Strategic Higher Education M&A:

ASSESSING INSTITUTIONAL READINESS

By Robert Spencer

Higher education institutional closures, mergers and acquisitions (M&A) have increased over the last two decades as the industry faced mounting financial and enrollment pressures. According to a recent report, global M&A volume in the higher education segment increased by 46% in 2019. With the onset of the COVID-19 pandemic in 2020, there are many indications that such activity will continue to rise.

As higher education institutions respond to shifting market dynamics, M&A activity is expected to be increasingly prevalent, in part, because of:

- Heightened fiscal and enrollment uncertainty from the COVID-19 pandemic.
- Shifts from traditional college student populations to include more "nontraditional" learners.
- New academic pathways (e.g., certificate programs) as an alternative to traditional programs.
- The increasing costs to operate a physical college or university campus.
- Waning public support for higher education.

Still, before pursuing any type of M&A venture, higher education leaders on both sides of a potential partnership should do their due diligence to determine when, whether and how best to proceed while reflecting on the alignment (or misalignment) of their institution's financial health and strategic plans with current market forces and the changing industry landscape.

Assessing Strategic Readiness for M&A

Studies suggest that the success rate of mergers in the corporate sector is less than 50%. Even in the face of significant financial challenges like those presented by the pandemic, effective mergers must not be pursued as a quick fix but rather in service to a clear strategy focused on the institutional mission and sustainable financial health. Consolidation alone is not the endgame.

The following matrix has been designed to help institutional leaders as they consider the role their institution is best suited to play in an M&A transaction or other partnership, along with some key actions that can improve their marketability. In an M&A transaction, those on the left of the chart will most commonly be sellers, and those on the right will typically be buyers.

> "When struggling colleges come together, very rarely are their fundamental defects improved; rather, the merger merely creates one larger institution, besieged by diverse legacy challenges. The best-case scenario is to combine two institutions with complementary strengths."

Leaders of institutions with financial resources may pursue strategic ventures to advance their mission, expand academic offerings or enable growth. On the flip side, leaders of financially challenged institutions should identify focus areas that will drive transformation to potentially bring value into a strategic alliance with a betterresourced university. While these categorizations are helpful as a starting point for exploration and consideration, most real-world deals require more nuanced categorizations.

M&A Readiness Decision-Making Matrix

WELL POSITIONED BUT FINANCIALLY CHALLENGED	WELL POSITIONED WITH FINANCIAL RESOURCES
Your institution may be a good candidate for a merger or acquisition because you offer a strategic value proposition for other institutions with more resources looking to strengthen their offerings.	Your institution is positioned well to explore strategic alliances and/or invest in transformative new programs.
Initiate operational reviews to identify improvements that will support your institution's sustainability and increase your appeal to potential partners for a strategic alliance.	*Develop opportunity criteria to support the exploration, identification and assessment of potential strategic partner(s) for long-term institutional health*

FINANCIALLY AND STRATEGICALLY DISTRESSED	POORLY POSITIONED YET WITH RESOURCES
Only with significant transformation will a strategic alliance with another institution be viable.	Your institution may be well positioned to acquire or partner with an institution that has unique competencies but fewer resources, which may serve to enhance both institutions' strategic alignment with the changing market.
Identify pockets of value and redefine the institution's future by restructuring operations and the business model.	*Develop opportunity criteria and consider whether an acquisition or merger with another complementary institution could help to achieve long-term strategic goals.*

When struggling colleges come together, very rarely are their fundamental defects improved; rather, the merger merely creates one larger institution, besieged by diverse legacy challenges. The best-case scenario is to combine two institutions with complementary strengths.

For example, Texas Christian University (TCU) and the University of North Texas Health Science Center (UNTHSC) successfully created a unique private-public partnership to establish a new school of medicine. TCU was financially healthy, but they did not have a medical school and recognized the need for more physicians in the region. Meanwhile, UNTHSC had medical education programs and strategically valuable property, but did not alone have the resources to establish the new medical school, which welcomed its inaugural class in 2019.

Identifying the Right Partner for M&A

Once a college or university has determined its readiness to explore a strategic alliance, the next step should be to develop a set of opportunity criteria to identify well-suited partners. By creating a set of strategic and operational (including financial) criteria, leaders can define clear objectives to guide future activities.

These criteria should include at least some of the examples listed below, as well as others:

Stakeholder Landscape

Would the other institution's market reach enhance strategic positioning within the stakeholder landscape?

Academic Programs

Would the other institution's academic portfolio be complementary? Would an alliance diversify the academic programs strategically?

Faculty Value

Would the other institution's faculty bring unique value to the transaction? Would the faculty need to be retained to deliver the programs?

Material Resources

What is the value of the other institution's physical assets (including buildings and technology) that may bring additional value?

Financial Resources

What financial resources could the other institution bring to the transaction (e.g., reserves and/or endowment funds)?

Financial Forecast

What are the financial projections for the other institution? Are the cash flows sufficient to sustain operations through a transition?

Intangible Assets

Does the other institution possess unique staff talent, intellectual property and/or other intangible assets?

Contingent Liabilities

Are there unfunded or unaddressed contingent liabilities (e.g., off-balance sheet debt, environmental risks or unfunded pensions)?

As part of a larger approach to pursuing strategic partnerships in higher education, it is critical to assess an institution's readiness for such a venture and identify a stable of appropriate potential partners. By embarking on a robust program of exploration and assessment, institutional leaders can make informed strategic decisions that lay the foundation for future growth.

Key Takeaways

To ensure M&A activity is undertaken strategically, leaders should:

Think Differently.

The most effective partnerships combine two institutions with complementary strengths.

Plan Differently.

Develop a set of opportunity criteria with which to objectively evaluate potential partners.

Act Differently.

Conduct a robust program of exploration and assessment before pursuing any strategic alliance.

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