Mergers and Affiliations

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How can we understand the difference between where the institution or foundation currently is and where it hopes to be?

FOLLOW-UP QUESTIONS:

- Is the board collectively, and are most members individually, knowledgeable about the trends and disruptive forces, both current and anticipated, that are challenging the industry and the institution?
- Does the board engage in meaningful discussion with the administration about these trends and disruptive forces and the risks, as well as opportunities, they present to the institution?
- Does the board have a clear understanding, supported by data, of the institution's quality of earnings and financial prosperity gap, the distance between its current financial performance and a prosperous future?
- Does the board understand how the mission and goals of the institution are impacted by any financial gaps and have a plan to develop actionable initiatives to close these gaps in a reasonable amount of time (within several years)?
- In the unpredictable period of the COVID-19 pandemic, are the board and administration using financial models and scenario planning to anticipate the worst and plan for changes that might be needed to avert an existential crisis?

BEST PRACTICES:

The board must educate itself about the macro trends and disruptive forces and the risks and opportunities they present to the institution. The board must also ensure that a clear picture of the institution's true financial reality is developed—focusing on the real incremental operating margin needed to reach goals or sustain the institution in the face of change. Lastly, the board must be able to synthesize how the trends, disruptive forces, and financial realities coalesce and impact mission and sustainability. Only by identifying and acknowledging the true situational context of the institution, including the financial realities (be they positive or negative), can the board make progress toward determining the correct path forward.

Do your trustees and leadership only look for and encourage a balanced budget?

FOLLOW-UP QUESTIONS:

- Does the board understand how and where budgeted funds are being utilized and is this process guided by a clear strategy linked to goals, supported by metrics and trend data that can assess progress?
- Is the board encouraging the development and investment in new programs that align with market, job, and regional trends? Does the board have a well-defined expectation of the anticipated return on investment (ROI) of these (as well as existing) programs?
- Is the board encouraging the development or adoption of technologies that can increase efficiency, such as AI, as well as support online programs? Are there opportunities for savings through affiliation by creating centralized administrative resources for operational and administrative functions such as technology, finance, and human resources?
- Does the board know where the institution's own self-inflicted wounds are coming from—meaning those policies that impede progress or don't align with market trends?
- Is the board aware of how speed, service, and statistics are of critical importance in steering the institution toward a stronger future state?

BEST PRACTICES:

The board must not rely on a balanced budget alone as an indicator of financial health. Many institutions with balanced budgets will fail because they have underinvested in areas critical for competing in today's market and achieving sustainability. Those institutions will find it is too late to act. The board should look beyond the budget to understand how funds are being utilized to invest in or develop programs, technologies, marketing practices, and other policies that support growth and sustainability and that align with the market and consumer behaviors. Only by identifying and acknowledging the true situational context of the institution, including the financial realities (be they positive or negative), can the board make progress toward determining the correct path forward.

How can we evaluate our governance options for institutions—remain independent, affiliate with another or several institutions, or merge?

FOLLOW-UP QUESTIONS:

- Does the board understand the dynamics of the current competitive environment for affiliations and mergers and where their institution fits within that environment (as indicated by the situational context and financial realities)? For example, is the institution on the financially strong/stable "buy side" or the financially vulnerable "sell side" in this environment?
- Is the board willing to learn about becoming "affiliation ready," which may lead to opportunities with other institutions?
- Is the board willing to invest time at its meetings to have more strategic discussion and plenary sessions on macro trends versus receiving reports that take up valuable meeting time?

BEST PRACTICES:

The board needs to assess where affiliations and mergers fit within the institution's long-term strategy. If the institution is strong, it can develop a "build-buy-affiliate" strategy to enhance its competitive position. This process will allow "buy-side" institutions a disciplined methodology for considering its best long-term options.

If the institution is financially vulnerable, the board must use its "prosperity gap" as the mechanism for gaining consensus as a governing body on taking action to become affiliation ready. It can take as long as two years to complete a transaction. Passive boards will set the course for failure by their own inaction. Proactive "sell-side" boards can find strong affiliations or a merger partner if they start the process early.

Many institutions that have a solid footing and a growth-oriented strategic plan and embrace innovation will remain viable and find it's not necessary to consider affiliating or merging. Others that must consider one or both options will take a passive approach and ultimately lose their mission and identity when they cease to operate. Knowing when to go it alone, when to seek out an affiliation, and when to merge is of critical importance. Understanding your financial realities, current U.S. Department of Education financial composite score, and capability to implement growth initiatives are all important. Even financially strong and stable institutions should consider how affiliations or mergers could strategically benefit them in the long term.

How can we develop a proactive "buy-side" or "sell-side" strategy?

FOLLOW-UP QUESTIONS:

- Has your board developed an ad hoc committee to learn about the competitive environment of mergers and affiliations?
- Does your board use its meetings for plenary sessions to become more educated on the macro trends shaping higher education?
- Does the board fully understand its financial prosperity gap? And does it understand how a growing prosperity gap will lead to the institution's decline or failure?

BEST PRACTICES:

The board must own the process of developing a proactive strategy to guide the institution forward, should remaining independent not be a viable option. Both buy-side and sell-side strategies must include an assessment of the prosperity gap and a full understanding of the institution's competitive position, growth needs, decision matrix, and a summary of opportunities. The board can consult with AGB's practice on mergers and affiliations if help is needed with strategy development or with identifying, initiating, or navigating potential deals.

Strategy development will be informed by current realities, but the board must own this process. It is best to establish an ad hoc committee on "long-term strategic partnerships." Aligned with the president, this group can become educated on competitive options and update the full board quarterly in executive session. Confidentiality is crucial. Running a public process is a sign of extreme weakness. This small group can learn the details of the prosperity gap, create a decision matrix, and understand specific opportunities and the elements of becoming "affiliation ready."

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How can we encourage communication among the institution's leadership and the board on these highly sensitive and confidential topics?

FOLLOW-UP QUESTIONS:

- Is there agreement among board members regarding the current state of the institution and the appropriate pathway(s) forward? Is there alignment between the board and chief executive? A sense of urgency is needed to consider options before it's too late. A realistic assessment of the prosperity gap will help.
- Is there an ad hoc board committee that works with the president to learn about the opportunities and how to become "affiliation ready"?
- Does the board meet in executive session regularly to discuss strategic issues of mergers and affiliations?

BEST PRACTICES:

Ultimately, it is the board's fiduciary responsibility to preserve the institution's mission; this may mean tough decisions will have to be made. Boards cannot be passive. Alignment and effective communication within the board and between the board and leadership is therefore critical.

This is a highly confidential process, and publicly announcing intent or need to merge or affiliate can hinder progress or thwart success. A smaller group of board members and key administrators with the right set of competencies should meet to investigate and discuss affiliation and merger options. The announcement should not be made public until the structure of the agreement is complete.