadership team saw another way to celebrate employees and build the culture of family when it recognized an opportunity to use the children of employees as models for catalogs and brochures. This has become standard practice and a source of pride for many employees. While Region 4

had always sought to increase employee empowerment, the cultural enhancements achieved through organizational changes strengthened the empowerment model.

### Thinking Like an Entrepreneur and Focusing on Customer Needs

Under this new organizational structure, each entrepreneurial department was challenged to operate like a business. This forced department directors to assess the relevance and value of each activity in which their department was engaged. The directors at Region 4 quickly discovered that the best way to determine relevance and value is to monitor whether or not schools are willing to spend their dollars to purchase a particular product or service. With this philosophy in mind, it is easy to see how the center’s goal of creating customers who are raving fans is critical to the success of the organization. “At Region 4, being entrepreneurial means responding to the customer by identifying their needs and developing innovative solutions to meet those needs in the most economical means available,” Pechacek said.

The new entrepreneurial strategy looked great in theory, but the proof would be in how well the organization could actually make it happen. Fortunately for Region 4, the first major entrepreneurial initiative was a huge

success, and that success went a long way in galvanizing the culture and mindset at Region 4. The initiative began when academic specialists recognized a need to provide the missing link for districts in support of the “5E learning model” for instruction.<sup>3</sup> While the center was already providing traditional professional development that taught the “how” of the 5E learning model to districts, it recognized a need for curriculum tools that would assist teachers in the practical implementation of this model in the classroom. In just a few months, the academic specialists at Region 4 authored over 300 supplemental curriculum resources aimed at filling this void. The curriculum created and published by Region 4 proved to be a significant success, filling a marketplace gap that was larger than anyone had anticipated. Region 4’s value proposition was to provide a new service at an attractive mix of quality and price. This was the first of Region 4’s successful initiatives. “This was a motivational time,” said Pechacek. “It convinced us that entrepreneurial was the way to go. [After this], we were willing to pursue almost any solution to meet district needs.”

A second example demonstrates that entrepreneurialism is a long-term effort, often with significant rewards. With Region 4 leadership beginning to believe that it could tackle even the toughest challenges districts face, its clients embraced similar views and encouraged the pursuit of services that were unrelated to traditional ESC offerings. In response to customer needs, Region 4 created The Cooperative Purchasing Network (TCPN) to provide leveraged volume purchasing to benefit governmental entities, which includes school districts. The center partners with such vendors as Lowe’s, Xerox, Office Depot, CDW-G, and, most recently, Aegis Fuel Solutions.

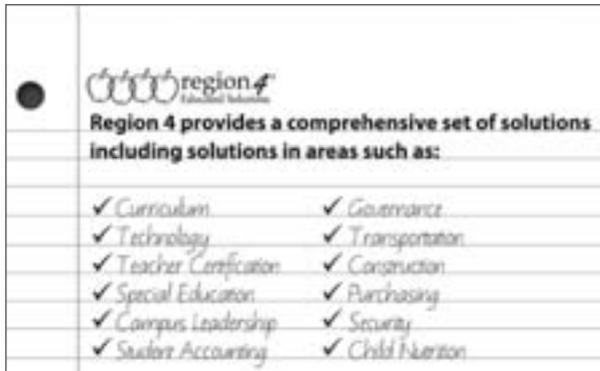
Through the partnership with Aegis Fuel Solutions (Aegis), Aegis can legally hedge the price of fuel on behalf of TCPN’s customers much like major corporations do. “Superintendents were coming to us, frustrated that their school budgets were being decimated by unpredictable spikes in oil prices, and they wanted us to help them,” said Pechacek. “We recognized this as an opportunity to revolutionize fuel purchasing for governmental entities. So, we pulled together industry experts and some of the best legal minds in the school business to help us with this challenge. After nearly three years of hard work, we were able to design this revolutionary contract that was ultimately awarded to Aegis. Now, thanks to this contract, governmental entities all across

the nation can lock into a fuel price for up to 24 months, giving them budget certainty in an area that had been completely unpredictable.”

While successes like the two examples mentioned here are impressive, it should be noted that an entrepreneurial model entails risk, and not all initiatives are successful. For example, a partnership was created with UPS to provide digital transportation routing software to school districts in order to help optimize operations. Motivating the effort was a common rule of thumb that 15% gains in efficiency can typically be found through the use of digital routing software. Despite this, 75% of districts nationwide do not use such software to assist with transportation operations. However, what appeared to be a significant opportunity quickly unraveled. UPS’s software required modifications that the company was unwilling to produce without a significant number of district adoptions, and Region 4 was unable to engage districts without working software, creating a downward spiral that left Region 4 unable to take advantage of its investment. Pechacek is quick to blame himself for the failure of this particular initiative, and feels that he fell prey to a common pitfall in business: “Our excitement about developing a relationship with a company like UPS caused me to lose focus and not take the time to perform sufficient due diligence.” While chalked up as a failure, the event remains a valuable learning opportunity for the Region 4 leadership.

Clearly, the entrepreneurial approach allows for breakthrough successes, but it also forces the leadership team to engage in increased risk management of its portfolio of activities. Through initiatives like the examples above—both good and bad—the Region 4 team transformed the center from being 65% grant-based funded in 2002–2003 to 21% grant-based funded in 2009–2010. The team has grown total budgeted revenue levels back to where they were before the funding cuts and has added significant staff in key areas across the center.

The freedom that comes from entrepreneurial activities was a welcome change from the constraints and delays often seen with state and federal funding. The leadership team turned Region 4 into a hybrid organization—a government entity that runs like a business—by thinking like an entrepreneur, focusing on customer needs, and instituting a philosophical change within the organization. While Region 4 is currently home to more teachers and ▷



An overview of Region 4’s service offerings

students than any other Texas education service center, almost 1.1 million students in 53 school districts and 49 charter schools, Region 4’s customers come from all over. In the last 18 months, 88% of Texas school districts have used Region 4’s services. Despite the service center’s success, the leadership team does business with a “servant’s heart.” In fact, the leadership team credits this mindset as the cause, not the effect, of its success.

### Tracking Success: Using Data to Drive Transformation

While Region 4 has always made extensive use of data in its management of the center, the organization’s transformation has resulted in many improvements in how data is collected and used. With the focus on entrepreneurship and on customer needs, Region 4’s leadership team needed to track the efficacy of its activities. If the center could back up each strategic goal with targeted data, the team could track closely whether the center was achieving success. Overall, and perhaps counterintuitively, the center actually reduced the volume of data that it tracked and used for measuring success. Aiming to simplify and “reduce the amount of noise” in the data, Region 4 consciously shifted away from overwhelming its managers and customers with volumes of data to distilling key measures down to more consumable insights.

“We’ve centered our activities on our three strategic goals,” said Jo Ann Wheeler, managing director in Region 4’s Office of Business Development. “Data tracking is our culture and a way to focus on our center-wide goals. We want to make sure that we are 100% aligned on a day-to-day basis.” The Region

4 leadership team is now utilizing electronic data dashboards. That effort is evolving to the point that very soon they will be able to track every financial and personnel-based transaction within the organization via the dashboards. These dashboards are organized by department and by the three strategic goals supporting the BHAG. With this new dashboard, the entrepreneurial progress can be measured and communicated across the organization. (Figure 1)

Region 4’s data has also helped empower individuals at other levels in the organization. Wheeler points out that the entire internal dashboard is available for everyone to view. By clicking onto each goal, any user can track the progress of the data. Additionally, employees can compare the progress of their departments versus that of other departments in the center. “People can use the data dashboard to look at other departments’ progress,” said Wheeler. “It’s not a competitive thing—just making sure that we’re doing things right.”

Region 4 has also decided to repurpose the tool for school district use. The dashboard tool, called the Superintendents’ Dashboard, allows a superintendent to track all services that the district receives from Region 4. When a superintendent compares services received to student performance on specific campuses, the results can be very compelling. Clear explanations of the data by trained Region 4 staff members are built into the analysis portion of the dashboard package that each school district receives.

Overall, the dashboards are still considered a work in progress, but have significantly changed the way data is consumed. Pechacek notes, “We were collecting data, but we couldn’t digest all of it.” Now, relevance and focus have increased, and the overall volume and “noise” have decreased.

### Making Every Customer a Raving Fan

Similar to its internal efforts to use data more effectively, Region 4’s management and measurement of the customer experience became more targeted through the transformation. Part of Region 4’s customer experience had historically been to fill out extensive qualitative and quantitative customer surveys to capture opinions. Region 4 has always made it known that survey feedback, both positive and negative, is applied to improve the organization’s strategy and service delivery. However, Region 4’s leadership streamlined this process to focus

on the “ultimate question”: Would the customer recommend the service to a peer or colleague?

In his book on customer loyalty, management consultant Fred Reichheld posits that this is the one “ultimate question” that needs to be measured.<sup>iv</sup> Region 4 used this theory to radically simplify the measurement of whether its customers can be called “raving fans” or not. When answering the “would you recommend” question, a score of a 10 or 9 on a qualitative scale would make someone a raving fan; these customers are actively advocating and promoting the center and its services. With a score of 8 or 7, the customers are supportive, but are not proactively supporting Region 4. Lower scores indicate further declining levels of support. Region 4’s goal of making every customer a raving fan puts an intense focus on how many customers are or are not rating the center as a 10 or a 9 on the “ultimate question.”

In addition to customer feedback, the center goes to great lengths to get nonbiased feedback on the effectiveness of the curriculum products that it develops. Region 4 seeks out and covers the cost of third-party evaluators to conduct scientifically-based research to assess the effectiveness of the center’s products in the classroom. The results of these evaluations are impressive. For instance, one evaluation showed that on average fifth grade students using Region 4’s *Gateways to Science* instructional curriculum scored 80% higher than predicted scale scores. Quantitative and qualitative evaluations consistently demonstrate that Region 4 curriculum can significantly improve student scores on the Texas Assessment of Knowledge and Skills (TAKS™). The Region 4 leadership team knows that customer service is at the heart of any success the center may have experienced in recent years. The center’s scores from customers are excellent – Region 4 is consistently rated 94% or higher by its customers in all quality service areas. Region 4 believes the positive customer feedback is evidence of the success of the entrepreneurial model.

### Insights for School District Leaders

The depth of relationship that Region 4 has with school districts is not representative of the way in which many education service centers typically serve their customers. The Region 4 leadership team has

found a way for school districts to connect with an ESC as a valued partner and innovator.

A fiscal crisis can precipitate a cultural and organizational opportunity to rethink long-standing practices. When the Region 4 leadership team learned it would lose a significant portion of its funding, it was able to refocus the organization around areas of greatest impact. In that same vein, DMC believes that school districts can assess their current resources and think creatively about how to manage them to benefit the school district. Thinking like an entrepreneur means thinking outside the box.

Like Region 4, many school districts experience siloed departments. The Region 4 team was able to grow employee and organizational capacity by hiring and training qualified professionals in their respective subject areas and emphasizing their importance to the overall success of the organization. The team is able to strike a balance between department autonomy and control over the direction of the organization, the latter of which the team achieves by fostering transparency and employee loyalty. Pechacek believes that, from an organizational standpoint, most school districts are entering a phase that is not that much different from the funding crisis experienced at Region 4. “In a recent planning session with superintendents, one local superintendent told us that school districts need to learn from our experience and incorporate some of that same [entrepreneurial] approaches in their districts,” stated Pechacek. □

<sup>1</sup> J. Collin and J. Porras, “Building Your Company’s Vision,” *Harvard Business Review*, (74)5, 1996, p. 65–77.

<sup>2</sup> K. Blanchard and S. Bowles, *Raving Fans: A Revolutionary Approach to Customer Service* (New York, NY: William Morrow and Company, 1993).

<sup>3</sup> R.W. Bybee, J.A. Taylor, A. Gardner, P. Van Scotter, J.C. Powell, A. Westbrook and N. Landes, *The BSCS 5E Instructional Model: Origins, Effectiveness, and Applications*, July 2006, retrieved from BSCS website: <http://www.bsos.org/pdf/5EFull%20Report.pdf>

<sup>4</sup> F. Reichheld, *The Ultimate Question: Driving True Profits and Good Growth* (Boston, MA: Harvard Business School Press, 2006).



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