

# Mergers in Higher Education: A proactive strategy to a better future?

Ricardo Azziz, State University of New York (SUNY)

Guilbert C. Hentschke, University of Southern California and Parthenon-EY, Ernst & Young, LLP

Bonita C. Jacobs, University of North Georgia

Lloyd A. Jacobs, University of Toledo

Haven Ladd, Parthenon-EY, Ernst & Young, LLP



## About this Research

As financial support for public institutions of higher education declines and the need for greater efficiency for all higher education institutions increases, much has been written about the many organizational options that higher education leaders should be considering. Options range from developing systems of shared services to shared campuses, affiliations, partnerships, and co-branding efforts, among many others. In this context, mergers and consolidations often are presented as the option of last resort. However, mergers in higher education also should be considered a proactive strategy to enhance the successful pursuit of institutional missions.

To assist higher education leaders in better understanding the possibility of institutional mergers as components of long-term strategic plans, the TIAA Institute invited this work by Ricardo Azziz and colleagues. They have crafted a resource document for higher education leadership, including governing boards, that delineates the operational decision-making and implementation details of mergers and reviews the what, why, and how of merging and consolidating colleges and universities. This resource is shaped by a team of researchers with significant expertise in the challenges facing higher education today, and by higher education leaders who have led successful mergers.

Citation for this paper: Azziz, R., Hentschke, G.C., Jacobs, B.C., Jacobs, L.A., Ladd, H. (2017). *Mergers in higher education: A proactive strategy to a better future?* New York, NY: TIAA Institute.

## About the TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies and maximize opportunities for success. To learn more, visit [www.tiaainstitute.org](http://www.tiaainstitute.org).

## Executive Summary

Higher education worldwide is facing unprecedented challenges, driven by rapid growth in mobility, communication, technology, and demands for skills and credentials—all fostering disruption of the higher education marketplace. At the same time, other industries—including healthcare, banking, and automobile and electronics manufacturing—have faced similar forces and responded with an unprecedented wave of mergers across these sectors. While circumstances may vary, the objective of these mergers is generally similar to what we would expect to see in higher education: specifically, to ensure continued growth and impact, greater efficiency, greater economies of scale, better value (to both consumers/clients and share-holders), improved competitiveness, and in some cases, improved chances of long-term survival of constituent units, jobs, and/or work product.

Motivated by the belief that “bigger is better,” many nations have undertaken systematic mergers of their higher education institutions (HEIs). Alternatively, in the United States, efforts at merging HEIs historically have been less state sponsored and more institutionally opportunistic. Nevertheless, a number of unifications have occurred and, provide lessons learned.

All mergers harbor the potential for a range of gains and costs that should be weighed against each other. Gains include opportunities for realizing financial savings, leveraging greater size and scale in multiple areas, and re-deploying/re-engaging stakeholders. However, cost savings or simply being bigger should not be the only, and probably not the primary, drivers of a merger. Costs of mergers to be considered include rebranding, communications, and university relations; addressing human capital redeployment; developing programmatic growth; building necessary infrastructure; funding synergies and short-term wins; opportunity costs; and the expenditure of political capital by leadership.

The decision to consolidate institutions is never easy, but should be considered when there is a desire to significantly improve service quality; value to students, faculty and the community; and/or when the growth of the enterprise and its continuing benefit to its stakeholders needs to be ensured. Optimally, mergers should not be considered only *in extremis*, when few resources and assets remain; political goodwill, staff morale, and energy are low; and negotiating positions are weakest.

Any opinions expressed herein are those of the authors, and do not necessarily represent the views of TIAA, the TIAA Institute or any other organization with which the authors are affiliated.

While many factors can predict a successful merger and many steps need to be successfully completed along the way, there appear to be seven critical elements that must be in place for a merger to be successful, and without which the likelihood of failure is high. These include: (i) a compelling unifying vision and set of common values; (ii) a committed and understanding governing body; (iii) the right leadership; (iv) an appropriate sense of urgency; (v) a strong project management system; (vi) a robust and redundant communication plan; and (vii) sufficient dedicated resources. It may take as much as a decade to determine whether a merger can be considered a “success,” and even then, success may be in the eye of the beholder.

Mergers proceed across three phases: put simply, *before* (when the option of a merger is being considered and vetted, but not yet officially announced); *during* (after the official announcement of the intent to merge through the day the merger becomes official); and *after* (the period of time following the official merger date to implement the merger plans). Experienced leaders will understand that management of this complex process will, by necessity, be fluid, and will require that they be future-oriented at all times, always cognizant of next steps. All mergers are the product of a series of *processes*, which ultimately lead to success or failure, however defined.

Which institutions should be considering mergers? Simple parametric and financial predictors do not paint a full picture to answer that question. More often, a leader’s appraisal of her/his institution’s long-term future includes a bundle of both threats and opportunities, many of which might be addressed through merger. Clearly, institutions at serious risk for closure may wish to assess their options for a merger. Merging, however, is a tactic that should be considered seriously and proactively by many institutional leaders—not just those under threat of closure. Ultimately, to be successful, mergers must be part of a larger strategic plan and not an isolated tactic or endpoint.

## Key Takeaways

- The decision to consolidate or merge institutions is never an easy one, and the process is nearly always painful and costly; however, mergers are a tactic that should be considered seriously and, most importantly, proactively by many higher education institutions (HEIs) and their leaders.
- Optimally, mergers should not be considered only *in extremis*, when few resources or assets exist, and political goodwill, staff morale, and energy are low.
- To ultimately be successful, mergers *must* be part of a larger strategic plan and not an isolated tactic or endpoint; cost savings or simply being bigger should not be the only, and probably not the primary, drivers of a merger.
- Seven critical elements for merger success include a compelling unifying vision; a committed and understanding governing body; the right leadership; an appropriate sense of urgency; a strong project management system; a robust and redundant communication plan; and sufficient dedicated resources.
- Mergers provide the opportunity for a number of gains, including financial savings, the leveraging of a greater size and scale, and the re-energizing and re-engaging of the institution's stakeholders.
- Mergers also cost. Costs relate to building and/or refurbishing necessary infrastructure; branding, communications, and university relations; addressing human capital needs; developing programmatic growth, synergies and short-term wins; opportunity costs; expenditure of political capital; and costs to leadership.
- Mergers have discordance in timing between gains and costs: while financial gains other than short-term reductions in administrative staff may take time to develop, many of the costs of a merger come due immediately and often even before the process has begun.

The decision to consolidate or merge institutions is never an easy one, and the process is always painful and costly. However, it is a tactic that should be considered seriously and, most importantly, proactively by many institutions and their leaders.

## Introduction

Worldwide, higher education as an industry is facing unprecedented challenges, with competition and the need for greater efficiency for all higher education institutions (HEIs) on the rise. In part, these challenges stem from the massive revolutions in travel, digital communication, and technology, which have facilitated an unmatched degree of global competition in academe and discovery, and the increasing need to invest in these platforms while simultaneously transforming the way we teach and learn; the increasing demand by industry and students for the personalization and individualization of learning; the increasing openness and democratization of higher education; and the inexorable rise in the proportion of future jobs that will require at least some, if not a significant, amount of post-secondary education and training.

Further, in the United States, as in many other advanced Western countries, the pressures of these developments have been exacerbated by a confluence of political, economic and demographic factors, including the Great Recession of 2007—the longest recession in United States history since the Great Depression of 1929—and which itself contributed to the development of a global financial crisis; a sharp decline in state support for public education, as tax revenues softened and other priorities, including healthcare, demanded attention; the increasing diversity of the national and student populations; and declining numbers of high school graduates and, consequentially, the pool of potential college students. To this effect, a recent Moody's Investor Service report has predicted that closure rates of small colleges and universities will triple, and that mergers will double in the coming years (Moody's Investor Service, 2015).

These forces, while not identical, are not unlike those facing other industries—including healthcare, banking, and automobile and electronics manufacturing, to name just a few—and which have resulted in an unprecedented wave of mergers across these sectors, flowing largely from the general belief that “bigger is better.” And while circumstances may vary, the objective of these mergers is generally similar to what we would like to see occur in higher education, that is, to ensure continued growth and impact, greater efficiency, greater economies of scale, better value (to both consumers/clients and stakeholders), improved competitiveness, and in some cases, improved chances of long-term survival of constituent units, jobs, and/or work product.

Higher education leaders also have explored a number of organizational options to address current challenges, ranging from developing systems of shared services to shared campuses, affiliations, partnerships, and co-branding efforts, among many others (Martin & Samels, 2016; Thomas & Chabotar, 2015)<sup>1</sup>. While mentioned, mergers and consolidations of university/colleges are most often presented as the option of last resort.

1. For more on organizational options and alliance strategies, see *Between Collaboration and Merger: Expanding Alliance Strategies in Higher Education*, written by Michael Thomas and Kent Chabotar, and commissioned by the TIAA Institute.

However, driven by the belief that “bigger is better” in terms of efficiency, reach, value and competitiveness, many nations have undertaken systematic mergers of HEIs. A notable example is China, which has moved from a Soviet or Socialist model of specialized centers of learning to creating larger, globally competitive, comprehensive universities. Other examples include Australia, South Africa, Northern Europe, the Netherlands, Canada, and the UK. Alternatively, in the United States, efforts at merging HEIs have historically been less systematic and more sporadic. The experience of the state of Georgia, which thus far has merged and reduced the number of institutions in the Technical College System of Georgia (TCSG) and the University System of Georgia, is notable.

The decision to consolidate or merge institutions is never easy, and the process is nearly always painful and costly. However, mergers are a tactic that should be considered seriously and, most importantly, proactively, by many institutions and their leaders. In the right circumstances and under the right leadership, mergers can be a viable and value-added option. Mergers should be considered when there is a desire to significantly and radically improve service, quality, breadth and value to students, faculty and the community, or when the continued growth of the enterprise and its ongoing benefit to its stakeholders needs to be ensured. Alternatively, consideration of a merger should never be regarded as a failure of leadership to keep institutions independent and free, but rather as the result of thoughtful assessment of all options. Optimally mergers should not be considered only *in extremis*, when few resources and assets remain; political goodwill, staff morale, and energy are low; and negotiating positions are weakest.

Finally, we need to recognize that guiding lessons and data remain scarce, particularly in the United States. Nonetheless, the “Georgia experiment,” as well as a number of other mergers throughout the country, offer important lessons on the decision making and management of these transformations. We also should note that a number of attempts have been made to create theoretical models to inform the decision making behind mergers; however, in this monograph, we intend to provide as much practical information as possible, within the boundaries of the available data and the limitations of the format.

## Mergers, consolidations, acquisitions: Getting the terminology right

Before we proceed, it is important to be clear about terminology, particularly in light of the many variations of institutional collaborations. The terms often used for institutional-level unification are amalgamation, unification, federation, acquisitions, take-overs, consolidation, and mergers. The meanings of these terms vary.

“Amalgamation” and “unification” are vague terms, with uncertain endpoints and participants. The term “federation” refers to the creation of some sort of system, whereby the governance of the whole remains under shared control of the various participants.

Alternatively, an institutional “merger” refers to the combination of two or more separate institutions that surrender their legally and culturally independent identities in favor of a new joint identity under the control of a single governing body (Harman, 2002). This differs from “take-overs” or “acquisitions,” whereby one institution is subsumed into another, with the latter retaining its name and presence and the former mostly disappearing as an independent entity.

While the term “consolidation” is used frequently, as it is often perceived to be more politically palatable, we should note that “consolidation” actually refers to the “merger of equals” (Harman, 2002). In fact, few mergers are truly a “merger of equals.” Mergers of equals often take place for economic reasons to realize economies of scale and may provide an opportunity to leverage academic strengths that can serve a larger constituency of students. Perhaps the most recognizable example is that of Case Western University, the result of a 1967 merger between Western Reserve University and Case Institute of Technology. The two institutions had a strong collaboration for decades, even sharing facilities on occasion. It was thought that a merger would position the combined institution for increased national recognition, a proposition that has been validated over the years. However, in the vast majority of circumstances there are important differences in power and strength—whether reputational, financial, or political—between the uniting institutions.

In turn, being acquired can be an attractive option for smaller institutions looking to continue and possibly grow their mission, albeit under different branding and control. For larger institutions, the purpose might be the elimination of competition or the expansion of their portfolio. Recent examples include the acquisition of Thunderbird School of Global Management by Arizona State University in 2015, making Thunderbird a unit within Arizona State. Likewise, in 2014, the administration of the Corcoran School of Art came under the auspices of George Washington University, and their gallery collection was donated to the National Gallery of Art.

In this monograph, we have chosen to predominantly use “merger” for those unifications where a new HEI is created from two or more legacy institutions, and “acquisitions” for those events leading to the subsuming of an institution into another, whether the act was voluntary on both parts or not. We will use the terms “federation” and “consolidation” where appropriate and such precision is necessary. Finally, we will use the term “university president” or “president” to signal the chief executive of an HEI, whether called chancellor, president, or any other term.



## Categorizing mergers

A number of scholars have attempted to classify or categorize mergers. For example, mergers may be classified based on their participants: single-sector vs. cross-sector; twin (or two institutions) vs. multiple partners; similar academic profiles (horizontal merger) vs. different academic profiles (vertical merger); or complementary vs. non-complementary (overlapping). Mergers also can be classified based on the strategy that drives them, their motivation, and/or the resultant degree of absorption. We detail some of these characteristics below.

The degree of similarity (e.g., in mission, academic profile, academic programming, structure, size of student and/or faculty bodies, populations served, history, etc.) plays an important role not only in determining the degree of complementarity of academic programming, but also the degree to which campus and organizational cultures and institutional missions differ—both important determinants of success (see below).

In turn, complementarity refers to how well the academic programs of the individual merging institutions create mutual synergies and/or address gaps and needs for the other (Boling, 2017). Complementarity is in part determined by the resulting degree of verticality in academic degrees, although there are a number of other avenues for institutions to effectively complement each other.

The term “vertical mergers” is based on the idea that in industry there are successive stages of production, some earlier, some later, while “horizontal (or lateral) mergers” are the amalgamations of enterprises in the same business, with the same or overlapping clienteles, and engaged in the same stage of production. For HEIs, a vertical merger incorporates institutions with sequential levels of academic degrees, while horizontal mergers incorporate like institutions, with similar levels of degrees. A merger of a four-year institution with a health sciences doctoral university would be an example of a vertical merger, as would the merger of a two-year and a four-year institution. A merger of two relatively similar four-year baccalaureate or masters-level level institutions would be an example of a horizontal merger. Depending on the institutional specifics, mergers may be seen as having both horizontal and vertical goals. The verticality of the degree levels is an important factor in determining the ‘complementarity’ of institutional mergers.

We should note that similarity and complementarity are not to be used interchangeably. Being very different does not necessarily translate into automatic complementarity. Likewise, being similar does not necessarily dictate whether the union will be horizontal, as other factors such as geographical reach, reputation, specifics of academic programming, etc. need to be taken into account.

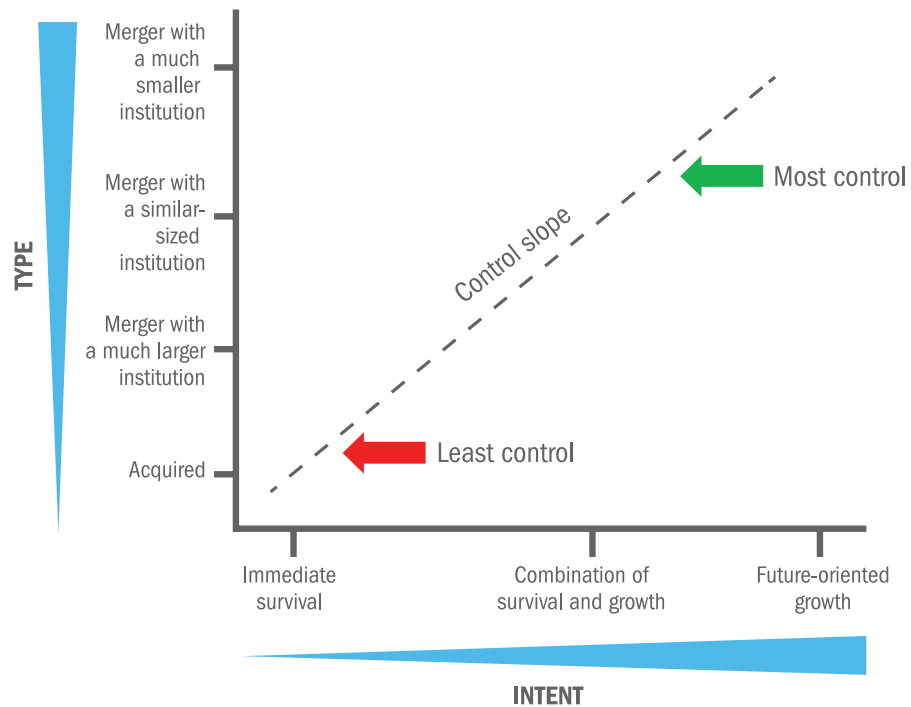
### Scholars categorize mergers based on:

- Their participants
- Similar academic profiles
- The strategy that drives them
- Their motivations
- The resulting degree of absorption

The degree of “systemness” of the initiative is important as it speaks to the degree of autonomy the schools have in reaching the decision. A system-wide mandate to enhance the size and competitive potential of institutions within a system for the benefit of students and the broader community has very different political dynamics from the isolated merger of two institutions. While most of the system-wide experience has been international, a systems approach to merging institutions has been ongoing in Georgia involving two-year, four-year, and doctoral-granting institutions.

We have already discussed the differences between mergers, acquisitions, and federations. However, terminology is not everything. While we may view the union of two schools as a “merger,” it is safe to say that in general, mergers where great size disparity exists are best seen as acquisitions. Further, the type of merger and size disparity, along with the institutional intent for the merger, will play an important role in determining the degree of control any institution has over the merger process and outcome (See Figure 1.)

**Figure 1. Relationship of control over a merger activity in relationship to type and intent of merger**



A merger that involves more than two institutions, while undoubtedly more complex, still retains the fundamental characteristics related to similarity, complementarity, “systemness,” or resulting governance. Likewise, the term voluntary vs. involuntary adds little to our understanding of a merger, as it is unlikely that there will be uniformity in assessing any merger in terms of its perception as “voluntary” by some or most of the involved HEI communities, particularly those that perceive themselves to be the weaker partner in the deal.

Finally, we also note three special types of mergers that reflect the intersecting features of verticality, similarity, and complementarity, each with their unique challenges. These include mergers of nonprofit/public HEIs with for-profit institutions; mergers of faith-based institutions; and mergers of stand-alone health science/medical colleges or universities with a non-medical college or university.

With the increasing number of for-profit HEIs, it is not surprising to find them among those considered for merging. A recent example is Purdue University’s 2017 announcement of its intent to acquire the for-profit Kaplan University, a primarily online institution with fifteen campuses nationwide, with the goal of transforming Kaplan into a nonprofit institution. However, hurdles remain before the acquisition is finalized—most glaring is that of federal government approval. Nonetheless, mergers of for-profit institutions with other for-profits, as well as with nonprofits or public institutions, will likely increase. While one may presuppose that these mergers may prove to be overly difficult, they are likely no more complex than any other merger. This is particularly true if we assume that the for-profit entity will eventually become nonprofit.

In broad terms, we should remember that the business difference between nonprofits and for-profits lies not in the generation of a positive margin, as all institutions strive for this goal, but rather on the question of where that positive margin goes—that is, is it to the same institution for further investment for the public good or to external shareholders and investors? The difficulties, as evidenced by the proposed Purdue-Kaplan merger, lie in how to compensate current investors/shareholders for their lost disbursement, and the management of regulatory and Security Exchange Commission (SEC) concerns.

Faith-based institutions are *de facto* private HEIs and depend largely on tuition and philanthropic donations for their funding. Most tend to be small and some have found it difficult to manage the growing cost of education without steady enrollment growth. A notable merger of faith-based institutions is that of the 2013 acquisition of Florida Christian College in Florida by Johnson University in Tennessee, with Florida Christian assuming the name of Johnson University Florida, allowing shared overhead and the consolidation of course offerings. The unique features of faith-based mergers are reflected in two key factors: a) the need to mesh two separate religious cultures and doctrines, even though they may be

similar denominationally, and b) the fact that many such institutions are small and financially troubled. The first factor risks exposing small, but deep and fundamental differences in beliefs, which can cripple the post-merger environment. The second often results in a merged institution with insufficient resources to operationally complete the amalgamation, foster a healthy and positive post-merger environment, or invest to meet the original promise of the union.

A third special case is the merger of stand-alone health sciences or medical institutions with more comprehensive institutions. In these cases, the uniqueness of the event stems from: a) differences in mission, which for health-oriented entities may also include providing healthcare to the community; b) differences in business models and mindset; c) the unique and marked variances in faculty and staff culture and pay; d) the regulatory, legal and financial complexities of the healthcare and medical practice environments; and e) great difference in finances, such that the budget of even small health-science schools frequently dwarfs that of larger universities with greater number of students and faculty.

## The what: Mergers & consolidations in higher education then and now

### Historical context

The belief that “bigger is better” in higher education in the United States is not new. Over the past 100 years, efforts throughout the nation to consolidate public institutions, rural and otherwise, under single governing umbrellas have led to the creation of the large state university systems we recognize today. More recently, actions have been taken by a number of states to consolidate their technical and community colleges into single systems. Nonetheless, these consolidations of governance are not technically the consolidation or mergers of individual institutions that we refer to in this monograph.

A plea for institutional consolidation in North America was made as early as 1876 by the eminent Canadian educator J. George Hodgins (Hodgins, 1877), noting a truth that still echoes today. While discussing “*the desirability of some change being made in our present university system, so as to make it more thoroughly national in its character and working...*” he wrote that the “*...question has been often mooted, but as yet with no practical result.... as [it touches] upon... various other delicate and difficult matters which even politicians cannot touch without harm, and hence the subject is let alone. ‘Laissez faire’ is felt to be the only safe policy.*” Clearly not much has changed today.

In addition, in 1881, the *Society for Promoting University Consolidation* was created in Halifax, Nova Scotia, as a means of addressing what was perceived to be public underfunding of the nascent university structure in the region. In a prescient statement, the Society explained that it “*...owes its origin to the conviction on the part of its members that the present condition of higher education in this country is unsatisfactory, [and] that the number of institutions possessing University Charters and endeavoring to do collegiate work, is greater than the country can afford to support...*” (The Society for Promoting University Consolidation, 1881).

At a public meeting in 1901 in Richmond, Kentucky, L. H. Blanton, then Chancellor of Central University, vigorously defended the merger of Central University and Centre College of Danville, KY, to create the Central University of Kentucky—and his own reputation (Blanton, 1901). He starts his address by noting that a friend suggested that he not accept the invitation to speak, as “... there was great excitement among the people, and indignation because of my connection with the plan to remove Central University to Danville.” Blanton continues, “...I must stop to answer some of the charges and insinuations which have been freely made, both before and during the present agitation of consolidation... You have the right to your opinion of me personally, or of my fitness for the position I hold, but no man can attack my personal or official integrity, if I know it, without being called to account.” Strong words from a strong leader, and worth taking to heart by leaders facing similar challenges today.

The fact is that a significant proportion of mature HIEs today are the product of, or have been participants in, at least one higher education M&A in their development.

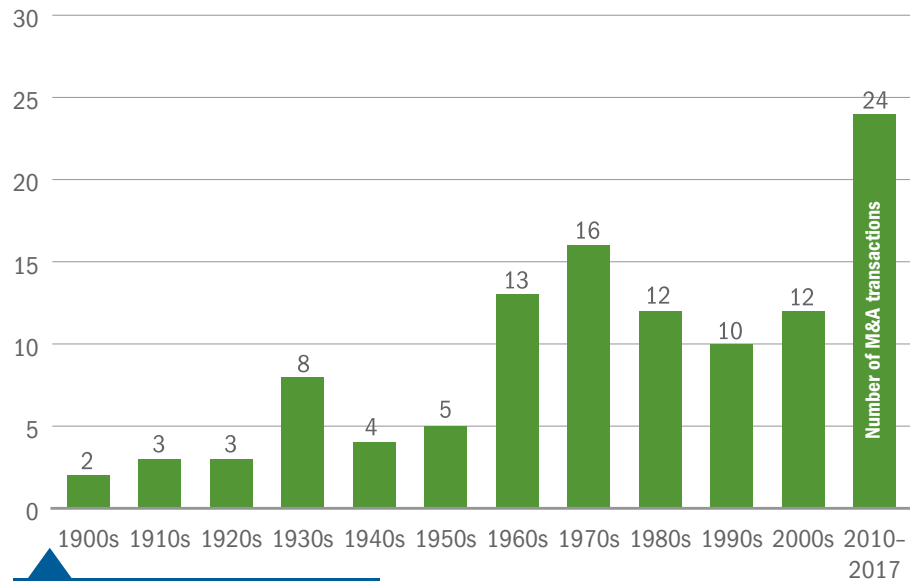
Consolidation in higher education in the United States been occurring for years and, indeed, has even been mandated by courts as a remedy to support desegregation (Epstein, 1980). Approximately 10 merger & acquisition (M&A) transactions are known to have occurred in the 19<sup>th</sup> century; the earliest on record was in 1830. Nearly 75 M&As occurred in the 1900s; whether this increase was due to a rising number of institutions, changing economic and competitive pressures, or simply better records, is unclear. And in the less than two decades since 2000 there have been nearly 40 mergers in the United States, as market dynamics and competitive pressures have intensified. (See Figure 2.) Nearly 40% of the M&A transactions occurring since 2000 have been between two public institutions; few are mergers of equals, though a few notable merger transactions involve large institutions. Finally, while most M&A activity has taken place between two public institutions in the same state, cross-sector and cross-state mergers are emerging as real options.<sup>2</sup>

The fact is that a significant proportion of mature HEIs today are the product of, or have been participants in, at least one higher education M&A in their development. In part, this stems from the fact that the changing regulatory and competitive environment over the past century has placed often untenable (although often needed) pressure on many institutions, limiting their survival options. Witness the massive closures in private medical schools following the issuing of the Flexner Report<sup>3</sup> in 1910 (Hiatt & Stockton, 2003). Yet many leaders of those institutions chose to seek ways to survive, if not in name at least in function, as they sought to preserve opportunities for their faculty and students, and to continue striving to achieve their often unique missions.

2. Parthenon-EY Analysis; <http://highereducationmergers.blogspot.com/>

3. NOTE: The Flexner Report is an analysis of the 155 medical schools then existing in the United States and Canada carried out with the support of the Carnegie Foundation by Abraham Flexner, an educator, and published in 1910. The report called for a reduction in the number of schools and graduates, and for the remaining medical schools to enact higher admission and graduation standards, and to develop and adhere to standardized and scientifically based curricula. Unable to meet the recommendations of the report, nearly half of existing schools either merged or closed shortly after its release. The report set the standards for the modern medical school. On the other hand, Flexner was not supportive of the training of African-Americans or women as physicians, and the report also led to a severe decrease in the numbers of such medical school graduates.

Figure 2. Number of M&A transactions in U.S. Higher Education, 1900–2017



Note: About 10 known M&A transactions occurred during the 19th century; the earliest on record took place in 1830.

Note: Number of M&A transactions is not completely exhaustive—some small-scale or distant-past mergers may not be represented

Source: Higher Education Mergers Blog; Parthenon-EY Analysis

### Financial realities of higher education in the United States today

Recent and persistent trends in the United States higher education market suggest that many HEIs will face increasing financial pressure in the coming years. Enrollment trends are among the chief drivers of this financial reality. Increases in the number of high school graduates have leveled off or begun to decline, as have increases in the proportion of high school graduates who immediately seek to enroll in further education. At the same time, the costs that students face continue to increase, along with their debt levels. The mix of applicants to HEIs continues its qualitative shift from heavily “traditional” toward heavily “non-traditional,” but those students often opt for less than full-time study and, increasingly, choose skills training separate and apart from traditional HEI offerings. Over the last decades, enrollment pools for some HEIs have been at least partially replenished with applicants from abroad, although the long-term sustainability of this tactic is mitigated by regulatory risks (in both the United States and source countries), increased competition from HEIs in other developed countries, and from emerging HEIs in source countries.

The responses of HEIs to these supply-related market conditions are being rolled out with mixed success. Reducing admission standards in order to enroll additional students is increasingly unrealistic, although more HEIs are shifting toward open-enrollment practices. Price discounting, widely practiced, can have a positive financial impact only if reduced prices are more than offset by increased volume, which in turn drives up costs. Net new enrollments from online program delivery to distant markets have been lessened by in-house start-up and conversion costs, as well as capacity constraints. New programmatic initiatives often entail start-up and operating costs in the face of uncertain new revenues. And finally, many efficiency-oriented (cost-reducing, productivity-enhancing) initiatives are being implemented, but cannot be extended indefinitely, for example, replacing full-time tenure track faculty with less expensive contract instructors, increasing class size, or deferring maintenance on physical plant.

Despite many of these efforts, closures of HEIs in the United States are on the rise. Since 2009, there have been nearly 100 private, nonprofit closures in higher education. Based on an analysis of these institutions conducted by Parthenon-EY, several risk factors emerge as predictive of closure and, likewise, may be used to identify institutions that may be vulnerable to closure. These risk factors, organized into three key parameters include: weaknesses in institutional strength, including enrollment under 1,000 and not having a complete online program developed; in revenue generation, including annual tuition increases greater than 8%, tuition discount rates greater than 35%, and tuition dependency greater than 85%; and in financial structure, including a ratio of endowment to annual expenses less than 3:1, debt service greater than 10% of expenses, and expenses greater than revenues. HEIs with many of these risk factors were more likely to close outright rather than merge, when compared to those with just a few risk factors. In 2013, 122 institutions in the United States exhibited more than four risk factors for closure. Small schools had the highest risk: 70% of 4-year, private nonprofit and public institutions with enrollments under 1,000 exhibited at least three risk factors for closure, compared to just 9% of HEIs with more than 10,000 students.

Note, though, that while schools with smaller enrollments may be more likely to have more risk factors, there are certainly examples of small institutions that operate successfully by intentionally defining a niche.

Of course, not all HEIs face the same circumstances, and each HEI has unique combinations of financial advantages and disadvantages. Nonetheless, certain characteristics of HEIs are often cumulatively financially disadvantageous, including small size, virtually open enrollment, declining state support (for publics), declining local student-age populations, lack of stable institutional leadership, and no clear brand differentiation linking the institution to a specific market.

#### Several risk factors are predictive of closure

##### Institutional strength

- Enrollment <1,000
- No complete online program yet developed

##### Revenue generation

- Annual tuition increases >8%
- Tuition discount >35%
- Tuition dependency >85%

##### Financial structure

- Ratio of endowment to annual expenses < 3:1
- Debt service >10% of expenses

## Corporate mergers: Experience, translatable lessons, and contrasts

Partly as a consequence of facing these and similar circumstances over a period of years, a number of HEIs have either closed their doors, been acquired by other institutions, or merged with them. These outcomes—closing, being acquired, and merging—resemble those in the corporate world, but with important differences in mechanics. The body of literature concerning corporate mergers dwarfs that of similar unions in higher education. Consequently, leaders considering a merger of HEIs have much to learn from the corporate sector (Gordon, 2003).

The primary feature that distinguishes for-profit organizations (including for-profit HEIs) from private nonprofits and public organizations involves the rights of individual owners to buy and sell parts of the organization (“alienable rights”). Nonprofit HEIs, like other private nonprofit organizations, are not technically owned by their board members, either individually or as a single body. HEI trustees have a fiduciary responsibility to act on behalf of the HEIs; but ownership of the nonprofit is not divisible, and individuals cannot transfer ownership rights to it (McRay, 2015). Similarly, the governing bodies of public HEIs have no ownership rights that accompany their fiduciary responsibility to govern the public HEI. Technically, governments (but not their appointed trustees) can sell off public enterprises to private investors (“privatization”), but this is extremely uncommon in the case of U.S. higher education enterprises. Again, individuals, including HEI trustees, cannot own or trade shares of a public HEI.

In the for-profit world, M&As constitute a much more normal, even routine way for businesses to improve their circumstances—either by buying all or parts of other businesses or by selling all or parts of their businesses to others. Price and cost are primary measures of value in the for-profit sector; in contrast, strategy, and cultural fit—neither well metered by money—are more important in the traditional higher education space. The term M&A suggests adding to the size of firms; other terms emphasize the division or break-up of firms into more discrete units, e.g., spinoffs, split-offs, and carve-outs. All of these terms address specific instances of buying and selling all or parts of for-profit businesses.

M&A activity in the for-profit sector differs in several additional ways from M&A activity among HEIs. For example, in the for-profit sector, investment banks and private equity specialists provide fundamental financial facilitation services, and shareholders and employees are often exposed to personal financial consequences, both positive and negative. Unlike the case for nonprofits and public organizations, M&As among for-profits need not require a minimum level of willingness on the part of senior management of both parties (and thus may be known as “unfriendly takeovers”). Taxation and its consequences also enter for-profit M&A calculations, but not HEI mergers. Finally, for-profit M&A activity (especially among large firms in concentrated industries) also passes through the unique regulatory filter of anti-monopolistic policies of the SEC.



Despite these fundamental structural differences between for-profit businesses and nonprofit and public HEIs, two broad areas of similarity exist between mergers among for-profit businesses and mergers among HEIs.

First, in both sectors, motivations for mergers are multi-dimensional and believed to be positive. Perhaps the most fundamental similarity (at least among mergers where both sides are willing to merge) is the belief by decision makers in both parties that they will be somehow better off by merging than by not merging: one plus one can equal three. For one party, the belief in the outcome may be enhanced reputation with economies of scale, and for the other party, it may be a form of survival, albeit with loss of identity, which is still preferable to complete dissolution. Similarly, when mergers fail or never are considered, the negatives perceived by at least one of the parties outweigh any of these positives: one and one does not even seem to get to two.

The desire to grow in size in the pursuit of economies of scale—either to survive or to thrive—motivates a good part of HEI M&A activity, just like in the for-profit world. M&A activity is especially pronounced in for-profit industries where there are many small firms, where economies of scale may exist, and where a small number of firms do not dominate the market—conditions not dissimilar from American higher education. Public HEIs, in addition, often find themselves part of a state-governed “system” of multiple campuses, and the impetus for considering M&A activities among these campuses often originates from above; i.e., from a powerful source of administrative authority and funding, often in pursuit of increased efficiencies and rationality.

In all cases, “growing in size” can subsume different sub-goals such as enhanced efficiency or increased service options. For the former sub-goal, support services with high fixed costs can be spread across more volume, thereby reducing unit costs. In merged HEIs, these costs might include efficiencies from merged offices of the president, computer services, etc. For the latter, each merged HEI might have unique program offerings that after the merger become available to attract additional applicants to the “new” HEI.

In addition to growth in size, other organizational features have made both businesses and HEIs appear attractive to potential merger partners: new regions to sell into; new technologies and/or better operating systems; access to enhanced financial capital; brand enhancement; and access to specialized workforce talent. Another merger motivation, enhancing the quality of academic offerings, can take several forms, such as eliminating duplicative programs; increasing academic integration and collaboration by creating new multi- and interdisciplinary fields; and diversifying academic profiles to enhance reputation in a larger market (Skodvin, 1999).

**Two broad areas of similarity exist between mergers among for-profit businesses and mergers among HEIs:**

- The belief by decision makers in both parties that they will be better off by merging
- Positive motivations for merging do not guarantee success

Consequently, M&As in for-profit businesses and nonprofit HEIs suffer from a tendency of merger advocates to inflate estimates of benefits and underestimate transaction costs. This positioning often leads to results that even if objectively positive, fail to meet expectations. This is particularly true when a proposed merger is believed to deliver multiple benefits—increased financial health, enrollment growth, efficiencies from consolidation, increased regional influence, and enhanced academic reputation. Alternatively, both types of businesses also will suffer from the tendency of merger opponents to exaggerate the negative impact of a proposed M&A, positioning it as the “end of the world as we know it” and so forth. This, in turn, often prevents a clear, rational conversation on the strategy from occurring.

Second, sufficient positive motivations for merging do not guarantee success in any sector. Despite pro-merger arguments, mergers among both for-profit businesses and nonprofit HEIs have a mixed record of success: in fact, success in the corporate sector, typically at between 20% and 50%, may be slightly less than among HEIs (Thomas & Chabotar, 2015).

However, we should recognize that metrics of “merger success” vary between M&As in the for-profit business and the nonprofit HEIs worlds. Because the investor marketplace plays such a major role in the mergers of for-profit businesses (relative to nonprofit and public HEIs), there are a number of financially metered indicators of “success” of merged for-profit business which don’t have a direct analogue among merged HEIs, in part because they often are not consistently measured or simply do not exist. Changes in share prices, pre- and post-merger, for example, do not apply to HEIs, and changes in financial condition and performance tend to be gathered and reported in greater detail among larger, publicly traded companies, in contrast to HEIs. In both the business world and among HEIs compelling merger arguments, pre-merger, do not necessarily translate into the outcomes envisioned.

Clearly, there are a wide variety of metrics by which to evaluate mergers in business and higher education. Although no consensus about a single formula for achieving successful mergers exists, a growing field of research has identified management practices and organizational circumstances that appear to be predictive of, or associated with, merger success (see below).

### Contemporary examples of successful university mergers and consolidations

The recommendations outlined in this paper are principally informed by data from three sources: case studies of international system-wide mergers, the “Georgia experiment,” and the merger of health science universities with broader-based HEIs in the United States, as described below.

During the past three decades, a number of countries have pursued systematic mergers of public institutions, including Australia, South Africa, Northern Europe (Norway, Finland, Sweden and Denmark, and the Netherlands), Canada, Russia, and the UK (Goedegebuure,

1992; Pritchard, 1993; Eastman & Lang, 2001; Harman & Meek, 2002; Barnes et al, 2010; Higher Education Funding Council for England, 2012; COE Program, 2014; Curaj et al, 2015; Pruvot et al, 2015; Pinheiro et al, 2016; NUFFIC News, 2016). A notable example is China, which has moved aggressively from a Soviet or Socialist model of specialized centers of learning to a model of larger, globally competitive comprehensive universities (Cai & Yang, 2015). The principal purpose when the process began in the early 1990s was to leverage economies of scale, improve efficiency, and build more comprehensive HEIs. However, major drivers for mergers in China changed with the issuing of ‘Project 211’ by the government in 1993, aimed at strengthening some 100 HEIs. At that point, the focus of mergers shifted towards improving universities’ international competitiveness and prestige. Between 1990 and 2015, there have been more than 400 mergers in China, involving nearly 1,000 public HEIs.

In the United States, a notable and unusual example of systematic merger activity in public higher education is that occurring in the state of Georgia. The state first undertook strategic mergers of institutions within TCSG. Ten separate administrative mergers between 2009 and 2015 reduced the number of institutions within TCSG from 33 to 22. Mergers of institutions in the University System of Georgia (USG) began in 2012 and continue. USG has approached the merger in phases and is currently in Phase IV. This approach has allowed system and institutional leaders to learn what works and what does not. For example, in Phase I, new institutional names were selected by the Board of Regents (BOR) from a roster of three possibilities submitted by the campus president; the resulting discord led to subsequent merged institutions being named either directly by the USG BOR, or simply retaining the name of the larger institution.<sup>4</sup>

Since 2012, 10 mergers have been completed or are in process, which will reduce the number of USG institutions from 36 to 26. Given the wide variety of institutions involved in these mergers, and the different phases undertaken—which has allowed for early decisions to be adjusted in subsequent efforts—the Georgia experiment provides numerous lessons in effecting systematic institutional mergers in the public higher education sector.

Over the past 50 years, the number of stand-alone medical schools (historically the preferred structure) has progressively declined as the need for scale and vertical integration has become more pressing, and consequently mergers with broader universities have increased. These types of mergers bring an important element into the equation; i.e., the inclusion of academic health leaders. These leaders are familiar with the many challenges and changes that healthcare has faced in the past three decades, and with the myriad hospital, practice plan, and health system mergers that have occurred in the past 15 years. Likewise, academic health leaders often bring to the table a greater level of comfort with uncertainty, ambiguity, innovation, and change (Azziz, 2014a; Eisenberg, 2016). Alternatively, these leaders are often far less familiar with the needs, demands and challenges of higher education outside of the healthcare realm (Azziz, 2014a).



**Systematic merger activity in public higher education in the state of Georgia provides numerous lessons in effecting institutional mergers.**

4. <http://www.usg.edu/docs/consolidations.pdf>

Notable examples of such mergers include the University of Alabama at Birmingham (UAB), established in 1966 when the University of Alabama School of Medicine (Medical Center) merged with the University of Alabama's Birmingham Extension Center; the Virginia Commonwealth University, founded in 1968 following the merger of the Medical College of Virginia (MCV) and the Richmond Professional Institute; and the 1982 merger of University of Illinois at Chicago Circle and the University of Illinois at the Medical Center to form the University of Illinois at Chicago (UIC). Overall, the success of these mergers seems to be clear, albeit with relatively minor glitches.

More recent mergers include that of MCP-Hahnemann University and Drexel University in 2002; the 2004 consolidation of the University of Colorado Denver and the University of Colorado Health Sciences Center; the merger of the University of Toledo with the Medical University of Ohio (MUO) in 2006; the merger of the Georgia Health Sciences University and Augusta State University to create Georgia Regents University (GRU; now Augusta University); and the merger of Rutgers University and University of Medicine & Dentistry of New Jersey, in 2012.

These mergers, albeit more recently created, also appear to be a success thus far. For example, while the merger of MUO with the University of Toledo was immediately followed by the fiscal crisis of 2007 and 2008, the impact of which continues to be felt in Northwest Ohio today, overall there has been some cost avoidance, purchasing power has increased, and many functions have been integrated and downsized. Each institution's alumni associations and their supporting foundations have merged. Medical student recruitment has improved dramatically and undergraduate recruitment initially increased steeply, leveling off in 2010. The merger is by all accounts believed to be a success.

### Predicting the success of a merger

Understanding that the prediction of a successful merger is never an exact science; the above-mentioned experiences highlight a number of areas that seem to facilitate or, alternatively, threaten, success. Various observers note the following, in no specific order, as predictors of success: the qualities of leadership among the key actors (e.g., strong, respected, sensitive, transparent, knowledgeable, strategic, decisive and transformational); goal-directed leadership training and development; new appointments and fresh leadership in pivotal roles; flexibility in developing leadership models of governance; deliberate swiftness and relative speed of implementation; geographic proximity of the institutions; constant communications to and among key constituents; a strong central administration, with relatively greater power vis-à-vis the individual units and greater control of assets vis-à-vis foundations and other independent entities; the ability to balance the research and teaching portfolios of the affected institutions; the establishment of centralized cost-centers and systems of shared administrative support; a consistent and continuing student

and community-centric message regarding the purpose and goal of the merger; significant brand recognition or ranking of the merged institution; the complementarity, even synergy, of academic programs and degrees and the building of new, cross-disciplinary, cross-sector complementary offerings that leverage the whole; the creation of common projects or wins; the ability to ensure job security, if not preserve existing roles; and an emphasis on building shared traditions and symbols, while respecting pre-existing traditions and symbols (Harman, 2002; Ahmadvand et al, 2012; Higher Education Funding Council for England, 2012; Education Advisory Board, 2013; Cai & Yang, 2015).

In general, these reported observations can be grouped into five factors: i) those that stem from the qualities and power of the leadership and central administration; ii) those that relate to the complementarity of programs and opportunities; iii) those that reflect the efficacy of internal and external institutional relations and communication; iv) those that allow a speedy process; and v) those that relate to the sensitive, planful and deliberate management of human capital needs and concerns.

In addition, an analysis of the almost 40 mergers occurring since 2000 conducted by Parthenon-EY indicates that “successful” HEI mergers seem to have a sufficient number of supportive conditions. First, decision makers were otherwise managing their HEIs well while also proactively managing their HEI’s merger process. They brought a strategic vision for their campus to the merger process, providing a framework for assessing merger possibilities.

Second, finances were not the only consideration, although many of the major issues, whether positive or negative, could be traced back to beliefs about their impact on short- and long-run financial health in both academic and administrative areas. Assumptions about a new “business model” were colored by assumptions about cost savings, economies of scale and scope, program impact, and enrollment growth. Money did matter. However, to be ultimately successful, mergers had to be part of a larger strategic plan and not an isolated tactic or endpoint. Important questions to be addressed included: What is the merger intended to achieve? What are the long-term vision and strategic goals? Why is the merger the best alternative to facilitate our long-term vision?

Third, although very few constituencies—trustees, government officials, faculty, administration, students, and alumni—were fully supportive, all stakeholders were either at a minimum neutral to the merger or not powerful enough to derail the process. With the passage of time, in most cases post-merger problems and issues give way to other concerns and interests.

Analysis showed that to be ultimately successful, HEI mergers had to be part of a larger strategic plan and not an isolated tactic or endpoint.

## Seven critical elements for merger success

While the literature indicates many factors that are predictive of a successful merger (see above), we would add seven critical elements that must be in place for a merger to be successful—and without which the likelihood of failure is high. These elements include: (i) a compelling unifying vision and set of common values; (ii) a committed and understanding governing body; (iii) the right leadership, pragmatically visionary; (iv) an appropriate sense of urgency; (v) a strong project management system; (vi) a robust and redundant communication plan; and (vii) sufficient dedicated resources.

**A compelling unifying vision.** The vision should clearly articulate why the merger is the “right thing” for all stakeholders. The vision statement should be unifying, inform the university and broader community in clear, simple terms why the resulting institution will be better poised for success, and outline the benefits to be gained from that success.

**A committed and understanding governing body.** Governing bodies must be unwavering in their resolve, willing to make hard decisions, understanding of the perils and risks to the implementing teams, and understanding that the process of consolidating and merging such culturally rich and complex enterprises as HEIs is not always pretty and will not be without its bumps (some bigger than others) and mistakes. Governing bodies must be willing to listen and gather information before making a decision, but must be united in their resolve once a decision is made and remain so for the long haul. In addition, these oversight bodies must be willing to go to significant lengths to protect and support the leaders they have designated to carry out the difficult task ahead.

**The right leadership.** The success of any transformation, particularly in an industry such as higher education, hinges on the skills, resilience and dedication of the leaders. They must be strong yet sensitive, resolute yet willing to listen, of clear vision and articulate, and willing to operate in a shifting environment with significant risks.

We should recognize that few executives in the academy are well prepared to serve as transformational leaders, given that academic leaders, in general, do not often embrace change. Many favor “incrementalism” as the preferred mode of growth and adjustment (Kezar, 2014). But the process of consolidation and merger must occur at a deliberate and generally swift pace, with an actual cliff-edge event ahead (i.e., one day you are two or more institutions and the next day you are one). The process does not allow for an incremental and meandering approach. In fact, the further one drags out the process the more difficult it will become.

### Seven critical elements for merger success

1. A compelling unifying vision
2. A committed and understanding governing body
3. The right leadership
4. An appropriate sense of urgency
5. A strong project management system
6. A robust and redundant communication plan
7. Sufficient dedicated resources

Additionally, academic leaders do not generally assess, tolerate, nor manage risk well, as such training is not typically part of their backgrounds. However, while academic leaders may prefer to avoid risk-taking, the process of bringing two or more institutions together is by nature a major risk, not only to the institution but also to those leading the initiative.

Consequently, governing bodies must choose the right leadership team, at times from outside the current institutions involved, to lead the complex process of a merger. In addition, since a transformational skill set is generally a rare attribute in academe, institutions, their governing bodies, and the leaders themselves must be prepared to explore avenues for training and development.

It is worth noting that the right leadership will succeed only if they have the right teams to rely on, including faculty and staff. Implementing such a large change in the nature and culture of an HEI cannot be done alone, and collaboration with stakeholders across all campuses and institutions is both necessary to smooth the path toward consolidation and the right thing to do.

**The appropriate sense of urgency.** Successful institutional transformation is always best served when there is a sense of urgency. Instilling this sense of urgency among faculty, staff, and students requires great transparency about both what is working and what is not working at the institution, and even more importantly, about the challenges that lie ahead. Considering that most leaders of mergers spend a good portion of their time serving as cheerleaders and sharing flattering information about institutional performance and future prospects, positioning the merger as a key strategy for moving forward is undoubtedly difficult, albeit essential.

Instilling the right degree of urgency into the equation requires careful planning. Too much can bring panic, paralysis, or exodus (and generally all three). Too few in the university community will understand—or embrace—the merger as a positive initiative or at least as a necessary step. Data must be shared thoughtfully, with great clarity and simplicity, and recipients must be educated as to what the data mean. Transparency without education is no transparency at all.

**A strong project management system.** A system that is able to readily assist in managing the timely, aligned and coordinated completion of the hundreds of different tasks pertaining to a university's infrastructure and operations is essential. To do so, it is critical that merging institutions deploy as far in advance as possible a strong, nimble and reliable project management system, staffed by experienced and dedicated personnel.

**A robust and redundant communication plan.** Being able to communicate the vision, purpose, and progress of a merger broadly, deliberately, repeatedly, and consistently is critical. And it is not easy. One should always keep in mind George Bernard Shaw's admonition that "The single biggest problem in communication is the illusion that it has taken place." Or more directly, given the wide array of constituencies in higher education, the independence the professoriate feels they have, and the fear of change that naturally accompanies transformation, communicating in an institution of higher learning is like trying to make waves by throwing a pebble into a tar pit (Azziz, 2014b). Consequently, a careful, thoughtful, and bidirectional communication plan must be designed and resourced as part of the pre-merger effort. The earlier the better, since it also should help build the necessary sense of urgency.

There is significant risk that messaging may vary from group to group and speaker to speaker. It is imperative that a small set of clear, succinct, and compelling messages be crafted and vetted carefully. They should be repeated—whether verbally or in writing—exactly the same, time after time, and by different sets of leaders. Likewise, the integration and establishment of single leadership for public relations functions should be an early priority. Further, stabilizing messages from the president or the board should be frequent, such as "All pre-existing policies remain in effect, until formally changed," or, "No student's program will be interrupted," and so on.

**Sufficient dedicated resources.** Mergers require monetary and non-monetary resources. Many expenses will be incurred during the merger, including those related to the meshing of information technology (IT), human resource (HR), facilities management, research support systems, signage, branding, communication, and so on, (see below). Therefore, resources need to be dedicated—proactively and in advance. Ideally, resources would include not only monies and capital, but also dedicated personnel. These resources should be beyond those needed to maintain the normal operations of the institutions as they merge. Resources may be identified internally, as for larger HEIs acquiring smaller institutions, or may have to be provided externally, through system or governmental resources.

Finally, it should be noted that the presence of these seven critical elements does not, of course, guarantee success. However, the absence of any one of these essentials could jeopardize the potential for a successful merger outcome, to the detriment of the faculty, staff, communities, and students involved.



## Measuring “merger success”

What exactly does “success” post-merger look like? A reduction in administrative overhead or costs is not enough to claim success since, as noted below, these are one-time short-term goals. Will success be measured in total enrollment, degree of student success, student access, diversity on campus, research funding or productivity, quality of the programming, and/or national brand recognition and rankings? In addition, mergers do not affect all people equally. Faculty and staff who forego employment post-merger have a different perception of the event than do those faculty and staff who, post-merger, join a new, bigger, more robust department. “Success” looks different to different stakeholders.

Consequently, metrics for determining success or failure should be determined in advance, along with a measurement system, with the understanding that the set of metrics will generally expand with time. Moreover, chosen metrics should be SMART, that is: **S**pecific, **M**easurable, **A**chievable, **R**elevant, and **T**ime-based (Doran, 1981). Baseline values for the metrics should be obtained early in the process.

Finally, when speaking of “merger success,” we should recognize that “success” might take longer to achieve than anticipated. Most observers note that it generally takes at least a decade to assess whether a merger is actually on solid footing and is, or will eventually be, a success (Ahmadvand et al, 2012). Even then success may be primarily in the eye of the beholder.

## The why: The gains and costs of merging Higher Education institutions

While the underlying justifications for and against a merger are complex and should be assessed on a case-by-case basis, a number of gains and costs for any potential merger should be considered, as described below.

### The gains

All mergers harbor the potential for a range of gains and costs that should be weighed against each other. Gains include opportunities for realizing financial savings, leveraging greater size and scale in multiple areas, and re-deploying/re-engaging stakeholders. One of the most frequently cited reasons for mergers in higher education is the opportunity for financial savings.

Mergers allow institutions to eliminate redundant administrators and their staff and leverage scale in order to reduce the aggregate costs of administrative services and infrastructure. In fact, data suggest that the proportion of administrative costs<sup>5</sup> decreases as the size of the institution, in terms of overall budget, increases. For example, prior to their merger administrative costs at the Georgia Health Sciences University, with a total budget of roughly \$450M, were approximately 6.3%; at Augusta State University, with a total budget of roughly \$70M, administrative costs were approximately 17%. Post-merger, the administrative costs of the merged institution, GRU, were approximately 6.7%. A few caveats regarding cost savings, however, should be noted:

First, while such savings tend to be easy to highlight and politically palatable, they generally represent a one-time opportunity, in contrast to investments in student and faculty recruitment and retention, academic program growth, and the like, which are critical to ensuring the promise of the merged university, but generally are recurring (and growing) expenditures.

Second, the proportion of savings, particularly those stemming from reductions in administrative staff, is actually relatively small. For example, even if we assume that we are able to eliminate 50% of all administrative costs (a difficult goal indeed) of at least one of the merging institutions, depending on the size of the resultant institution, that effort would represent a few percent savings in the overall budget of the merged institution. This savings may be important, but it is hardly transformative.

Third, the degree of these savings greatly depends on the degree to which administration was resourced prior to the merger. For many institutions, the years prior to a merger or acquisition are characterized by administrative cuts and reductions, such that there will be little more to eliminate once the merger is completed.

Cost savings or simply being bigger should not be the only, and probably not the primary, drivers of a merger. However, we should recognize that in negotiations and procurement, bigger is usually better. Likewise, greater opportunities will exist to create shared administrative services, with the aim of providing better and broader services throughout, at the same or lesser cost. Greater size can be leveraged to create new opportunities to expand programmatic access to students and faculty, in both education and research, while helping to building academic scale and critical mass in selected areas. Greater size also increases the geographic breadth and footprint of the institution, which in turn facilitates efforts to diversify the student body and faculty while fostering branding and reputational efforts. Most important, all these opportunities combined may provide the institution with greater political influence as well as economic relevance and impact.

5. As defined by the National Association of College and University Business Officers (NACUBO)

While a merger harbors the real risk of alienating a great number of constituents, including donors, overseers, government and elected officials, and campus representatives, it also presents a unique opportunity to engage these critical stakeholders—and to recruit new stakeholders—around a grand idea and vision. To do so effectively, however, leaders must be prepared to ensure that all stakeholders, without exception, feel heard and engaged. Furthermore, leaders should keep in mind the “20-60-20%” rule: That is, in any grand transformation, 20% of stakeholders will immediately embrace the opportunity, 20% will unwaveringly oppose it to the death, and 60% will sit on the fence watching for developments. Leaders often spend an inordinate amount of energy, time and political capital to engage the opposing 20%, in the belief that if they are able to convert these individuals, all others will come along. However, a more effective approach is to actively engage the 20% that have already committed, and work on converting the 60% that have delayed making a decision.

In summary, while savings can be projected from a merger and often are used to move the transformation forward, particularly with legislative or governmental agency stakeholders, cost savings or simply being bigger should not be the only drivers of a merger. Cost savings and the leveraging of economies of scale to the degree expected often go unrealized, and indeed may be absent without a strong commitment to re-engineering institutional processes. Most important, cost savings take time to realize and are generally dwarfed in the face of the many expenses that a merging institution needs to incur, as described below.

### The costs

Mergers cost—and in the short run may cost more than they save. Expenses related to a merger include those related to rebranding, communications, and university relations; addressing human capital redeployment; developing programmatic growth; and building necessary infrastructure. And while financial gains may take time to develop, other than short-term reductions in administrative staff, many of the costs of a merger come due immediately and often even before the process has begun. Hence, leaders should be prepared for the need for added resources. Two issues, however, often confound these efforts.

First is the tendency of many leaders and governing bodies to exaggerate the potential for financial savings and underestimate the associated costs. Second, often institutions consider the option of a merger only when they are in extreme financial difficulty, and consequently available resources are few. This helps to explain why schools with many signs of financial trouble are more likely to close, not merge, than those that exhibit fewer signs of financial trouble.



**Cost savings should not be the only driver of a merger** as they take time to realize, may indeed go unrealized, and are generally dwarfed by the many expenses a merging institution needs to incur.

Activities surrounding the merger related to branding, communications, and university relations can have powerful symbolic value and can be accomplished at relatively low cost. Costs for these activities typically belong in the “immediate” category, given that they should be undertaken very early in the process. Visible signs of unity are important, and include, for example, printed materials, signage, and uniforms for those who wear them. Should the merger result in an entirely new institutional name, then of course the costs of branding (as well as attendant political costs) increase exponentially. Finally, costs stemming from the loss of a pre-existing branding connection with alumni, community, and donors, and with the national scene as well, also should be accounted for.

### The costs of a merger

- Branding, communications, and university relations
- Addressing human capital needs
- Developing programmatic growth, synergies and short-term wins
- Building necessary infrastructure
- Opportunity costs
- Expenditure of political capital
- Costs to leadership

The costs of addressing human capital needs often go unappreciated until they become urgent. The greatest fear surrounding a merger stems from the potential for job loss (Cartwright et al, 2017). Thus, any investment that can be made within the confines of budgetary restrictions to ensure employment security, if not in the same position, will go far in ensuring the merger’s acceptance and success.

Additionally, when two or more HEIs merge, discrepancies in staff and faculty salaries will be likely due to differing standards and benchmarks, regardless of whether the merging institutions offer similar programs. For example, at the University of Toledo, issues surrounding the compensation and benefit packages of merging staff were made more complex by the fact that five different unions had membership on the two campuses. It is fair to say that even now, at ten years post-merger, there is not perfect equity.

One final additional human resource cost that is often overlooked is that of providing leadership development, particularly in transformational and change management skills (Chipunza & Gwarinda, 2010), to the various leadership teams, including middle managers, operational directors and chairs. GRU addressed this need by establishing a Leadership Academy on campus and bringing in external expertise, while also launching in-house leadership development and train-the-trainer programs.

Early acceptance of a merger will be bolstered by common projects and short-term wins. Furthermore, long-term success will depend on the ability of the new institution to leverage institutional capacity and strengths synergistically, and develop novel and unique research and educational offerings. While the cost of fostering and celebrating short-term wins is generally not excessive, longer-term investments may be. A plan should be put in place to ensure investment in the newly merged institution’s long-term growth. These novel initiatives are also excellent opportunities to seek philanthropic support and enhance the new institution’s relationship with the donor community, some of whom may have been alienated by the merger.

A centralized and uniform common administrative services infrastructure must be put in place immediately upon merging. A highly functioning administrative infrastructure will have multiple impacts: enhanced leadership control; improved odds of merger success; and increased student, staff, faculty, and administrative satisfaction. Efforts at understanding these needs and initiating investment in them should begin well before a merger is consummated. Common upfront costs relate to the merging of IT, HR, facilities management, security, enrollment management, compliance and audit, finance, libraries, faculty promotion and research support systems, among many others. The movement and relocation of staff is an added, often hidden, cost of a merger.

Mergers also entail significant opportunity costs. The work of the merger is all consuming, reducing the ability to adequately respond to other opportunities or threats. The merger will claim institutional attention and resources from other projects and goals, and demand a significant portion of leadership's attention span, such that other matters that require addressing will need to be put on the back-burner, sometimes with negative consequences. Critical system overhauls, updates, or implementations, for example, may be overlooked or have to be postponed as the merger proceeds, potentially creating risk and discontent.

Most experienced leaders and executives clearly understand the concept of political capital, grasp the value and scarcity of such a resource, and manage it as carefully as they manage their own personal savings. Yet few events in the life of an HEI or its leaders will demand more political capital than a merger. Political capital will be expended externally, in reassuring and working with elected officials, donors, alumni, partner foundations and other aligned organizations, prospective students, the local community, state and national leaders, and other system colleagues, and internally in addressing student, parental, faculty and staff concerns. Leaders must ensure the careful expenditure of their precious political capital—not only through their own actions, but by the actions of their staff and teams as well.

An often unrecognized and under-appreciated cost of mergers is the cost to leaders who are willing to champion them. No organization takes change lightly and less so in academia. The leadership risks are high. Few in academe have faced transformational change, and generally both stakeholders and leaders are inexperienced in the undertaking. Furthermore, a far more rapid pace of change than is typical in academe must be maintained to ensure success of the venture in meeting all regulatory deadlines.

Leaders also often suffer the 'too fast, too slow' conundrum, whereby the process leading up to the merger is rapid-paced, deliberate, and unwavering, but the benefits of the merger appear only too slowly. Further, mergers require leaders to make difficult personnel and investment decisions, and dedicate an enormous amount of personal time to the effort, as they should be seen as leading from the front. This is one initiative where the university chief executive cannot stay in the background or appear to demur.

Institutions should be prepared for the immediate costs of a merger by identifying and earmarking resources early on.

Given the risks, leaders should seek out guidance and development in the management of transformational change, a skill set few in academe have had the opportunity to develop. Governing boards can help by providing leaders with ample coverage and support. Finally, leaders and their boards should be clear as to when and how a leadership exit will occur, since many leaders who manage mergers are perceived as appointed “change agents” with a limited tenure.

Finally, it is important to keep in mind that in mergers there will be discordance in timing between gains and costs. While financial gains may take time to develop, many of the costs of a merger, other than short-term reductions in administrative staff, come due immediately and often even before the process has begun. Thus, institutions should be prepared for the immediate costs of a merger by identifying and earmarking resources early on.

### The how: Before, during, and after

While a full description of the entire mechanics underlying a successful merger exceed the limitations of this monograph, the following high-level summary can be used as a guide to begin proactive, pre-merger planning. In this context, we define “merger” as the moment in time when the union is made official by the responsible sanctioning body.

Like all complex processes, the course of mergers can be subdivided into various stages. Levine (1980) described four stages in innovation or transformation processes, including recognition of need; planning and formulating a solution; initiation of a plan; and institutionalization. Addressing mergers specifically, Greenwood and colleagues (1994) divide them into three distinct stages, including courtship, consummation, and post-merger, a taxonomy similar to Cai et al (2016), who called the stages merger impetus, initiation, and post-merger integration.

From an implementation point of view, we prefer simply to divide our recommendations into those to be considered *before* (i.e., the variable time period when the option of a merger is being considered and vetted, but has not yet been officially announced), *during* (i.e., the process beginning after the official announcement of the intent to merge through the day the merger becomes official following approval by the responsible sanctioning bodies), and *after* (i.e., the period of time, often of significant length, following the official merger date). However, despite this artificial partitioning, experienced leaders will understand that management of this complex process will, by necessity, be fluid and will require that they be future-oriented at all times, always cognizant of next steps.

## Before the merger

The stage prior to the official announcement of the decision to merge is focused on data gathering and analysis, internal and external engagement, and the garnering of needed political will and resources. It is also the stage at which most mergers will effectively be derailed. Note that typically few members of a university community will openly advocate for a merger, even though many may privately view the option as worth considering. The fact is that like most radical system-wide transformations, consideration of an institutional merger effectively can begin only with top leaders' commitment, ideally starting with the HEI's governing board, given that ultimate regulatory authority for the overall structure and governance of an HEI rests there.

This period should be focused on developing a future-oriented vision for the institution(s), gathering information and data on the process and impact of the possible merger, crafting a clear and data-driven assessment of the state of the enterprise, and providing this information objectively to stakeholders, along with the necessary perspective and benchmarks. All of these tasks should be done while engaging stakeholders in dialogue, gathering their impressions and thoughts. In essence, at this early stage it is critical to be informed, to provide information, to create the necessary and truthful level of urgency without inciting panic, and to begin to actively engage stakeholders.

Further, while the merger decision is generally made or ratified by bodies (governor, legislators, governing body, etc.) remote from the campus, for the merger to have any likelihood of success, preliminary negotiations must have produced a vision of a future state that is far better than current state. This future vision must be compelling, inclusive, and operational, such that most can visualize how it will happen and how it will occur (not just being the "best," but rather being the "best by leveraging our new unique blend of science, engineering and design," etc.). In addition, whatever the core of this vision of the future is, to have any hope of success, it must be the result of dialogue with stakeholders and not be issued by fiat (McGinnis et al, 2017).

At this stage, it is also critical to begin to assess the needs of the organization in the event a merger is undertaken, including locating and placing the right leaders, and identifying the necessary resources. A critical decision to be made includes choosing the university chief executive(s) who will lead the merger process and who will be the president/chief executive of the newly merged institution.

Another critical decision that must be made is what the name of the merged institution will be. Excessive debate on university naming can sap political capital, leadership focus, merger energy, and ultimately derail the process. Hence, it is best if the HEIs' governing body chooses one name for the merger institution in advance.



The period before a merger should be focused on **developing a future-oriented vision for the institution(s)** and must be the result of dialogue with stakeholders.

High levels of communication and reassurance may be the most important ingredients of success in operationalizing and managing the merger.

Finally, it is critical that movement towards a merger decision (or not) be taken with deliberate pace and tempo, as the longer the process of consideration takes, the greater the degree of uncertainty and the higher the level of campus anxiety, which paradoxically reduces the receptiveness of the campus community and other stakeholders for the option—and increases potential for *large scale* student, staff and faculty exodus.

If this stage is handled well—that is, analyses completed, the many stakeholders effectively heard and engaged, the right level of information and urgency imparted, political will and resources identified—and the decision to merge seems like the right one, then a move to announce the intention, the vision, and very importantly, the expected timeline for the merger should follow. Of note, the timeline given by the governing board to the campus and its leaders for merger completion should be reasonable and sufficient, but not excessively long, generally no more than 18 months.

#### During the merger

Once the decision to merge is officially made, the stage that follows is highly mechanical, time limited, and bound by sanctioning agency deadlines. This stage must be executed with great precision and timeliness. At this point, further discussions regarding the decision itself should be discouraged.<sup>6</sup>

Because ultimate decisions to merge are most often made by bodies at both physical and psychological distance from the institution's base, high levels of communication and reassurance became perhaps the most important ingredients of success in operationalizing and managing the merger. In many settings the outside media will run with a story about the merger. If faculty, staff, and students consider the outside media as their main source of information, they will see themselves as being without standing in the merger. An active campaign of internal and external media coverage must be in place very early in the process, and it is well worth the time for the presidents or board members to meet with editors of news outlets in advance.

Clarity as to who “owns” the communication is important. The situation is made more complex in that two separate media and outreach groups may compete for power or release disparate messages. As soon as the successor president is known, she or he must become constantly peripatetic, within the university and with stakeholders. Accrediting agencies, funding agencies, industry partners, and peer institutions must be brought in anticipatorily. It is important to note that until the accreditation process is complete, there will be a president at each institution although only one will continue as president once the consolidation is official. Ongoing communication between presidents is crucial.

6. Consistent messages along the lines of the following likely will be needed: *“We have listened extensively, gathered and analyzed much data, enlisted the aid of world-class experts, and consulted with our community and government leaders and our many other stakeholders, and together we have made the decision to move forward with this transformational merger, which although difficult and recognizing that not everybody agrees, will result in the strongest future for our students, faculty and mission. We now need to be focused not on further debate, but on execution...”*



A sense of urgency should consciously be created by using short time frames and the establishment of early deadlines. Leadership must paint a future that will be “better together.” The merger likely will cause confrontation between dozens of units within the organization including, for example, payroll, police, student health, and administration. Very often, the president or a cabinet member will be needed to broker a compromise. Good integration should not be delayed by the search for perfect integration.

The sense of commitment and urgency will be strengthened by the creation of joint workgroups and joint planning sessions. Workgroups will have to address myriad issues ranging from how to manage the accreditation process, to addressing legal considerations, faculty promotion and tenure, and faculty, student and staff representation in governance, to the merging of administrative support services (HR, IT, facilities, security, libraries, etc.), philanthropic and affiliated foundations, alumni organizations, athletics, and affiliated enterprises (including academic health programs and facilities for institutions that have them). Frequently, 50 to 80 workgroups are needed to cover these areas.

To assist in managing these many workgroups and the critical steps that must be accomplished well and on time, a robust project management system must be implemented (Brigdon, 2013). While in some HEIs Institutional Research (IR) or Business Development/Planning/Strategy units have this unique expertise, many merging institutions find it valuable to hire external staff to assist with this critical function. As previously mentioned, project management should entail proactively identifying metrics of success, meaning that baseline measures should be obtained.

Likewise, a new rendition of the mission, vision, and values statements derived, but different, from those of both component organizations should be crafted as early as possible. Broad participation in the formulation of these statements is crucial.

One of the most difficult and potentially risky tasks will be the selection of individuals from one institution or the other to serve in leadership roles in the future merged institution. While duplication of leadership positions should be avoided, managing these tough decisions with firm, decisive compassion is essential. Leaving duplicate functions intact produces strife and confusion, and potentially signals that the merger was essentially a sham exercise. The problem is most difficult in the academic arena, for example, when faced with two deans of the same type of school or college. Personnel issues become more difficult and complex in a highly unionized environment. One strategy is to request summary resignations from all executives, who will then have the opportunity to apply for their job or any other within the organization. However, this raises the need to fill the positions with interims, fueling further feelings of instability within the institution.

While leaders will be tempted to delay difficult HR decisions until after the merger is completed, this is both organizationally unwise and unfair to all concerned. Beyond these decisions, governing boards, presidents and the incoming cabinet members themselves must display behavior that is visibly equitable towards all historical groups.



A robust project management system must be implemented, including proactively identifying metrics of success.

After the merger, leadership's goal should be the renewal and revitalization of both component organizations. A new order must be declared.

### After the merger

For the period immediately following the official date of the merger, the most applicable construct within which to view the new organization is the 'turnaround' paradigm. Leadership's goal should not be merely the combination or integration of units, but the renewal and revitalization of both component organizations. A new order must be declared.

Leaders should be prepared for the long slog of the post-merger stage, and should be careful to continue robust communications with all campus communities. Leaders will have to address the 'too fast, too slow' conundrum of a merged community's expectation. However, while patience is critical, continued reliance on project management and an effective timeline will be important to ensure that the merger progresses in a timely manner, yielding its value. Each project and workgroup requires timelines, goals, and clear understanding of its expectations. Careful project management will continue to be an invaluable tool.

A new vision of the future that is salutary for all constituents must be promulgated to all component units of the new entity. All stakeholders must be on-boarded anew, from alumni and faculty to custodians and building managers. Leadership should be extremely aware of existing sensitivities around even their most minor pronouncements. Even the word "merger" will evoke connotation of absorption or submerging if leadership is not constantly aware of the instinctive fear of the unfamiliar. Where the president places his/her office, how his/her time is divided, and where the board meets are all-important decisions that should be chosen to symbolize unity.

An important leadership characteristic is the ability to discern what must be integrated and what may be left separate. In this regard, even in universities that have been a single entity from the start, significant differences in culture prevail on separate colleges or campuses (Mueller et al, 2013). One cannot force cultural unity; it must happen organically or not at all.

Clarity of decision rights is important to every organization. In a newly merged organization, the ownership of decision rights can become blurred and change rapidly. Many seemingly small decisions (bus routes, police uniforms, library fines and the like) tend to rise administratively higher than necessary, and may even land on the president's desk. Early and well-communicated delegation of decision rights is imperative (Mueller et al, 2013).

There is no substitute for leadership visibility. Even for those leaders accustomed to 'managing by walking around' will be challenged by the need for direct visibility to every constituency. More than physical presence is required: participation and attentiveness speaks volumes to the new organization. Alumni groups, faculty groups, department meetings, union meetings, and numerous additional potential audiences all offer opportunities for messaging and engagement. It is critical to speak of values and of the vision for a renewed organization, and avoid being drawn into controversy over issues such as disparate pay scales or policies.

How leadership, including the governing board, is structured and managed plays an important role in the merger, both functionally and symbolically. For example, merging of the president's executive cabinet, without duplications, into a single body is essential for both operational and symbolic purposes.

Experience with mergers internationally, in the corporate world, and in healthcare have made it clear that the greatest vulnerability for the newly created organization is cultural dissonance (Harman, 2002). Active and conscious leadership is required for the creation of a new common language and the development of mutual interdependence. Interdependence is facilitated by integration: moving a program or even a college to the "other" campus can foster interdependence. While such physical and personnel action can signify unity, it must be emphasized that the real integrating force is language. The utterances of persons in leadership roles are unquestionably the most important force for the renewal of both organizations.

Two constituent groups deserve special mention. The university's external or affiliated organizations will need a participative role and a strong feeling of being an essential component of the new organization. The second special constituency is the university's "communities" (e.g., residents in the local vicinity, donors, alumni, etc.), which will vary at the legacy institutions. Suffice to state that if dealt with well, community organizations will also serve to create a milieu conducive to the success of the merger.

Finally, demands on the 'merging president' are such that burnout is a real and grave risk. The need for a peripatetic presence, the virtually impossible decisions, and the multiple acts of resistance from every quarter will be enervating. Unwavering and visible board and community support for the merger president is essential. Likewise, adequate support and staffing for this critical leader must be put in place. Furthermore, merger presidents who arise from one of the institutions being merged may feel the need to ingratiate themselves with the members of the other institution, which often leads them to unwittingly alienate their prior constituents and, admittedly, existing power base—a dangerous situation for any leader. This will be a difficult balance to manage.

## Aftermath: Why mergers and consolidations fail

Both "success" and "failure" encompass a range of possibilities. "Success" can be minimal, i.e., a merger that was consummated and not later unwound, or, at the other extreme, a unification with multiple measures of significantly improved performance that are directly traceable to the merger. 'Failure' can also take different forms—from mergers that were never seriously considered, to those that were considered and not achieved, to those that were pursued and never reached even a minimal level of success.

Mergers can fail at the very beginning of the process because they were never sufficiently considered, during the actual consolidation effort, or even after the merger process has been completed.

All mergers are the product of a series of *processes*, which ultimately lead to success or failure, however defined. Factors and decisions that mitigate the likelihood of successful merger completion can occur anywhere along this procedural pathway. At the very beginning of the process, potentially promising mergers may “fail” because they were never sufficiently considered, let alone attempted. Mergers also may fail during the actual effort to consolidate, or they can fail even after the merger process has been completed. We briefly review the three types of ‘failure’ below.

Numerous merger candidates have elected to close down rather than pursue merger possibilities, believing that, for whatever reason, the opportunity cost of considering a merger as a strategic option was too great. The transition into a “due diligence” phase can start out informally, but over time is expected to yield a sufficiently accurate appraisal of many of the merger issues discussed above. Failure at this stage, while the idea is still on the drawing board, can arise in two possible forms: either serious problematic institutional *circumstances* are uncovered, or the proposed *design features* of the merger prove to be unenforceable. That said, the most common cause of failure at this stage is an unwillingness or inability to entertain a disruptive, albeit transformative option, or simply a lack of leadership fortitude necessary to address the difficulties inherent to a merger.

The attempted merger of the College of Charleston with the Medical University of South Carolina (MUSC) illustrates both the technical failure of a full asset merger and, alternatively, the creation of a new, more formal partnership of two HEIs (Merrill & Stavrinakis, 2014). Early enthusiasm by civic leaders to create “a third South Carolina research university” in Charleston through merger of The College of Charleston and MUSC gave way to backlash among stakeholder groups from both public institutions. After extensive hearings, information sessions, protests, and formalized expressions of opinions, the State Legislature in 2014 crafted a compromise bill which created a “research university” while maintaining the identities and structural independence of both The College of Charleston and MUSC.

Specifically, the legislation designated an existing part of the College of Charleston as a ‘research university’ instead of forcibly merging the College with MUSC (Cope, 2014). Both Charleston schools would remain separate under the proposal, approved by a special *ad hoc* committee. But a component of the College of Charleston would be made into a research institution. That entity now exists as the University of Charleston, South Carolina. (Separate legislation stipulated that University of Charleston, South Carolina, would not duplicate degree programs already offered by other HEIs in the Charleston region.) The research university would be a separate section from the College of Charleston in the state’s budget, the amendment stated, and the College of Charleston would remain a four-year liberal arts college. Thus, the College of Charleston would be preserved and the research university component would be used to offer graduate-level courses.

The process failed as a full asset merger, but the net result was a series of new structural relationships, which avoided programmatic duplication between the two institutions and, at the same time, facilitated inter-institutional collaboration. In hindsight, while the concept of merger was unpalatable, it did serve to make politically possible a variety of lesser structural changes that achieved at least some of the benefits that the early merger enthusiasts had imagined.

Even with widespread pre-merger agreement on the benefits of the idealized post-merger state, the actual merger process may be sufficiently daunting or inadequately executed to cause the resulting merger to fail during the actual effort to consolidate. When that happens, more likely than not, the problems that emerged during the implementation process were incorrectly or inadequately diagnosed during the “before” or “drawing board” phase. A second likelihood is that the issues were addressed in the prior phase but poorly executed during the implementation stage. Unfortunately, the full impact of either problem sometimes becomes clear only after the merger has been completely executed. For example, the widely publicized potential merger between Salem State University in Salem, MA and the Montserrat College of Art in Beverly, MA fell apart in 2015 after six months of detailed planning. The financial and operational issues, which arose during the implementation planning process, were sufficient to scuttle the merger before it was finalized, with both schools citing financial pressures statewide and limited growth potential in higher education as obstacles to the announced merger (Krantz, 2015)

Mergers can fail even after the merger process has been completed; one and one may have added up to less than two, whether by precise metering or subjective consensus. Circumstances that favored merger in theory—cost pressures, regulatory changes, potential scale efficiencies, etc.—may not have materialized to the degree expected, resulting in a poorly performing merged organization, even so poorly performing as to require that the merger be “unwound.”

The failure of Mount Sinai and New York University (NYU) academic health centers to successfully merge their medical schools and hospitals illustrates market and regulatory pressures that fostered the merger as well as the social and organizational forces that led to the break-up of the merger (Kastor, 2010). Pro-merger motivations emanated from reactions to managed care, capitation, and the Balanced Budget Act of 1997, as well as from hypothesized savings from merged back-office functions and clinical services. Anti-merger sentiments were led by NYU faculty and administrators (for multiple reasons) and by NYU trustees who were concerned that the merger would ultimately drain NYU’s endowment.

After unsuccessful negotiations to merge the institutions, negotiators adopted a more modest goal of merging only the hospitals. This resulted in the creation of a new, independent company, which was vigorously opposed by NYU faculty and leadership, who feared that NYU would also lose its medical school. The hospital merger took place in 1998, but in 2001 the administration of the hospitals returned to their respective campuses, and

in 2008 the merger was officially terminated. Although a few back-office operations had been combined, no clinical programs had been. Many of the conditions and circumstances of this example are embedded in the complexities of the academic health field, but the leading factors fostering the failed merger are germane to all HEIs considering mergers: pre-existing political and cultural differences, insufficient faculty and staff support, and the inability to generate significant early accomplishments that were meaningful to the respective constituencies (Kastor, 2010).

### Which institutions should be considering mergers?

Which institutions should be considering mergers? To be clear, simple parametric and financial predictors do not do paint the full story concerning which institutions should consider a merger. As mentioned above, while the decision to consolidate or merge institutions is never easy, and the process is nearly always painful and costly, it is a tactic that should be considered seriously and, most important, proactively by many institutions and their leaders. It is also worth repeating that cost savings or simply being bigger should not be the only, and probably not the primary, drivers of a merger. To ultimately be successful, mergers must be part of a larger strategic plan and not an isolated tactic or endpoint.

Leaders of HEIs who seriously consider mergers are motivated by what they perceive to be a combination of threats and opportunities, especially over the medium to long run. Seldom is one argument, e.g., scale efficiencies or cost reductions, sufficient to move leaders very far down the merger path. More often, a leader's appraisal of her/his institution's long-term future includes a bundle of both threats and opportunities, many of which might be potentially addressed through merger. The merger exercise often begins with vague presumptions about its potential impact on those (sometimes only subjectively understood) threats and opportunities, with those presumptions modified as more objective data accumulates. The relative importance of the various perceived threats and opportunities can be based on both subjective and objective data, and may vary over time. Deciding to halt the inquiry process is always an option. In any case, a merger should be seen as a means of pursuing institutional strategy, and not as an end game in itself.

Often, however, one merger-related idea can take on disproportionate importance in an HEI's strategy. Examples include significantly expanding regional impact in the case of the North Georgia College & State University and Gainesville State College merger (Jacobs, 2013); significantly increasing scale efficiencies within a region for the Kennesaw State University and Southern Polytechnic State University merger, also in Georgia (Watson, 2015); warding off financial insolvency from small and declining enrollments, the primary driver of the merger between Eisenhower College and Rochester Institute of Technology (Chambers, 1981); and aggregating research strength to advance in the global rankings of the world's leading universities, which has driven numerous mergers across European countries, such as the Paris-Saclay university, formed from the merger of Ecole Polytechnique, the HEC ('Ecole des Hautes Etudes Commerciales') business school, and the Universite Paris-Sud (Mitchell, 2015). Others institutions have pursued student gender integration (e.g., Harvard–

Radcliffe), increased comprehensive university status (e.g., University of Toledo—Medical College of Ohio; Georgia Health Sciences University—Augusta State University), or expand specialized offerings (Vanderbilt University—Peabody College). And even if these mergers are accompanied by unanticipated setbacks—financial, political, organizational, etc.—they can at least be “successful” in pursuit of their big ideas.

Thus, formal categories of HEIs that are prime candidates for merger are less relevant here than individual HEI leaders who are clear-headed and passionate about their institutional goals and circumstances. If increased scope and scale is key, then horizontal mergers may be viable, e.g., among institutions with similar missions and markets. If diversification into new fields is key, then viable merger partners (other HEIs or independent research centers) may be those with specialty, niche programs which do not duplicate existing offerings (Lang, 2003).

### Looking ahead

Mergers are complicated and difficult, and opportunities for failure abound. Many HEIs have either vanished altogether or been involved in merger attempts that were less than successful. Moreover, just as the motivations, circumstances, and resulting consolidations of mergers vary greatly (Keegan, 2014), possible measures of success and the means by which to achieve it are many and varied as well. American higher education is replete with examples of HEIs that have merged successfully—especially if “success” is vaguely defined as being “not worse off than before and somewhat better post-merger.”

Imprecise definitions of “success” and “failure” are inherent in the merger process, which is contextually unique at each HEI. HEI leaders and stakeholders are rarely experienced in merger processes; likewise, there is often little merger-relevant organizational wisdom at a given HEI — in sharp contrast to, for example, enrollment management, where systematic learning takes place annually.

Outcomes of a proposed merger on each of an HEI’s many relevant variables and constituencies can only be estimated, and sometimes only subjectively, and are determined not just in design, but in implementation as well. Thus, potential outcomes can fuel arguments both for and against merger. Successful mergers, using our low-bar definition of “not worse off and improving post-merger,” have resulted only when institutional decision makers believed that the pro-merger arguments were sufficient to proceed. Regardless of whether mergers ultimately fail or succeed, it is certain that they should be considered proactively by many institutions and their leaders. Waiting until institutional resources and assets are limited; political goodwill, staff morale, and energy are low; and negotiating positions are weak will lead to a negative outcome. Instead, mergers must be part of a larger and longer-term strategic plan that moves the institution forward with a compelling vision for its future.



Mergers must be part of a larger and longer-term strategic plan that moves the institution forward with a compelling vision for its future.

## References

- Ahmadvand, A., Heidari, K., Hossseini, S. H., & Majdzadeh, R. (2012). Challenges and success factors in university mergers and academic integrations. *Archives of Iranian Medicine*, 15, 736-740.
- Azziz R (2014a). What is the value and role of academic medicine in the life of its university? *Academic Medicine*, 89, 208-11.
- Azziz R (2014b). Like making waves in a tarpit: Academia's internal communications problem. *Change: The magazine of higher learning*, 46, 32-35.
- Barnes, T., Bajinath, N., & Sattar, K. (2010). The restructuring of South African higher education. Pretoria, South Africa: Unisa Press.
- Blanton, L.H. (1901). Consolidation of Central University and Centre College at Danville, KY, under the Title of Central University of Kentucky. Louisville, KY: Courier-Journal Job Printing Co.
- Boling, J.R., Mayo, D.T., & Helms, M.M. (2017). Complementarity merger as a driver of change and growth in higher education, *Journal of Organizational Change Management*, 30, 27-42.
- Brigdon, B. (2013). Controlling for change: A consolidation case study. Presentation to the Georgia Conference for College and University Auditors, May 20, 2013. Retrieved Jun 24, 2017 from [http://www.usg.edu/assets/audit/documents/Beth\\_Brigdon\\_\\_\\_Georgia\\_Auditor\\_Conference\\_May\\_2013.pdf](http://www.usg.edu/assets/audit/documents/Beth_Brigdon___Georgia_Auditor_Conference_May_2013.pdf).
- Cai, Y., Pinheiro, R., Greschwind, L., & Aarrevaara, T. (2016). Mergers in higher education: towards a novel conceptual framework for understanding mergers in higher education. *European Journal of Higher Education* 6, 7-24. Retrieved May 20, 2017 from <http://srhe.tandfonline.com/doi/full/10.1080/21568235.2015.1099455>.
- Cai, Y., & Yang, X. (2015). Mergers in Chinese higher education: lessons for studies in a global context. *European Journal of Higher Education*, 6, 71-85. Retrieved May 25, 2017 from <http://srhe.tandfonline.com/doi/full/10.1080/21568235.2015.1099458>.
- Canadensis (J. George Hogkins) (1877). University Consolidation: A plea for Higher Education in Ontario. Toronto, Canada: Hunter, Rose & Co.
- Cartwright, S., Tytherleigh, M. & Robertson, S. (2007). Are mergers always stressful? Some evidence from the higher education sector. *European Journal of Work and Organizational Psychology*, 16, 456-478.
- Chambers, G.S. (1981). Private College Mergers and State Policy: A Case Study of New York State Policy and Private College Distress. Southern Regional Education Board, ERIC Clearinghouse, ED 210 971 HE 014 551. 35 pp. Retrieved May 3, 2017 from <http://files.eric.ed.gov/fulltext/ED210971.pdf>.
- Chipunza, C., & Gwarinda, S.A. (2010). Transformational leadership in merging higher education institutions: A case study. *SA Journal of Human Resource Management*, 8, Art. #195, 10 pp.



- COE Program (2004). COE International Seminar on Mergers and Cooperation among Higher Education Institutions: Australia, Japan and Europe. Research Institute for Higher Education, Hiroshima University, Hiroshima, Japan, COE Publication Series, Vol. 7; March 2004.
- Cope, C. (2014), SC legislators propose CofC research university instead of merger with MUSC. *The State*, April 3, 2014. Retrieved May 20, 2017 at <http://www.thestate.com/news/politics-government/article13845674.html>.
- Curaj, A., Georghiou, L., Cassingena Harper, J., & Egron-Polak, E. (2015). *Mergers and Alliances in Higher Education: International Practice and Emerging Opportunities*. New York, NY: Springer.
- Doran, G.T. (1981). There's a S.M.A.R.T. way to write management's goals and objectives. *Management Review*, 70, 35–36.
- Eastman, J. & Lang, D.W. (2001). *Mergers in Higher Education: Lessons from Theory and Experience*. Toronto, Canada: University of Toronto Press, Scholarly Publishing Division.
- Education Advisory Board (2013). *University Merger Processes and Challenges*. Washington, DC: Education Advisory Board.
- Eisenberg, B. (2016). Mergers in Higher Education: Can lessons from health care be useful to universities? *Academe*, 102, 20-22. Retrieved July 15, 2017 from <https://www.aaup.org/article/mergers-higher-education#.WXYIZoTyuUs>.
- Epstein, G. M. (1980). Desegregation of public institutions of higher education: Merger as a remedy. *Chicago-Kent Law Review*, 56, 701-730.
- Goedegebuure, L.C.J (1992). *Mergers in Higher Education: A Comparative Perspective*. UTRECHT, The Netherlands: Uitgeverij, LEMMA BV.
- Greenwood, R., Hinings, C.R., & Brown, J. (1994). Merging professional service firms. *Organisation Science*, 5, 239–257.
- Harman, K. (2002). Merging divergent campus cultures into coherent educational communities: Challenges for higher education leaders. *Higher Education*, 44, 91–114.
- Harman, K. & Meek, V.L. (2002). Merger revisited: international perspectives on mergers in higher education. *Higher Education* 44, 1-4.
- Hiatt M.D., & Stockton, C.G. (2003), The Impact of the Flexner Report on the fate of medical schools in North America after 1909. *Journal of American Physicians and Surgeons*, 8, 37-39.
- Higher Education Funding Council for England (2012). *Collaborations, alliances and mergers in higher education-Lessons Learned and Guidance for institutions*. Bristol, UK: Higher Education Funding Council for England, September, 2012.
- Jacobs, B.C. (2013). Negotiating a consolidation in higher education -The University of North Georgia. *Public Purpose*, Spring 2013, 20-22.

- Kastor, J. A. (December 2010), Failure of the merger of the Mount Sinai and New York University hospitals and medical schools: part 2, *Academic Medicine*, 85(12):1828-32, accessed 27 April 2017 from <https://www.ncbi.nlm.nih.gov/pubmed/20856095>.
- Keegan, M.C. (2014). Successful College Mergers: A Blueprint for Future Consolidation? *SayCampusLife.com*, October 18, 2014. Retrieved April 11, 2017 from <http://www.saycampuslife.com/2014/10/08/successful-college-mergers-a-blueprint-for-future-consolidation/>.
- Kezar, A. (2014). *How Colleges Change: Understanding, leading and enacting change*. New York, NY: Routledge.
- Krantz, L. (2015). Montserrat College of Art, Salem State rule out merger. *Boston Globe*, July 14, 2015. Retrieved August 15 from <https://www.bostonglobe.com/metro/2015/07/14/montserrat-college-art-salem-state-rule-out-merger/BopJbktdBw1z1R1psRm2SI/story.html>; accessed 8-20-17.
- Lang, D. (2002), A Lexicon of Inter-Institutional Cooperation. *Higher Education*, 44, 153-183. Retrieved July 15, 2017 from <http://www.jstor.org/stable/3447557>.
- Lang, D. (2002). There are mergers, and there are mergers: The forms of inter-institutional combination. *Higher Education Management and Policy*, 14, 11–50.
- Lang, D. (2003), The Future of Merger-What Do We Want Mergers To Do: Efficiency or Diversity? *The Canadian Journal of Higher Education*, 33, 19-70.
- Levine, A. (1980). *Why Innovation Fails*. Albany, NY: State University of New York Press.
- Martin, J. & Samels, J.E. (2016). *Consolidating Colleges and Merging Universities: New Strategies for Higher Education Leaders*. Baltimore, MD: Johns Hopkins University Press.
- McGinnis, R.A., McMillen, W., & Gold, J.P. (2007). Merging Two Universities: The Medical University of Ohio and the University of Toledo. *Academic Medicine*, 82, 1187-1195.
- McRay, G. (2015). Who Really Owns a Nonprofit? *Foundation Group*, Sept. 2015. Retrieved June 7, 2017 from <https://www.501c3.org/who-really-owns-a-nonprofit/>.
- Merrill, J.H., & Stavrinakis, L.E., Compromise Proposal Creates a Research University in Charleston, South Carolina House of Representatives. Press release issued April 2, 2014. Retrieved May 20, 2017 from [http://today.cofc.edu/wp-content/uploads/2014/04/Press\\_Release.pdf](http://today.cofc.edu/wp-content/uploads/2014/04/Press_Release.pdf).
- Mitchell, N. (2015). Big is beautiful for merging universities. *BBC News, Business*, November 25, 2015. Retrieved April 11, 2017 from <http://www.bbc.com/news/business-34902884>.
- Moody's Investor Service (2015 ). Small but notable rise expected in closures, mergers for smaller US colleges. New York, NY: Moody's Investor Services, September 25, 2015. Retrieved April 11, 2017 from [https://www.moody.com/research/Moodys-Small-but-notable-rise-expected-indosures-mergersjor-PR\\_335314](https://www.moody.com/research/Moodys-Small-but-notable-rise-expected-indosures-mergersjor-PR_335314).
- Mueller, J., Franklin, R., & Warrick, D.D. (2013). *Learning from Worldwide Best Practice Cases—Non-Profit Excellence*. Oxford, UK: RossiSmith Academic Publishing.

- Musselin, C., & Dif-Pradalier, M. (2014). When Merging Appears the Thing to Do: The (Re) birth of the University of Strasbourg. *Revue française de sociologie* (English version), 55, 285-318.
- NUFFIC News (2016). Wave of mergers continues in Russian higher education. NUFFIC News, April 28, 2016. Retrieved July 24, 2017 from <https://www.nuffic.nl/en/news/nuffic-news/wave-of-mergers-continues-in-russian-higher-education>.
- Pinheiro, R., Geschwind, L., & Aarrevaara, T. (2016). *Mergers in Higher Education: The Experience from Northern Europe*. Springer International Publishing Switzerland.
- Pritchard, R.M.O. (1993). Mergers and Linkages in British Higher Education. *Higher Education Quarterly*, 47, 79-102.
- Pruvot, E.B., Estermann, T., & Mason, P. (2015). *DEFINE Thematic Report: University Mergers in Europe*. Brussels, Belgium: European University Association.
- Skodvin, O.-J. (1999). Mergers in higher education – Success or failure? *Tertiary Education and Management*, 5, 65–80.
- Society for Promoting University Consolidation (1881). *A Short Statement of the Advantages of University Consolidation to which is appended the constitution of the Society for Promoting University Consolidation*. Halifax, Canada: Nova Scotia Printing Co.
- Stewart, G. (2003). College merger: Lessons to be learned from other sectors. *Research in Post-compulsory Education*, 8, 305-328.
- Thomas, M.K., & Chabotar, K.J. (2015). *Between Collaboration and Merger: Expanding Alliance Strategies in Higher Education*. New York, NY: TIAA Institute. Retrieved May 16, 2017 from [https://www.tiaainstitute.org/sites/default/files/presentations/2017-02/between\\_collaboration\\_and\\_merger.pdf](https://www.tiaainstitute.org/sites/default/files/presentations/2017-02/between_collaboration_and_merger.pdf).
- Watson, J.E. (2015). Merger Creates Higher Education Success Story. *DIVERSE – Issues in Higher Education*, July 20, 2015. Retrieved April 10, 2017 from <http://diverseeducation.com/article/76423/#.W0uzwIR-ERO.mailto>.

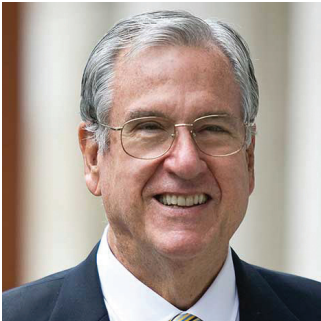
## About the Authors



Ricardo Azziz

### **Ricardo Azziz**

A recognized thought leader in higher education, biomedical research and academic medicine with over 20 years of executive experience, Ricardo Azziz currently serves as Chief Officer of Academic Health & Hospital Affairs, the State University of New York (SUNY) System Administration, the largest university system in the nation. He also serves as Senior Fellow, the Pullias Center for Higher Education, Rossier School of Education, University of Southern California. Previously, Dr. Azziz served as founding president of Georgia Regents University (GRU, now Augusta University), leading the merger of Georgia Health Sciences University (GHSU) and Augusta State University to create GRU. Prior to the merger he served as president of GHSU. He has also served in academic and leadership roles at the Johns Hopkins University, the University of Alabama at Birmingham, the University of California Los Angeles, and Cedars-Sinai Medical Center.



Guilbert C. Hentschke

### **Guilbert C. Hentschke**

With more than 30 years of experience focused on pre-K, K-12 and post-secondary institutions, including public, nonprofit and for-profit sectors, Hentschke is Dean and Chair Emeritus at the University of Southern California's Rossier School of Education. He has served in academic and administrative capacities at the University of Rochester, Columbia University's Teachers College, Chicago Public Schools, and Eastside Union High School District (CA). He is a Senior Advisor in the Parthenon-EY Education practice of Ernst & Young LLP. Hentschke currently serves on the boards of WestEd, Excellent Education Development, and Accord Education, and on the Supervisory Committee of the California Credit Union. He is a member of the American Education Research Association and various other professional education associations.



Bonita C. Jacobs

### **Bonita C. Jacobs**

Bonita C. Jacobs is founding president of the University of North Georgia, formed through the merger of Gainesville State College and North Georgia College & State University (NGCSU). Prior to leading the merger she was the first woman president of NGCSU. Before coming to the University of North Georgia, Jacobs served as Executive Director of the National Institute for the Study of Transfer Students, vice president for student development, and as professor in counseling and higher education at the University of North Texas. She currently serves on the College Board's Community College Advisory Panel. Earlier, she served as Interim Vice Chancellor for Student Development and Dean of Students at Western Carolina University and in various positions at Stephen F. Austin State University.

**Lloyd A. Jacobs**

Lloyd A. Jacobs is President Emeritus of The University of Toledo where he led the merger of the Medical College of Ohio and the University of Toledo. As president of the combined university he established a vigorous process of growth and transformation to create a new vision, a new identity, and a new level of educational quality and excellence at the university. Dr. Jacobs currently serves as a Distinguished Fellow with the Council on Competitiveness, a global economic development nonprofit organization and on the Executive Committee of the APLU's Commission on Innovation, Competitiveness, and Economic Prosperity (CICEP). He has also served on the faculty of the University of Michigan.



Lloyd A. Jacobs

**Haven Ladd**

Haven Ladd is a managing director of the Parthenon-EY Education practice of Ernst & Young LLP based in Boston. He consults across a wide range of industries and focuses on strategic issues facing companies and schools in the U.S. education market. Ladd brings a perspective on strategy built on more than 17 years of consulting across education and corporate clients. He works extensively with education providers and also advises corporations in the professional services, information and related knowledge industries. He serves on the board of the Boston Collegiate Charter School and chairs the board of The Landing School, an independent college in Arundel, Maine.



Haven Ladd



TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products.

TIAA Institute is a division of Teachers Insurance and Annuity Association of America (TIAA), New York, NY.

©2017 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund (TIAA-CREF), 730 Third Avenue, New York, NY 10017