Between Consortia and Mergers

A new report recommends a form of strategic alliance among colleges that is more substantive than consortia but less likely to fail than outright marriages.

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By Doug Lederman


A new report from the TIAA-CREF Institute [www.tiaa-crefinstitute.org/public/pdf/between_collaboration_and_merger.pdf] endorses the thesis that many higher education institutions will need to collaborate meaningfully to function well in the future, and that some of the traditional ways of working together -- like the many successful consortia that focus on joint services -- may not work for colleges that aren't close geographically or that seek more dramatic changes in their business models.

But its author, Michael K. Thomas of the New England Board of Higher Education, also concedes that mergers are "challenging terrain" on which many would-be marriages can hit potholes -- or sinkholes.

Instead, the report argues that more institutions should aim for what Thomas calls a "sweet spot" that is more flexible and sweeping than most consortia but less threatening and risky than mergers: strategic alliances in which they merge some of their some administrative functions (while retaining their distinct identities and structures) to both reduce costs and give them more capacity than colleges would have on their own.

Dealing With Difficulties

Like most observers envisioning new structural models for colleges and universities, Thomas was motivated to think about new approaches because of the financial and other strains he sees around him. "I'm having detailed conversations with lots of institutions in my region about their long-term sustainability," he said. "Small-scale institutions, those under 1,200 to 1,500 students, are particularly wondering about their financial sustainability," and yet many aren't well positioned to expand on their own.
What are their options?

Many such colleges are involved in consortia of various kinds [national-acl.org/], and successfully so -- including longstanding arrangements like the Claremont Colleges in California and the Five College Consortium in Massachusetts, and newer partnerships like the Council of Independent Colleges' Consortium for Online Humanities Instruction [www.insidehighered.com/news/2014/03/19/consortiums-and-collaboration-abound-small-college-sector]. Colleges could and should pursue more consortial arrangements, Thomas writes.

But while most such affiliations help institutions shave internal costs by collaborating on various administrative services, they typically work only for colleges near one another geographically, and focus mostly on "functions [that are] adjunct or add-ons to primary [institutional] models, achieving primarily economies of scope," Thomas writes.

On the other end of the spectrum is the prospect of mergers. Moody's Investors Service predicted in September that the number of higher education mergers or consolidations would triple over the next few years, but that's from a small base. And Inside Higher Ed's archives [www.insidehighered.com/search/site/mergers%20%2B%20colleges] include regular articles on the likelihood of more mergers -- and yet the numbers remain comparatively small.

That is true in public higher education because of the political difficulty of closing institutions (as campus employees and local legislators typically clamor to save the local college no matter how grave the situation) and on the private side because alumni and other advocates cherish, for good reason, the traditions and values of their institutions.

And in both spheres, mergers are incredibly complex and time-consuming, because most of the time they result in absorptions (and disappearance of one party) rather than a joining of equals.

At last week's SUNYCON meeting [www.suny.edu/sunycon/2015/] sponsored by the State University of New York, a panel of campus leaders and others discussed [livestream.com/hvccstreaming/SUNYCON2015/videos/103286073] their efforts to make public university systems more efficient and effective, and why they did (and didn't) turn to mergers as a strategy. Even Hank Huckaby, who as chancellor of the University System of Georgia has much more aggressively (and, so far, successfully) consolidated campuses, warned others that mergers are "not the panacea for everything" and described them as "very, very difficult, which is why so many efforts have failed." Huckaby said there were "800 to 900 discrete decisions" that had to be made in each of the six, two-institution mergers his system has undertaken so far.

Leaders of the University of Maine and University of Louisiana systems -- both of which have faced severe financial strain and might be seen as logical candidates for merging campuses -- said they were avoiding that approach. "Mergers and acquisitions for mergers' sake isn't very sound," said Sandra Woodley, president of the University of Louisiana System.

"Mergers typically have significant emotional and psychological costs for [higher education institution] faculty, staff and students," Thomas writes in the TIAA-CREF paper.

A Third Way

If consortia are often too limiting and mergers frequently too fraught, what else are institutions -- especially those that feel pressure to change, but aren't desperate -- to do?
Thomas's approach, drawn from the sorts of strategic alliances more common in fields other than higher education, favors what he calls "strategic system alliances" in which institutions, ideally, find partners that complement or supplement (or both) their own strengths and weaknesses. (Complementary alliances give an institution access to capabilities or assets it doesn’t have or can’t create on its own, while a supplementary alliance typically results in the sharing of similar assets, to achieve greater scale.)

To help readers get their heads around the concept, Thomas offers an example. Three not-very-selective private nonprofit colleges, between 800 and 2,000 students each, and with a mix of liberal arts and professional programs. One is in New England, one in the South and one in the Midwest; one suburban, one urban, one rural; one has a strong health sciences program, one a graduate engineering program and one a doctorate in education.

The three join to create the Excalibur University System, through which they (over time) "integrate, consolidate and scale" many of their administrative functions, but they retain their own governing boards and administrative structures. They merge their human resources, accounting, payroll and compliance operations, while one of the institutions' general counsel's office ultimately represents all three.

The central entity, capitalizing on some saved money, recruits experts in marketing and enrollment management that none of the colleges individually would have been able to afford. They build a shared online learning platform, and cross-registration between the campuses' academic offerings grows.

"In all instances, the efforts are focused on accelerated growth at each [institution] to enable the achievement of scale and financial sustainability; increasing the [institutions'] competitive standing, revenue and growth; and substantially altering individual [institutional] business models to expand capacity and talent and reduce cost and duplication," the report states.

Thomas provides a real-world example, too -- the TCS Education System, which Inside Higher Ed described in an earlier article [www.insidehighered.com/news/2013/09/30/saybrook-joins-growing-nonprofit-education-system-possible-new-model-higher-ed]. The multicampus system serves several professional schools, and its governance structure has encountered some friction from accreditors [www.insidehighered.com/news/2015/04/08/regulators-grapple-questions-about-independence-private-colleges-nonprofit-system] as it has sought to find its way. That is likely to be the case the closer such arrangements get to the "academic side of the house," Thomas said, and TCS's path makes clear that nothing about having institutions work together is easy. "It's not like putting a bunch of Legos together," he said.

But as colleges and universities search for viable paths forward, strategic alliances should be among the approaches they consider, he said.

"Given the likelihood of continued and accelerating change in the higher education industry, proactive and ambitious alliance responses by vulnerable [institutions] are needed. Will there continue to be … closures? Yes. Will there be more … mergers? It is quite likely. Will all multi-[institution] strategic alliances or joint ventures succeed? No. As in other industries, there are successes and failures," Thomas writes. "Most [institutions] have unique strengths and assets. What an [institution] might lack, or is unable to achieve by itself, should be viewed as an invitation and opportunity to explore an alliance. The imperative is for [institutions] to not work alone -- and to find alliance opportunities that exceed current and common collaborative solutions."