

Prosperity vs Survival: The Power of Partnerships, Affiliations, and Alliances

AGB Consulting

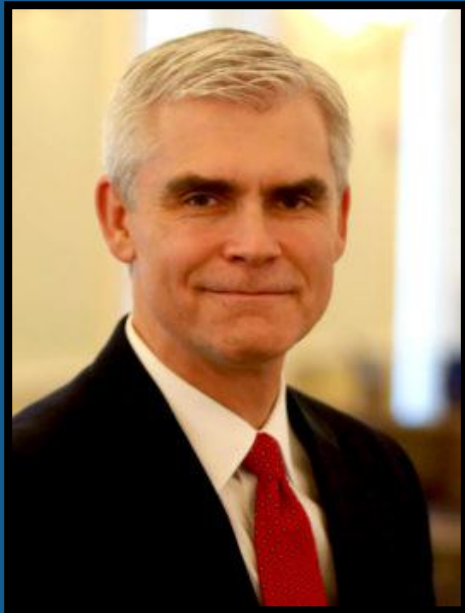
NEW ENGLAND BOARD
of HIGHER EDUCATION 

December 3, 2020

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Webinar logistics

- **This webinar is recorded.**
 - The recording and slides will be available after the webinar concludes.
- **The webinar is two hours duration and has two segments:**
 - **Hour 1** – Discussion between Michael Thomas and Rick Beyer
 - Bridge – NECHE President Larry Schall
 - **Hour 2** – Panel discussion with Michele Perkins, David Rowe, Larry Schall Rick Beyer.
- **Interact with us!** Please send us your questions today using the **Questions** tab of the GoToWebinar control panel. We look forward to interacting with you.



Dr. Michael K. Thomas
President, NEBHE



Mr. Rick Beyer
Senior Fellow and Practice Area
Leader for Higher Education
Long-Term Strategic Alternatives

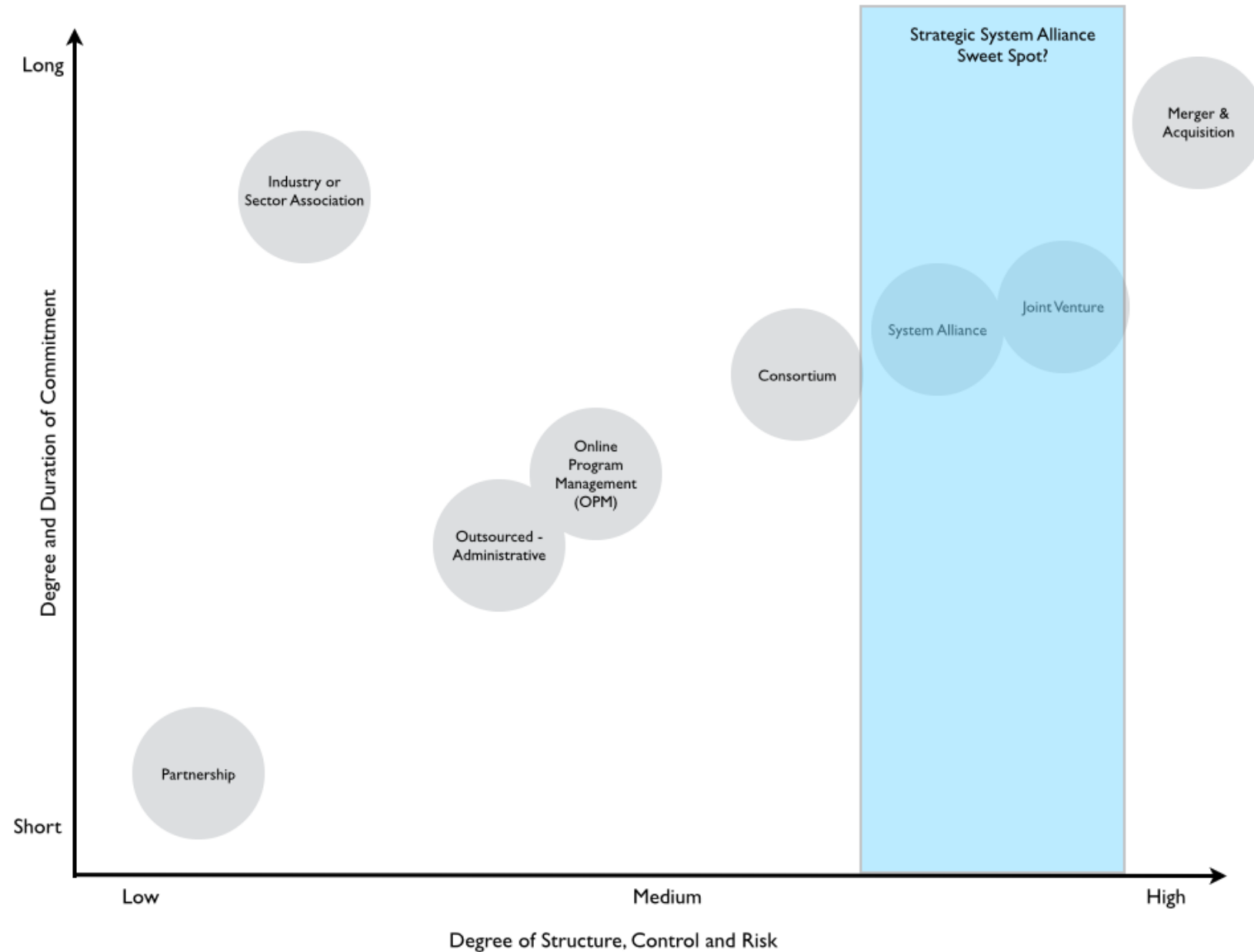
Between Collaboration and Merger: Expanding Alliance Strategies in Higher Education



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Sweet Spot: Strategic System Alliance



Adapted from Spekman, Robert E., and Lynn A. Isabella. Alliance Competence: Maximizing the Value of Your Partnerships. New York: Wiley, 2000, pp. 36, 41.

Strategic Alliance Design Principles

- **Proactive**, competition-oriented
- **Multilateral**—involving multiple compatible HEIs
- **Unbound by geography**—increasing reach
- **Achieve cost savings, efficiencies and economies** (of scale and scope)
- **Create complementary or supplementary “fits”**
- **Provide substantial expertise and capacity:** talent and functional
- **Drive enrollment growth** and increase revenues
- **Enable substantial business model change**—academic + administrative
- **Preserve continuity and authority**—compatible with existing governance
- **Provide flexibility and growth**, lower entry/exit costs and barriers
- **Improve competitive positioning and strength**—individually and collectively

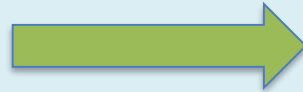
“Goldilocks Zone”

Institutions’ positioning for proactive, strategic pivots...



STATUS QUO – Too Soft?

- Aware but limited motivation
- Modest enrollment cushion
- Adequate cash flow at present
- Exceptionality assumptions
- “Upper-hand” expectation of affiliation
- New alternatives as non-palatable (expect Business Class seating, but plane parked at gate)



GOLDSILLOCKS ZONE – Just Right?

- Aware and motivated
- Continued enrollment pressures
- Tightening cash flow
- Looking for strategic alternatives
- Stakeholder buy-in growing
- Still has a range of palatable and feasible alternatives (runway and fuel)



CRISIS ZONE – Too Hard or Late?

- Accreditation probation/show cause
- FRCS trigger
- State/regulator watch list
- RIFs and/or RIFs
- Reduced operations
- Financial exigency
- Cash flow problems
- Stakeholder panic or revolt (leadership transitions)
- Limited and “lower-hand” alternatives (nearly exhausted runway and fuel)

Segment 1 – Hour 1

A discussion about partnerships, affiliations and alliances.

Question 1

What are the major trends that are relevant to Institutions around shifting their mind-set of survivability to prosperity.

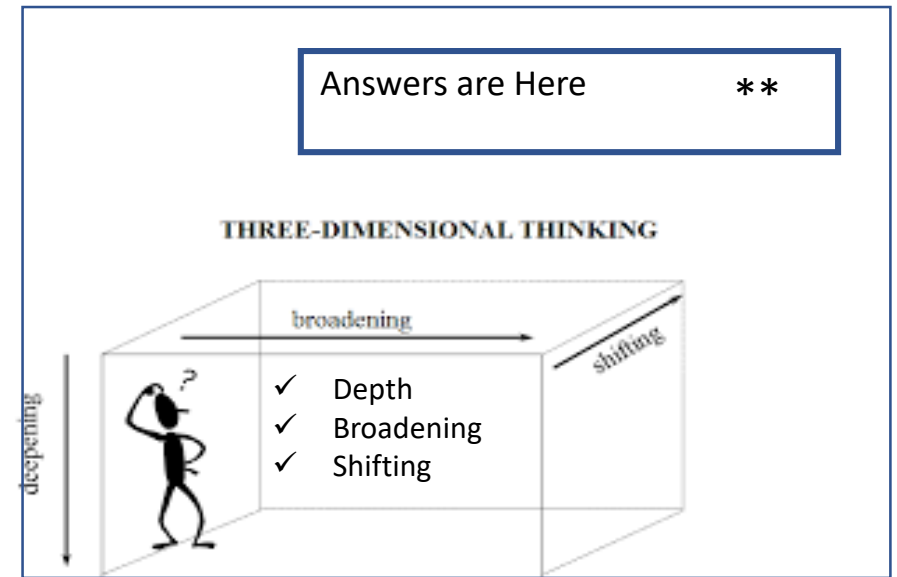
An understanding that Systemic Issues Require Transformational Solutions

- **Business Model Crisis** – Moody's, AGB Trustee Index, Gallop Poll confirmation
- Nine consecutive years of enrollment decline on a national basis
- \$1.6 Trillion of student debt
- An industry with poor quality of earnings
- An industry that is slow to change
- More supply of brick-and-mortar colleges than student demand
- More than 1,200 colleges that are either at or approaching – “not financially viable” status according to DOE Financial Composite Scores
- Changing consumer behaviors
- Migration from degrees to credentials and certificates
- Corporate workforce development influence on higher education
- Technology requirements, substantially increasing
- New entrants impacting student demand
- Economies of scale will become an important attribute of the business model

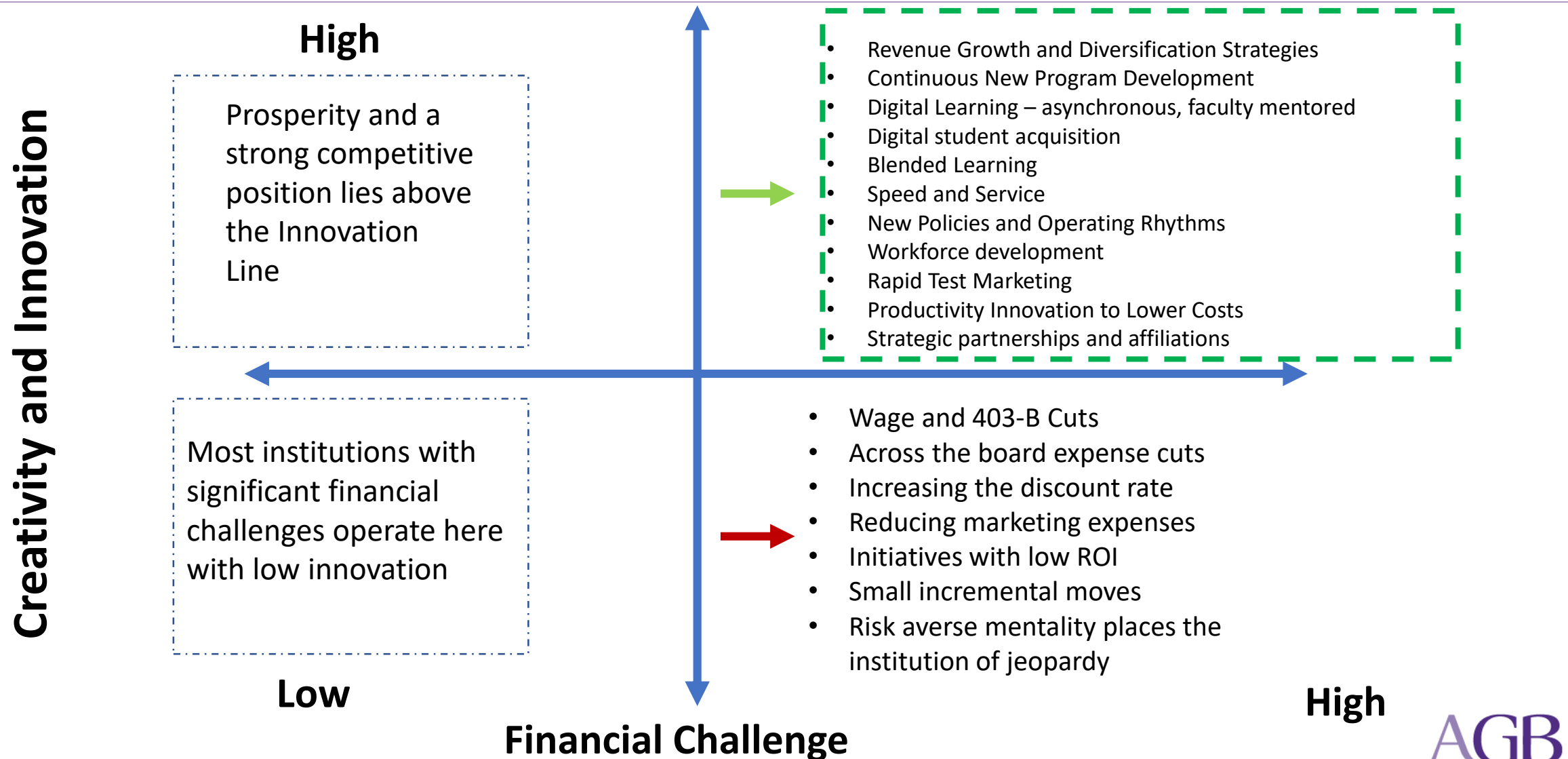
Leadership that can Think Differently About their Future

What limits our thinking?

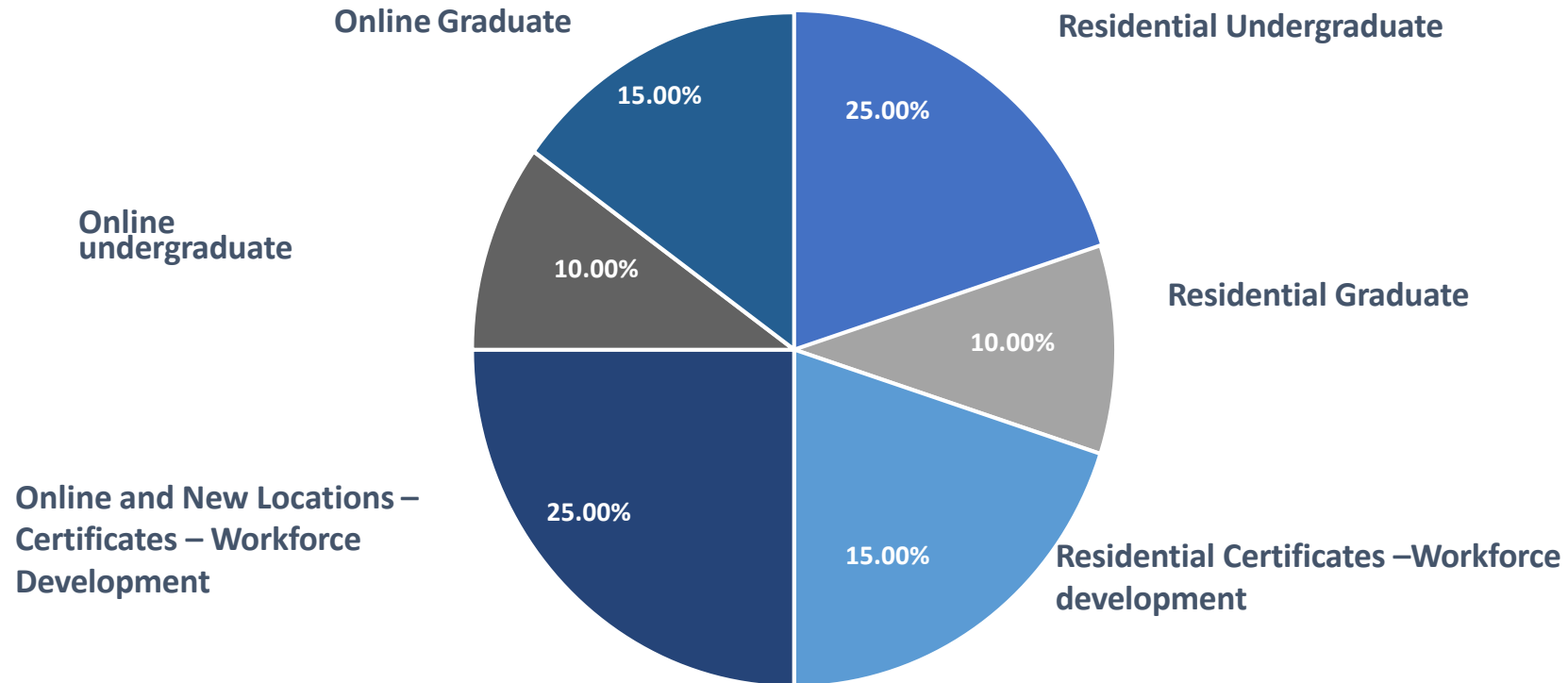
- Self-inflicted constraints on our overall thinking
 - We've tried that
 - We don't have the money
 - We are too rural
- Applying old thought processes and operating rhythms to problem solving or opportunities
- Applying incremental thinking to a problem that requires transformational solutions
- Three-dimensional thinking requires:
 - Depth of our thinking
 - Broaden our thinking
 - Shift our thinking



Requires an Organizational Structure that Embraces Creativity and Innovation



New Models will Require a Comprehensive Portfolio of Major Revenue Segment



Creating **strategic growth building blocks (SGBBs)**

There are tremendous opportunities to serve new markets with new program offerings as a pathway towards revenue growth and diversification

Summary: A Challenging Industry Outlook

Creates Opportunities for the Willing

- There are great opportunities for institutions to re-create themselves, while maintaining or strengthening their mission.
- Transformational change will require:
 - Creating strategic growth building blocks that align with the macro trends shaping higher education – and your prosperity gap
 - Doing things differently – not better
 - Innovation and creativity
 - Institutional “will and resolve”
 - Becoming “digital” vs online
 - Transforming faculty from teachers to mentors
 - Speed and service
 - Strategic vs an operating board

Question 2

Where should institutions start and what do we need to know about exploring long-term strategic options?

Economic Models for Long-term Prosperity

- **Sustainable long-term competitive position** will require a financial model that allows for reinvestment into:
 - Continuous new program development
 - Student success and learning outcomes
 - Technology, SIS, ERP, CRM, LMS
 - Marketing and student acquisition
 - Employee training
 - Market based compensation for employee retention
- Institutions with poor quality of earnings will find it very difficult to compete long-term (~1,000 institutions) – before COVID-19.



Quality of Earnings Analysis: Quantifying the Prosperity Gap



There are hundreds of institutions with poor quality of earnings.

- Calculate the total cumulative expenses not allocated in the current operating budget. The output of this calculation will identify the incremental “operating margin” required for long-term success. This can be translated into the required revenue growth to fulfill the institutional prosperity gap.

• Financial Gaps

- Cash flow requirements to service, debt, fund depreciation, building cash reserves

• Operational Gaps

- Salary gap to attract and retain talented employees
- Head count deficiencies
- Student support services, coaching mentoring, tutoring, career advising, job placement
- Student acquisition (marketing and enrollment)
- Employee training, research, mission and diversity
- Technology – CMR, LMS, ERP, SIS
- Program development investment (R&D), Scholarly Research

• Infrastructure Gaps

- Plant and Equipment
- Maintenance, replacement fund

The analysis should be completed through the lens of your prosperous institution.

Acceleration of Consolidation

- Acceleration of mergers and affiliations
 - Institutions with DOE Composite Ratios of 2.4 and higher are considering formal affiliations
- Closures will also accelerate
 - Many mergers will look more like real estate transactions
 - Buy-side institutions are not interested in absorbing operating losses of the sell-side institution (must be immediately accretive to earnings)
- The difference between mergers, affiliation and closures will be measure by the proactiveness of board of trustees.

Mergers have not been well received and generally not part of sell-side institution long-term strategy.

Sell-Side Go it Alone – Risk Closure (Running out the Clock)

- Institutions will continue to experience long and slow demise – and will ultimately cease to operate as an entity – resulting in a hard closure.
- Negotiations begin too late in the lifecycle with a larger entity to save the institution.
- Result is loss of all jobs, mission, accreditation and the ability to operate as an entity.
- Passive boards and leadership, in a reactive vs proactive mode



Sell-Side Merger change of control with a larger institution.

- Sell-side fears loss of institutional identity and mission,
- Sell-side boards do not want to make the decision to merge. Too difficult of a decision
- Sell-side fears a complete take over of all operations.
- Sell-side fears, loss of board, president, senior cabinet. Views the alternatives as slightly better than closing the institution.

A Macro Trend is Forming

Private System Affiliations



- We are at the beginning stages of a macro trend that will see multiple institutions affiliate with one another or create Private Systems.
- This provides:
 - **Small and mid-sized** institutions with a long-term alternative and "softer" landing, while allowing them to keep identity, mission, board, legal entity and academic standing.
 - **Entrepreneurial institutions** will have an opportunity to develop proactive buy-side affiliation strategies - to improve economies of scale and enhance their competitive position (student and mission).

Sell Side: Becoming Affiliation Ready

1. Complete your “prosperity gap” calculation
 - A. Quality of earnings
2. Create a substantial growth plan
 - A. To exceed your prosperity gap
 - B. This will require innovation and creativity
3. Create a decision matrix of affiliation attributes
 - A. “opposites attract”

The Buy-side: Creating the Strategy

- A “Build, Buy, Affiliate” model can be a transformative long-term financial and strategic initiative
 - Allows Buy-Side institutions with a unique window of opportunity to strengthen its long-term competitive position
 - Significantly different approaches to merger, affiliations and private systems
 - Comprehensive approach to a new financial model for long-term prosperity

Alternative Pathways

Alternative #1 Stay the Course (Default Position)



- Current initiatives in your strategic plan
- Invest into organic growth to meet or exceed your prosperity gap

Alternative #2 Buy-Side



Alternative #3 Sell-Side



Question 3

What are some challenges, obstacles, or concerns people should have as they navigate these issues?

Am I Willing? Are We Willing?

- To meet the market where it is today, and where it's going?
- To concede there are alternative learning pathways that students are pursuing?
- Is there a sense of urgency to lower the risks to students' completion of their programs?
- To acknowledge the market is vastly different today, compared to when we were in college?
- To look forward and not backwards to determine our future?
- To acknowledge that credentials and certificates are just as important or even more important in the eyes of students?
- To concede that technology will continue to play an increasing role in the delivery and support of learning?
- To acknowledge that according to students, the #1 reason why they go to college is to get a good job?
- To concede that in higher education, the market rules and students are consumers?
- To accept that change is accelerating and institutional "will and resolve" will be important traits of prosperous institutions?
- To consider new pathways for our future?

***...While we preserve and strengthen our mission.**

Board of Trustees

- Responsibility and fiduciary responsibility during difficult times
- Heightened responsibility for “late in life cycle” institutions and those trending towards closure
- Some institutions may find liability insurance either more expensive or in limited supply availability, could impact their future

Merger and Affiliation Regulatory

- Merger and affiliation definitive agreements are subject to regulator approval
 - Accreditation body (could be more than one)
 - Department of Education
 - State Education board
 - State attorney general
- Length of time for regulatory approval will vary
 - Regulatory could take six months to one year after a definitive agreement is signed between institutions
 - Institutions need to be proactive and consider a two-year time frame for successful transactions

Lessons Learned

- There is never a “merger of equals”
- “Late in life” mergers never turn out well for the sell-side institution
 - Massive layoffs,
 - Teach out period will provide some employees a window to seek employment,
 - Sell-side entity is ultimately dissolved
- Too often, late in life mergers look like real estate transactions
- Too many sell-side institutions were over confident about their future – even when there were many negative signals

Lessons Learned

- Buy-side institutions miss out on valuable transactions because they have not taken the time to develop a proactive M&A strategy
 - This creates opportunities for other buy-side institutions to take proactive measures
- Sell-side boards will find M&A to be one of the most difficult decisions of their lives - to let go of the college, even though it may be in the best interest of the institution, students and the employees.

Thoughts from NECHE President Larry Schall



Lawrence M. Schall, J.D., Ed.D.
President, NECHE

Segment 2 – Hour 2

A panel discussion on survivability, alliances, partnerships and more.

Quick Logistical Reminder

- This webinar is recorded.
- Interact with us and send questions via the GoToWebinar control panel.
- The format for this hour will be a panel discussion.
- We will pause for Q&A at the end of the segment.

Our panelists



Candace Williams
Sr. Director of Policy
and Research
MODERATOR



Michele D. Perkins, Ed.D.
President, New England
College



David Rowe, Ph.D.
Interim President,
Lancaster Theological
Seminary
Financial Sustainability
Practice Leader, AGB
Consulting



Lawrence M. Schall, J.D., Ed.D.
President, NECHE



Rick Beyer
Senior Fellow and
Practice Area Leader for
Long-term strategic
alternatives, AGB
Consulting



Ask the Expert Follow Up Discussions

- All registrants are welcome to sign up for 1 hr Zoom “Ask the Expert” sessions with the panelists.
 - Sessions can include multiple attendees from multiple institutions.
 - These conversational sessions are driven by your questions, comments, concerns, or experiences.
- AGB will notify all registrants of available dates and times, and details about how to register.

Contact AGB for Additional Resources or Assistance

- Rick Beyer – rbeyer@agb.org
 - Practice Area Leader for Long-Term Strategic Alternatives (Mergers, Affiliations, Alliances)
- David Rowe – drowe@agb.org
 - Practice Area Leader for Financial Sustainability and Higher Education Business Model Innovation
- Ken Knueven – kknueven@agb.org
 - Managing Director, AGB Consulting Services
- Chris Moloney – cmoloney@agb.org
 - Director, Strategy and Transformation Practice, AGB Consulting



Upcoming AGB Events in 2020

Ask The Expert sessions

[AGB.org/AsktheExpert](https://agb.org/AsktheExpert)

ATE Sessions are 1hr via Zoom

Dec 10 – 1pm ET - Presidential Leadership, Development and Assessment

Webinars

[AGB.org/events/webinars/](https://agb.org/events/webinars/)

Webinars are 1hr via GoToWebinar

Dec 14 – 1pm ET - Enrollment Models webinar with Dr. Joe Sallustio and Dr. Lynn Priddy.

Additional Resources

[AGB.org/agb-consulting/](https://agb.org/agb-consulting/)

AGB OnBoard - Virtual Board Meeting Management Platform

<https://agb.org/onboard/>

- **20% off for AGB Members**
- 97% renewal rate
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- Free 30-day trial

Appendix

Additional Resources and
Information about AGB and NEBHE

Rick Beyer: Areas of Focus

- Revenue Growth and Diversification
 - Creating strategic growth building blocks to align with long-term prosperity
 - Financial modeling
 - Developing the operational and implementation plans
 - Supporting operational execution
- Affiliations, Private Systems, Acquisitions and Mergers,
 - Becoming “Affiliation Ready”
 - Developing strategic and transformational M&A strategies
 - Facilitating all aspects of the transaction

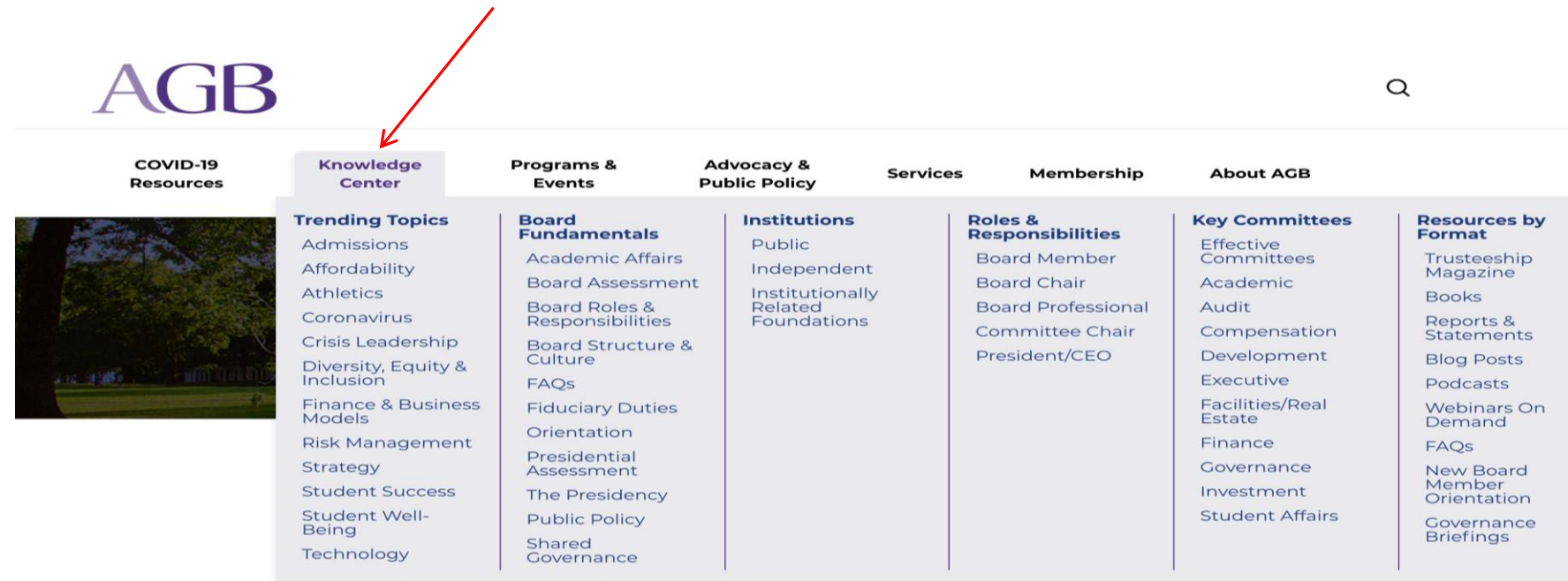
AGB Membership: Full Support for the Board and Leadership Team



Browse the AGB Knowledge Center

All AGB thought leadership is available in the Knowledge Center and organized by:

- Trending Topics
- Board Fundamentals
- Roles and Responsibilities
- Institution Type
- Key Committees
- Resources by format



“There's just a tremendous wealth of information and resources that are available through AGB. We are much better able now to help our directors be effective in their roles.”

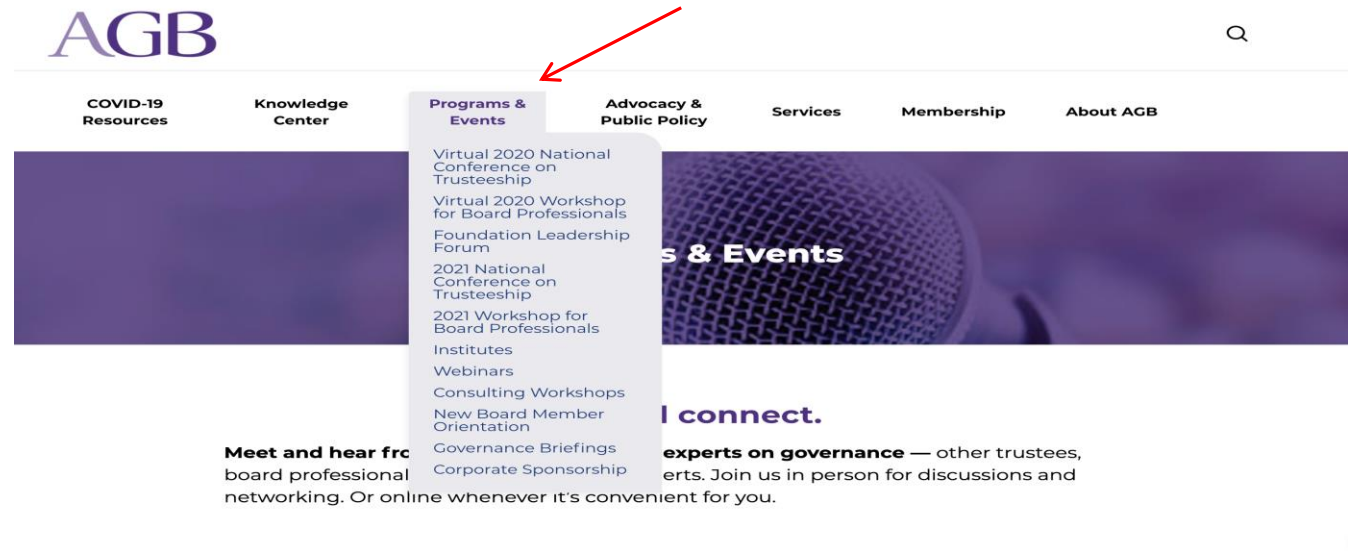
Jane Difolco Parker

Vice President for Development, Auburn University; President, Auburn University Foundation



View and Register for AGB Programs & Events

- In-person conferences
- Webinars
- New Board Member Orientation
- Governance Briefings – deep dives on:
 - The Work of the Board Chair
 - Institution-Foundation Partnership
 - Board Responsibilities for Intercollegiate Athletics
 - Coming Soon: M&A



Relevance is the word that comes to mind when I think of AGB conferences and materials. The session topics are thoughtful, strategic, and helpful. Higher education is in a constant state of evolution and AGB helps its members deal with the changes and advises how to navigate all of the complexities.

Trishana Bowden
President, GMUF and Vice President, George Mason University

About AGB

The Association of Governing Boards (AGB) is the premier organization centered on governance in higher education.

- Founded in 1921, AGB serves 1,900 public and private institutions.
- A resource to boards, trustees, presidents, and other senior institutional and system leaders as they strive to strengthen their institutions and stimulate cooperation with public policy makers, government agencies, and private organizations that have a stake in the quality and effective governance of colleges and universities. AGB helps higher education institutions thrive by providing vital information, expert counsel, advocacy, and comprehensive consulting services.
- To learn more or explore AGB's resources and solutions visit: www.agb.org

About AGB Consulting

AGB Consulting focuses on issues affecting the fundamental economic model and competitive position of colleges and universities and associated governance and leadership challenges.

AGB Consulting practice service areas include:

1. Strategy and transformation

1. Private Systems, affiliations, partnerships, and mergers
2. Revenue growth and diversification
3. Cost management and efficiencies

2. Governance

1. State Higher Education Policy and Governance
2. Board and presidential assessments
3. Governance reviews