Center for College Partnerships and Alliances

A Division of Edu Alliance Group

A Guide to College Partnerships, Mergers, and Strategic Alliances for Boards and Leadership

From Awareness to Implementation



Executive summary

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This guide offers college presidents, governing boards and senior leaders a practical framework for exploring partnerships, mergers and strategic alliances. Drawing on the authors' direct experience, it emphasizes institutional mission, realistic financial assessment, confidentiality and careful implementation. It is not intended to prescribe a single outcome.

- Recognize the challenges: assess mission, financial realities, enrollment prospects and the resources needed for growth.
- Decide whether to explore alternatives: educate the board and consider the value of experienced advisers.
- Initiate the process: protect confidentiality, organize the work and conduct a detailed institutional assessment.
- Search for a partner: consider a broad range of institutions and identify genuine mutual interests.
- Conduct due diligence and develop agreements: verify information, establish governance and plan communication.
- Move forward: recognize that a formal agreement begins a lengthy implementation process requiring trust, coordination and sustained leadership.

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Introduction

The leadership of an institution of higher education is an awesome responsibility. These complex, largely non-hierarchical institutions are collections of professionals (faculty, administration and staff), volunteers, especially in boards of trustees, alumni, community members and, of course, students. Even in the best of times, such leadership is challenging. It becomes immeasurably more so in times of stress.

The leadership of any institution is charged with maintaining and securing the institutional future. This is true in a moral and professional sense, but also in fiduciary terms.

The pressures of today's academic environment are well-known: declining enrollments in many institutions, changing student interests, extensive regulatory requirements, rising costs, multiple financial pressures and an uncertain external governmental environment.

In these circumstances, the leadership of virtually every private, independent non-profit college or university must be considering whether or not possible forms of collaboration or partnership with other academic institutions make sense. Indeed, it is a very rare institution that does not at least have to think about such options.

This document is designed to provide a framework for institutional leaders to consider and explore such matters. It is based on the direct personal experiences of the authors, but is not intended to lead to cookie-cutter outcomes. Rather, it is hoped that these steps will be useful to leadership as they face situations that, in the worst case, may lead to an institution's demise.

I. Acknowledging there is a problem and understanding its elements

It may seem obvious, but the willingness of an institution to explore options is first recognizing that it has a problem. Even if a problem seems remote, a prudent institution should always be examining its situation in a changing environment.

The centrality of mission

A primary concern must be whether the institution is pursuing its mission. Mission is primal, as no college or university can be all things to all people. All institutions have mission statements, but clarity of purpose is often vague. What defines an institution's success in fulfilling its mission? Is its stated mission still relevant or practical? And, whatever the answer may be to such questions, what obstacles does it face in doing so?

Facing financial realities

In today's world, the fundamental challenges are typically financial, usually tied to enrollment issues. This is especially true for the hundreds of smaller, underendowed colleges and universities in the United States. Is it within the institution's capacity to meet such financial challenges on its own? If so, what is the plan? The answer to all of these types of questions first demands an honest and clear-eyed understanding of institutional finances and financial resources. Is there a plan to assure stability and does the institution have the resources and capacity to implement it?

Where to look in order to find a reliable, realistic, objective assessment of an institution's financial status? Leaders may be tempted to rely on institutional CFOs, or Board Finance Committees, or even the primary external auditor. These are all well and good, but more is needed to achieve a comprehensive and reliable picture of the overall financial situation. There are consultants who are specialists who can assist. But it's really a whole team approach, involving both internal and external experts. The temptation to just do an overview of a one-page summary at a cabinet or board meeting must be avoided. Deep dives, and focused questions, are necessary. Where else to look for assistance?

Accreditors, among others including the US Department of Education, have standards that address the fiscal sustainability of the institutions they accredit. Some are quite specific, while others are much more general. They represent minimum standards for accreditation purposes, but such assessments do not go far enough to truly ascertain the future financial sustainability of the institution. They look back in time (relying on previous audits, for example) rather than predict the future health and probable or possible threats to that health. Accreditors can play a stronger role in this area, but as importantly, the institution cannot rely on meeting minimal standards or having a "clean audit" as assurance that the university has a strong probability of financial success beyond the current fiscal year.

The importance of revenue generation

In most cases, the primary focus should be on revenue generation, which for most institutions means tuition (and tuition discounting rates). Given that enrollments are at the root of the financial challenges, does the institution have a comprehensive, practical plan to increase enrollments and does it have the staffing and funding to do so? It is tempting for directors of admissions or enrollment management to provide annual plans that are more aspirational than realistic. There is often enormous, if not blatant, pressure on them from the senior administration to provide projections that are more optimistic than what would be justifiable based on historical trends and statistical probabilities. And the pressure on senior administrators may in turn originate from the board. The end result is oftentimes disappointing but, in hindsight, pretty much predictable. Reality checks can lead to

improvements in strategy and processes but failing to confront uncomfortable admissions realities will have short- and long-term disastrous effects.

The need for investment resources

Institutions often have ideas for enrollment growth -- launch new programs, change their recruitment strategies, enhance its offerings, both academic and non-academic, undertake internal realignments in order to focus on growth areas -- but such ideas usually take investments (investments of time, people and finances) in order to bring to fruition (or even try).

Even more fundamentally, marketing will cost money -- perhaps a lot of money. This is true first of all in terms of correctly divining the most effective channels and approaches. But it is also true in terms of knowing the "volume" of marketing that will be effective. Achieving the correct balance between these two is the key to this critical aspect of enrollment enhancement.

A key weakness of small independent institutions is simply not having the means to make such investments. Limited endowment, minuscule operating surpluses, misaligned structures all often combine to prevent sufficient investment from internal sources. This weakness is exacerbated by the basic fact of their size. Small institutions simply have fewer opportunities to take advantage of economies of scale.

Scale is not only a financial or economic factor. There is a saying in the world of business development that "Small businessmen are small businessmen because they are small businessmen." The same could be said of many institutions. Small size is valued for its academic and interpersonal intimacy, seen as a counter to the alleged anonymity of large public universities, for example.

A common approach to this problem is to attempt to restructure existing finances in order to have access to funds for investment in growth. There are assumptions about reducing expenses in some areas in order to free up such funds. While theoretically possible, changes of the magnitude necessary will often be insufficient or even counterproductive in terms of morale, especially of key staff and faculty who are most likely to be affected by such changes.

II. The difficult decision to explore options

The decision to explore alternatives to "doing it alone" is not an easy one. First, the President and Chief Academic Officer, at minimum, need to have sufficient institutional self-awareness in order to understand the potential severity of the situation. The best of times often seems to precede the worst of times, as issues can simmer below the surface and not be readily visible. This is where all of the matters raised in Section I must be comprehended and owned, in a

sense, by these officers. The more information and the deeper understanding they possess, the easier it will be to bring the concern to the board.

When, in their view, such a consideration is necessary, it will be on the President to recommend to the board (or at least the Executive Committee) that the option be explored. For many board members, this may come as a surprise, perhaps even a shock. They may well question whether it is actually necessary, whether the senior administration may not have been overly careful, and whether other options should first be explored.

This decision will most likely require board member education. Some members may well have the background and experience to understand the issues better than others and can serve as effective allies of the administration in this matter. But, in general, board member education on the challenges of higher education -- generally and at the particular institution -- is imperative.

Engaging consultants

Experienced consultants with relevant specific experiences often prove extraordinarily valuable when boards and administrations begin to wrestle with such decisions. Every institution and board is different and having a consultant who has "been there, done that" can raise issues and considerations they simply would not think of otherwise. But, not every consultant will be appropriate or helpful. It is important that any consultant comprehensively understand the financial and programmatic position of the institution, be familiar with the board and administration, and grasp the significance of the institution's history and culture. Too many consultants know a lot about the process of mergers or partnerships but are not as well equipped to bring the specifics of a given institution into their planning and advice.

There is a difference of opinion among some experienced members of the higher education community about exactly when to engage consultants in the process. Some believe that it is a critical necessary first step; others contend that institutions should do at least some preliminary internal work before bringing a consultant aboard. In either event, there really is a role for experienced consultants and their fees can often be well worth the money spent. Some institutions make the mistake of hiring a consulting firm with experience in business mergers or partnerships, as though there are common lessons that can be transferred. Nothing could be further from the truth. Colleges and universities have entirely different institutional and cultural characteristics and those with specific experience will better serve.

How does one choose the right consultant? Word of mouth is the single best way. Are there other institutions, and their respective boards or senior administration, where such successful processes have taken place recently? Such "references" can be very illuminating and can expand considerations to consultants not otherwise found in typical Internet

searches. Like all such experiences, even the best of consultants may not always be a "good fit" with your board or senior leadership.

III. Initiating the process

Confidentiality

Perhaps the most critical feature in this stage is the matter of confidentiality and how to manage it. Discussions must remain private, especially as any leak or premature disclosure can disrupt careful long-term planning and can create unnecessary discomfort among institutional constituents, including faculty, staff, donors, and students.

Simultaneously, there are good reasons to eventually involve the campus community in such considerations. Their participation and input can be extremely valuable and they need to feel like they are being consulted and are being kept in the conversation. Determining when to engage the community beyond the senior administration and the board is a critical decision.

As a practical matter, from the moment that the board decides to authorize the exploration of such options, the number of people with knowledge -- including consultants and legal counsel -- expands. At some point, it is virtually inevitable that information will leak beyond the initial circle of those involved in the decision. Planning for how to address such "leaks" is perhaps as important as maintaining confidentiality in the first instance.

Getting organized

No matter what model of partnership is eventually developed, or even if nothing comes to fruition at all, the process will require significant institutional resources. It has to be staffed and managed and funded. One of the critical early decisions is how to organize this effort.

The key players from the board may be quite different than the leadership of the board as a whole. In most cases, an ad hoc committee of the board (sometimes combined with administrative leaders) will be created. Because of the confidential nature of the inquiries and deliberations, whatever structure is created needs to be relatively small and probably should be directly answerable to the board chair.

The President and perhaps the CAO (or Provost) must be active participants, but they must continue to attend to the overall institutional concerns. Thus, these administrators will typically be the connecting points between the core team and the full administration and ultimately the faculty and staff.

Most likely, there will be the need to hire a project manager, a person able to focus full-time energy on the entire effort. This project manager must have the complete trust and support of the key board and administration leaders. As the process unfolds, he or she will be

engaging with numerous constituents and those constituents need to know that such a project manager has the confidence of institutional leaders. Such a person does not have to be a college administrator, but it is beneficial if they have some familiarity with academic institutions, as otherwise their learning curve may well be costly in terms of time.

Legal counsel also needs to be engaged. Because of the nature of these negotiations and their potential sensitivity, some institutions prefer to engage outside counsel, but this is a matter of individual institutional choice. The attorney chosen should have experience in at least corporate mergers and have an understanding of the structure and function of not-for-profit institutions. Such counsel will be involved in all negotiations, play a significant role in the drafting of agreements, and be responsible for the legal details of any finalized arrangement.

Internal institutional assessment

One of the first tasks of the process is to assess the institution's own situation. This may seem to be redundant, given the discussion of problem identification in Section I, but there is a significant difference between a general institutional assessment of the need to consider such an option and a much more granular assessment that attempts to understand every aspect of institutional function, so as to be better able to articulate to potential partners what it is you "bring to the table" and identify where there may be particular challenges or benefits.

This assessment needs to be data-driven. It is essential not just to make broad general statements about institutional programs or the quality of the faculty or student body. Those considering any merger or partnership will want to see data and will require data to do their own assessment of risk and opportunity. Typically, these analyses will deal with enrollment and student data, tuition and discounting, budget and finances, faculty composition, staff organization, facilities and physical plant, and academic programs, among other matters.

This analysis is also important to help identify what the institution is looking for. These considerations may change over time, but having initial clarity of institutional interests and objectives is enormously helpful as one begins to engage in preliminary conversations.

IV. Searching for a partner

The initial process is often referred to as a "search." The universe of possibilities is larger than one might initially think. In searching, an institution should cast a wide net. Location is obviously important -- a local or regional partner has obvious advantages, especially when considering the role of student bodies and maintaining a sense of continuity for current students and recent alumni and, of course, the possible benefits of geographic proximity for joint operations. But the significance of location can be exaggerated. The actual geographic location of a partner is not as limiting as one might think in some models of partnership and there can be unexpected advantages to partners whose "brand" is in a very different location.

Some sense of institutional characteristics is also significant: What kind of institution is your partner? Large or small? A public or private? Does mission matter? What about academic profile and program array? Religious affiliation may be considered but can also be limiting. Generally, the broader the initial search, the greater the possibilities.

The other side of this equation is what you believe the sought-for institution might want to accomplish with such a partnership. This is not always easy to discern but it is obviously important. Some potential partners may have their own clear interest in expanding their portfolio or capabilities or geographic reach. Some may be very receptive and perhaps even be open to the idea of a formal relationship, but have not themselves been active in seeking it. And, again, since this is a two-way street, potential partners have to believe that what you are offering is of genuine value to them.

There is no better way to address this issue of what a potential partner might be looking for than simply having a preliminary conversation. These conversations can occur in a lot of ways: a conversation between the respective board chairs or the respective presidents or involving experienced consultants who make the introductions and initiate the discussions, perhaps even on an anonymous basis initially. If an institution is already considering such options, it will not come as such a great surprise if approached; if it has not considered such a strategy but has other long-term institutional concerns, the timing may be perfect.

The challenge of mutual interest

Such explorations can be humbling. A given potential partner may simply not be interested, even with further conversation and explanation. Others may be interested in the idea but not yet ready to consider it or act upon it. And still others may want to further explore. Such responses need to be taken seriously and with a sense of understanding. Ultimately, the right partner will be one with sufficient motivation. Some may want a particular program that the institution has to offer, or a location or facility that has strategic value, or perhaps a desire to expand to an additional campus. There is a range of reasons that can serve as effective motivators. The most fruitful discussions and negotiations will be those where there are real motivators on both sides of the proposed arrangement.

Continuing to follow up with a range of potential partners may be both necessary and useful, as the passage of time can sometimes lead to changing circumstances and interests. Any institution engaged in this process should not "put all its eggs in one basket." It is sensible and even necessary to maintain concurrent conversations with multiple potential partners, even as it may be that eventually one relationship surfaces as the most productive and promising.

V. Diligence and agreements

Once a potential partner has been identified and a basic preliminary understanding reached about the general parameters for a partnership, the negotiations and the process of due diligence begin in earnest. Depending on the nature of the proposed partnership, this phase can take many months and even a couple of years. The goal is two-fold: to ascertain information about the other party that helps each party understand better with whom they are dealing and to determine how to structure the formal relationship itself.

Due diligence

Undertaking this diligence is time- and labor-intensive. The partner with the greater financial resources or that may be considered the "acquirer" will conduct a formal investigation into the multiple details of the other party. This diligence will include finances (historical audits, debt, capital needs, endowment, budgets), academic programs and structures, governance, enrollment trends and demographic profiles, facilities and physical plant, the status of advancement efforts, prospects for future revenue and enrollment growth, regulatory and accreditation obligations and relationships, and the like. Those with experience in corporate merger activities will recognize many parallels.

This examination is painstaking and detailed and typically requires the establishment of secure data rooms where confidential documents and information can be accessed by the reviewing parties. All such matters must, of course, occur under the strictest of confidentiality agreements that comprehensively limit access to the information and provide for how it can be shared, returned or destroyed should the negotiation fail.

In the context of this process, both parties should be doing such due diligence of the other, even if the specific information being sought is not identical. For example, if Party A is essentially the "acquiring" party, it will want to know every detail of Party B. But, Party B should be investigating Party A just as comprehensively, including a careful evaluation of Party A's plans for long-term operation of both the current A campus and the B campus.

Even if Party B is more or less being "acquired," it needs to have assurances that Party A is both capable and committed to operate Party B successfully and that assurance comes from a serious understanding of Party A's situation -- both financial and programmatic. Party B will want to know, for example, what might be expected in terms of future enrollment and budget for Party B, including plans for future additional investment or capital needs. It's important that both parties understand each other's situation and not rely solely on materials and information provided by the other party without verification.

This due diligence process is also the means through which both parties can begin to develop an understanding of how a partnership would work in actual practice.

Communication

Communication takes on even more significance. Again, such negotiations must take place in confidence, as they often fail. At the same time, institutional constituents will want to know what is going on, even if they are not privy to details. (The most pressing internal question is the simple identity of the possible partner, as this information makes an abstract very real and will lead to all manner of speculation and increases in anxiety.)

Structure and governance considerations

The most central component of any agreement is the structure of the proposed partnership. How is it to be governed and managed? What are the roles of existing institutional boards in the new partnership? How are the administrations expected to work? How are finances expected to be managed? Who makes the ultimate decisions for the partnership and how do they make them? What are the metrics of success?

Many sorts of structures are possible, but all fundamentally depend on the parties clearly agreeing on how the new arrangement will be led and run. A negotiated agreement cannot cover every conceivable circumstance, thus there must be a framework that will enable effective operations and pursuit of objectives.

There are certain aspects of the structure that should be clearly agreed-upon going into final negotiations and the actual agreement. These involve the boards' roles, key administration structure and leadership, marketing and recruitment, and alumni and development, to name just a few.

Board options may be limited by accreditors. It is not uncommon to have either a single "blended" board coming out of the agreement, with representatives from both parties. It is also not uncommon to end up with a tiered board structure, wherein each current board stays intact, but is under the jurisdiction of a new supervisory or general board. The resulting board may have specific responsibilities for overall financial decisions affecting the new merged entity at a certain scale, accreditation aspects, real estate transactions on the part of the whole, employee benefit plans that can take advantage of a larger combined population and so on. The comments below primarily refer to the second model of a supervisory or general board.

Having two presidents may be able to work, perhaps better if they are reporting both to their "home entity" board for typical matters, but also to the larger general board for jointly significant matters. That would also hold true for hiring, retention and succession matters involving the president and other senior administrators.

A similar structure could work for the provost, CFO and other senior leaders in each of the current institutions. However, particularly with the CFO and significant financial matters

with the combined entity, there may need to be an overall financial officer in order to avoid significant conflict and confusion at the individual entity level when their two CFOs have competing interests and resource allocation disagreements.

While the exact post-merger structure may need to be adjusted after operational realities are encountered in the initial months and years, it would be helpful for all if the general board and administrative organizations are agreed to and staffing identified as soon as possible.

It is possible, and frequently utilized, to have more of a shared services arrangement. In those cases, there is typically a third entity created, providing services contractually to each of the formative entities. That third institution has its own areas that either provide completely, or support, divisions of each original entity. Typically these may include finance and accounting, marketing, human resources, financial aid and so on. It is not a magic wand, however, and comes with its own challenges.

Each institution in some phase of merger must very carefully consider the advantages and disadvantages of each of these structural possibilities, and remember that every one of these mergers is indeed unique to the institutions involved.

VI. Moving forward

The completion of an agreement is just the beginning of a lengthy phase of implementation, a phase likely more complicated and challenging. Once an agreement is announced, leaders in both institutions will be confronted with numerous constituents with concerns and worries. No matter how positive the announcements may be, individuals will be concerned about realities: How will this affect my job? What will change? What will I have to do differently? Instead of discussions within a small group, entire institutions have a stake and a voice. The depth of the reservoir of trust that has been built over time by the board and administration with the university's constituencies will be a very significant factor in this critical part of the process.

Planning and executing implementation

Planning for implementation is particularly crucial for academic leaders (provosts) and financial leaders. The details of every aspect of both institutions must be understood and addressed. And all of this implementation requires the implementers to be very much on the same page. They, along with presidents and boards must present united fronts, even if there is friction in private.

An effective partnership demands that key leaders work closely together, projecting a common message and confidence. Many more individuals from both institutions have to meet each other and learn to work together. Indeed, some of the most exciting aspects of

many agreements are not considered by the small negotiating team and only become evident as faculty members and staff from both institutions work together. All of this requires processes for engagement, getting to know each other and, in effect, beginning to build a common culture.

A dedicated project manager becomes even more valuable in some ways, as the number and range of topics to be addressed -- some major, some seemingly minor -- expands tremendously. The selection of that project manager, who needs ready access to all the key players in both institutions, is mission critical. The trust that person engenders must be jealously guarded and never undermined by unclear or inaccurate communication throughout the entire process.

Regular meetings and constant communication between those meetings are essential. This can all be very energizing and exciting, but it will all come to naught if it can't be implemented and made to work. Reaching a formal agreement between two institutions is not the end of the process, but the beginning. Concepts must be made real and the power of the two institutions together must be harnessed and built upon.

Whenever it is appropriate, it may be very helpful to have celebratory milestones along the way. Those can function to emphasize forward progress, keep constituents informed and, hopefully, excited, and create an atmosphere of impending success in the ultimate outcome. If these can be constructed around positive joint events, they can also serve to foster a sense of teamwork and comfort with new colleagues.

The completion of a partnership process can take a long time, by anyone's measure. Keeping all parties focused and energized is a challenging but manageable task. The extent to which the leaders of both parties demonstrate enthusiasm, thoughtfulness, care, and commitment -- and never undermining their leadership colleagues in the process -- can make all the difference in the world in terms of a successful partnership outcome.

And a successful partnership outcome will be the defining test of board and academic leaders.

About the Center

The Center for College Partnerships and Alliances, a division of Edu Alliance Group, provides experienced, confidential counsel to college presidents and governing boards exploring strategic partnerships, affiliations, mergers and other approaches to long-term institutional sustainability.

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