DELIBERATE TRANSFORMATION:

THINKING DIFFERENTLY ABOUT STRATEGIC ALLIANCES IN HIGHER EDUCATION

By Robert Spencer

Higher education is in a period of transition in which institutions must fundamentally transform their business models to thrive in the long term. The COVID-19 pandemic combined with preexisting revenue pressures, enrollment declines and misalignment with changing market demands have contributed to the current emphasis on transformation and strategic partnerships in higher education.

The financial challenges of today's higher education landscape are significant. National Student Clearinghouse reported that students who went to college immediately after high school declined by 21.7% in fall 2020; and Moody's Investors Service projected revenue declines of 5% to 10% for 2021. Even before COVID-19 struck, more than 650 public and private nonprofit institutions had experienced enrollment declines of 5% or more in the five years prior to the pandemic (based on data obtained from the U.S. Department of Education's National Center for Education Statistics).

For those institutions in extreme distress, closure may be the only option. In fact, within four months after mid-March 2020, at least 11 colleges and universities announced plans for closure, ceased enrollment or declared exigency. These trends and market pressures are compounded at small, tuition-dependent colleges and universities which, even prior to the pandemic, were closing at a rate of 11 per year, according to data from Moody's. With the combined impact of these factors, the agency, which had upgraded the higher education sector's outlook to "stable" in 2019, downgraded it again to "negative" since the beginning of the pandemic.

Higher Education's Financial Realities

MOODY'S, S&P AND FITCH RATINGS SECTOR OUTLOOKS: **"NEGATIVE"**	
21.7% decline in high school graduates who enrolled in college in fall 2020 per National Student Clearinghouse	**5%-10%** operating revenue declines in fiscal 2021 due primarily to tuition and auxiliary impacts according to Moody's
650+ institutions with enrollment declines of 5% or more in the five years prior to the pandemic	**11** institutions announced plans to close or declared exigency in the first four months after mid-March 2020

Strategic Partnerships Modernize the Traditional M&A Paradigm

Successfully navigating this challenging environment will require creative thinking, focused execution and an objective reevaluation of innovative solutions many formerly deemed too drastic. Mergers and acquisitions (M&A) are two such possibilities that have been frequently maligned by higher education but, in today's climate, warrant more widespread consideration.

An uptick in this kind of activity in the sector (even before the pandemic) illustrates a shift from the skittishness around consolidation that characterized the industry a decade ago, indicating that many leaders now see M&A as a promising solution to troubling financial markers. According to the TIAA Institute, more than 35 higher education mergers took place from 2000-2017, with two-thirds of those taking place in the past decade. Since the onset of the pandemic, interest in these types of strategic partnerships (ranging from new partnerships to full consolidations) has increased significantly.

Partnerships in the News

Many higher education institutions are working to forge strategic alliances that will help them to sidestep financial concerns while also furthering their missions to educate students. In 2020, headlines focusing on these partnerships were pervasive. A few notable deals follow.

- In June 2020, the Connecticut State Colleges & Universities system finalized a plan that would merge all 12 of the state's community colleges into one accredited institution.
- The Pennsylvania State System of Higher Education outlined plans to explore a consolidation of the operations of three pairs of public, four-year universities to offset financial concerns and realize efficiencies of scale.
- Three Connecticut colleges announced plans to acquire some academic programs from the University of Bridgeport and turn its campus into a "university park."
- The nonprofit Cambridge College acquired the for-profit New England College of Business and Finance to "increase its size, ability to serve working adults, strength online and ties to corporate employers," according to an article in Inside Higher Ed.
- Delaware State University announced a groundbreaking new agreement to acquire Wesley College, becoming the first historically black college (HBCU) to buy a college that is not an HBCU.
- The University of Massachusetts announced that it would pursue a "strategic partnership" with Brandman University, a nonprofit institution that specializes in online adult learning.

Beyond M&A: Other Opportunities for Transformation

Mergers and acquisitions are an increasingly viable route for many colleges and universities, often seen as the de facto method of transformation. It is, however, important to understand that, while forward movement is mandatory, consolidation is just one of many possible options.

Beyond conventional M&A, creative leaders on both sides of the consolidation equation are considering alternatives that offer the benefits of a strategic partnership without some of the more challenging implications of a full integration.

Networked Universities or Partnerships

A cohort of institutions, united by a common goal, can partner together to scale their impact, share resources and leverage each other's strengths.

Accelerated Degrees and Alternate Pathways

Institutions can seek to increase enrollments and offset the rising costs of tuition by offering certificates, accelerated degree programs or alternative pathways to degree completion.

Differentiated Academic Portfolios

Academic leaders can differentiate an institution's academic offerings to include cutting-edge courses related to topics like pandemic planning or the regulation of legalized marijuana.

Strategic Corporate Partnerships

Some institutions establish corporate partnerships to provide real-world learning. For instance, Google partnered with several community colleges to deliver an information technology (IT) support professional certificate.

Job Guarantees and Financial Risk-Sharing

In light of increasing public skepticism about the value of higher education, some institutions have implemented employment guarantees or financial risk-sharing agreements.

What's Holding Institutions Back

So, with the market drivers to leverage strategic alliances, what is holding potential buyers, sellers and partners back? Many universities are positioned to benefit from M&A or other strategic alliances but might be hesitant to move forward due to some of the unique challenges facing higher education today.

- **Academic program misalignment:** Some healthy colleges and universities, looking to enhance their academic portfolio, may not perceive value in financially distressed institutions.

> "Leaders are recognizing the need to explore strategic alliances that may range from new partnerships to full consolidations."

- **Pandemic-related financial shortfalls:** As colleges and universities struggle to make ends meet amid the COVID-19 pandemic, institutions that were previously viable candidates to be acquired might no longer meet those criteria.
- **Lingering core deficits:** Some institutions can stretch out operating deficits for years, with core imbalances obfuscated by fund transfers and complex reporting, endowment support, and one-time funding sources.
- **Cost concerns:** Mergers have, thus far, presented mixed results in creating efficiencies, with some consolidations resulting in better graduation rates and stable tuition but others resulting in tuition increases and other negative implications.
- **Complexity and time constraints:** The complexity of institutional governance, accreditations and regulatory requirements is compounded during a proposed consolidation, complicating decision making and increasing the time required to execute.

- **Social contracts:** Integration can cause public scrutiny that may negatively impact consolidation, even in cases where the institution(s) at risk might otherwise fail and leave students stranded.
- **Pushback from students, faculty and other constituencies:** Many students, faculty and others affiliated with Watkins College of Art challenged a merger agreement with Belmont University over concerns about competing ideologies and perceived misaligned values.

Regardless of the transformation that an institution undertakes, success requires alignment to a larger organizational strategy. Given the current unprecedented shift in the higher education landscape, universities should explore whether mergers or acquisitions present opportunities for long-term success. Also (or instead, in many cases), universities should assess the many creative options for strategic alliances, beyond traditional M&A, that may be available in the current market.

Key Takeaways

In an era in which higher education institutions are increasingly seeking out strategic alliances, leaders must:

Think differently.

In today's rapidly changing higher education landscape, forward momentum is necessary, and the methods for transformation will vary.

Plan differently.

Ensure that any transformation project is aligned to a clearly articulated organizational strategy.

Act differently.

Proactively evaluate your institution's financial and strategic readiness to determine the best approach for transformation.

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