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Collaborations, alliances and mergers in higher education

Consultation on lessons learned and guidance for institutions

March 2012

2012/**06**

HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND

Contents

Foreword

Adaptive and sustainable institutions are essential to an effective higher education system that meets the needs of students, the economy and society. At this time of change and opportunity, many institutions are reconsidering their fundamental role, market position, structure and partnerships. For some, this may raise questions about the pros and cons of collaborations, alliances and mergers (CAM).

There are major CAM developments in many other countries, including various parts of Europe and, closer to home, in Wales. These activities are often actively promoted by governments and aim to strengthen institutions and improve performance against global competition. In England we need to meet the same challenge, although there is no question of a top-down approach. We believe that CAM activity might well continue to be part of the sector's response to change and is likely to provide opportunities for greater efficiency and effectiveness, but regard this as a matter for institutions.

The purpose of this report is to provide good practice guidance to institutions, based mainly on research into the sector's own experience. It also provides a basis for further consultation and discussion with the sector. Little is generally known about the sector's successes and difficulties in CAM activity. There are many potential benefits, but there are also risks that institutions will make costly, disruptive and unnecessary mistakes. This report aims to help the sector by setting out the lessons learned from a variety of case studies and other evidence. We have consulted extensively with people who have had direct experience of CAM activity and trialled the findings from our work.

HEFCE's primary role is to safeguard the collective interests of current and prospective students and the wider public. In seeking to encourage the development of a more diverse and dynamic sector and supporting student choice, we will respect the autonomy of institutions and support them in any way we can. In the past we have provided financial support for many CAM projects, and expect the new Catalyst Fund, which we will launch in April 2012, to provide further opportunities for this, if required. We continue to welcome discussions with institutions about any such proposals. There will be occasions when, in protecting the collective interests of students and taking into account the development of the wider sector, we will question institutions' plans and assumptions. Our policy statement on CAM activity is set out at Annex E of the report.

This report is consultative and we intend it to be a starting point for understanding the sector's experience of CAM activity and promoting good practice. In particular, we seek views on the development of detailed briefing guides on CAM-related issues, and on how we can work with the sector to disseminate the lessons learned. As the policy context changes and HEFCE's own role evolves, further guidance may be required in the future.

Alan Langlands
Chief Executive

Collaborations, alliances and mergers in higher education

Consultation on lessons learned and guidance for institutions

To	Heads of HEFCE-funded higher education institutions Heads of HEFCE-funded further education colleges Heads of universities in Northern Ireland
Of interest to those responsible for	Senior management, Governance, Strategy, Finance
Reference	2012/**06**
Publication date	March 2012
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Executive summary

Purpose

1. This document sets out lessons learned from collaborations, alliances and mergers (CAM) in higher education, and proposed guidance for higher education institutions (HEIs). It is in the form of a consultation that aims to: enrich the guidance with further evidence from the sector; challenge the conclusions we have drawn; and identify areas where more detailed guidance would be helpful.

2. CAM activities have long been an important feature of the higher education (HE) landscape, but in spite of this, relatively little is generally known about the subject. We therefore conducted this study to help the sector learn from institutions' past experience and improve the likelihood of success when collaborations, alliances and/or mergers are entered into. The guidance set out in this report is intended to be helpful and informative and not directive or prescriptive.

3. We have covered a range of collaborations and mergers, drawing from case studies in England and overseas, interviews, existing literature and other published information. For this project we have used the following definitions:

- **Collaboration**: two or more partners working together in a particular area of business, which may involve combining existing operations, pooling areas of expertise or creating something entirely new. This project focuses on institutional arrangements rather than relationships between groups of academics. There are many different forms of such collaborations, such as joint research institutes or joint faculties, which might have their own distinct brand. Sometimes collaborative ventures are known as partnerships or co-operation agreements. In this report we discuss the general characteristics of these various forms, so that we can compare them with mergers.

- **Alliance**: a more systemic form of collaboration between two or more partners, covering a wider range (but not all) of their operations, where the partners retain their separate identities.
- **Merger**: two or more partners combining to create a single institution, which may retain the name and legal status of one of them or be an entirely new legal entity. In the 'holding company' model, one institution can have subsidiaries that retain separate names, brands and operations, to varying degrees. Federations can be seen as a more flexible version of full merger.

4. This project was guided by an expert steering group whose members had experience of CAM activity across the HE and private sectors. We have written this report for a variety of audiences: principally for senior managers and governors, because of the importance of leadership and governance in all CAM projects; and also for staff, students and other stakeholders of HEIs.

Key points

Context

5. The pace of change in the HE sector is probably accelerating in many countries due to a number of complex and interacting factors, such as globalisation, internationalisation, the growing role of the private sector, increasing use of international rankings of institutions, and changing student needs and expectations. In England the new approach to the funding of teaching, and changes taking place to other major sources of funding, will also have a big impact on institutional behaviour, as will the renewed emphasis on placing students at the centre of the system. In various European countries and in Wales there have been major CAM developments, often actively promoted by governments to strengthen institutions and improve performance.

6. Institutions are being challenged as never before to reconsider their fundamental role, market position, structures, relationships, partnerships, policies and processes. They will need to continue questioning how they operate internally, engage externally with other institutions and organisations, and interact with the wider society. This raises the profile and potential relevance of collaborations, alliances and mergers as part of institutions' response to the drivers for change. Nonetheless, institutions are autonomous and there is no question of a top-down approach in England.

Learning from past experience

7. Institutions can learn from what has worked well or less well elsewhere. Most research in the HE sector, both in the UK and in other countries, has focused on mergers rather than collaborations, alliances, consortia or joint ventures. Moreover, there is a lack of publicly available information in the form of evaluation reports and other analyses of outcomes that might show the impact of CAM activity, particularly over the longer term. There are no reliable estimates of success in CAM projects in the HE sector.

8. The much larger body of research in the private (commercial) sector consistently estimates that a high percentage of mergers fail outright or do not achieve the expected benefits in terms of increased shareholder value or efficiency gains. There are also high failure rates for alliances and joint ventures. Notwithstanding the many differences with HE, some of the general lessons from the private sector are worth noting.

9. We commissioned a literature review and conducted our own research into the sector's experience, largely through nine case studies representing a range of CAM activity. Although there are many possible types of relationship, our aim was to derive general principles that would be helpful in most situations.

Major themes and lessons learned

10. The main findings are organised under three headings that address fundamental questions institutions are likely to ask:

a. What form of relationship is most appropriate in this particular case?

b. What evidence is necessary to inform decision-making?

c. What process should be adopted to ensure the most effective outcome?

These questions are addressed in the following three sections:

Forms of relationship

11. A clear case based on the core purposes of HEIs – teaching, research and knowledge exchange – should be at the heart of all CAM projects. This implies a strong focus on students, the academic community and the wider society. Publicly funded institutions should consider the 'public good' as well as business needs. Economic issues should not be ignored. Economies of scale can be important in advancing academic aims, for example by achieving critical mass in research or ensuring the viability of courses. Successful CAM projects have a strong academic purpose that is underpinned by a sound economic rationale.

12. Issues about the size and scale of institutions are complex and inadequately researched in the existing literature; but size in and of itself is rarely a good argument for merger. The relative size of the partners can be a significant consideration. Some mergers may have a dominant partner, but these can still be satisfactory for both parties. Efforts to present a 'merger of equals' can lead to costly compromises, but sometimes this is necessary to achieve a longer-term objective.

13. Any new entity or venture should aim to achieve more than could be delivered by the individual parties separately. The proposal should reflect a clear strategic need, and the parties should agree a 'strategic narrative', based on a simple, forward-looking idea that can be easily understood and communicated. This will clarify the purpose, underpin the argument for change, provide direction and help make sense of the various actions being taken.

14. CAM projects can enable institutions to share risk with partners in achieving their objectives. This can involve sharing costs, acquiring expertise or capacity, achieving critical mass or accelerating development. These possible advantages need to be balanced against the inherent risk of the projects themselves.

15. There are many different types of relationship across the 'CAM spectrum': from associations and purchasing consortia at the 'softer' end (lower risk, easily unwound), through various forms of institutional collaboration and joint ventures, to full merger at the 'harder' end (higher risk, not easily unwound). In some cases, collaboration (possibly leading to a strategic alliance) can bring many of the benefits of merger without the same cost or level of disruption. On the other hand, merger can bring more commitment from the parties and might achieve deeper and more extensive change.

16. Merger in particular can be a 'point of discontinuity' with the past, allowing institutions to achieve a whole series of changes that would be more difficult to achieve piecemeal during 'business as usual'. Mergers are likely to be more successful where, through a careful analysis of objectives and activities, most of the institutions' major operations are compatible or complementary.

17. Geography and distance sometimes constrain the effectiveness of mergers, so selective collaboration might be a more viable alternative. Co-location is often necessary to deliver significant synergy or efficiency. It is important to consider the impact on students and staff of any rationalisation of multi-site operations.

18. Whether to retain an existing brand or develop a new one is an important issue. This reflects the growing significance of name recognition, linked to institutional identity and differentiation, to prospective students, employees, employers and other partners and funders.

Evidence to inform decision-making

19. The evidence to inform decision-making should reflect the nature of the proposal; institutions should avoid seeing the case for a particular proposal as being self-evident. A rigorous options review, prepared objectively and subject to consultation, should precede any agreement in principle, and it is important to engage with dissenting views. Where a proposal affects students, their interests and needs will be a major priority.

20. The various options should be tested for affordability and the possible sources of funding investigated. In future, public funding is less likely to be available than in the recent past. Institutions will need to take a particularly rigorous approach to costing and financing.

21. Merger costs are often underestimated, particularly in areas such as harmonising pay and benefits structures, ICT systems and administrative processes. These costs can be very substantial where the merger is between higher and further education institutions. In general there is a tendency to emphasise renewing the estate, which can easily be presented as a clear outcome from merger. Other costs, including opportunity costs, may be more difficult to estimate, but they should not be overlooked.

22. Institutions may see the potential for economies of scale, especially in 'back office' operations and over the longer term. Where it is essential to reduce cost, this should be done promptly and openly, in consultation with staff and other interested parties; and the effect on students should be assessed and managed carefully so as to safeguard their experience.

23. Given the tendency to underestimate costs and risks, particular attention needs to be paid to due diligence, and it should not be done so late in the process that its results cannot be properly taken into account and the proposal reconsidered or renegotiated if necessary.

The process

24. Leadership from the outset is vital: all the initial questions concern mission and strategy, and leaders can help to drive the whole process, overcome obstacles and negotiate with stakeholders.

25. Institutions and their potential partners should develop a shared vision before acting, as clarity about objectives will energise the parties and avoid wasted effort.

26. Communication and dialogue with stakeholders, especially staff and students, are essential throughout the process. Support will be developed and resistance reduced if there is a concerted effort to explain the vision and address fears. Expectations need to be managed and kept realistic.

27. The senior management structure and governance arrangements in the new institution or venture need to be agreed at an early stage, perhaps as part of a memorandum of understanding. If these issues are not resolved, ambiguity may undermine trust, or senior managers and governors who have a strong commitment to existing structures could be an obstacle to change.

28. There needs to be adequate oversight of the project, often in the form of a joint working group and/or shadow board. Project management would normally be devolved to a separate task force or project team, which needs adequate resources to manage the whole process. At the same time it is vital to ensure the continuity of existing business operations.

29. Almost all institutions say their CAM projects required more time, effort and money than they originally expected. This observation accords with private sector experience, where the benefits are often overestimated and the costs and degree of difficulty underestimated. General optimism about what can be achieved can help to overcome obstacles along the way, but there may also be a lack of understanding of the demands of mergers and collaborations and their consequences.

30. The change process is dynamic, often messy and subject to the influence of unexpected events; institutions should therefore agree 'break points' to mitigate the risk of being swept along and missing warning signs. An implementation plan is an essential part of the process, and it should be kept under review and modified as necessary.

31. Investment and restructuring are often necessary to deliver real benefits, and the advantages and disadvantages of doing this sooner or later should be carefully weighed. Attention should be paid to the respective institutional cultures, which can affect the success or failure of attempts to achieve organisational change.

32. Government agencies can provide practical support, such as advice and objectivity, as well as funding. External funders should avoid onerous, inappropriate and inflexible monitoring arrangements.

Governance

33. In addressing the above issues it is essential to recognise the role of proper governance arrangements. Governing bodies need to be engaged from the outset, alongside senior management, in considering what form of relationship might be most suitable for their

institutions, the evidence that needs to be gathered to make the right decision, and what processes should be put in place to manage the project effectively. While supporting senior managers, they will provide necessary challenge and safeguard the interests of their institutions. They have specific legal duties as trustees of charities.

Guidance for institutions

34. From the findings referred to in paragraphs 10-33 we have updated our guidance for institutions on a process to develop CAM projects (see Annex A). This is a general guide, not a set of formal requirements or an attempt at comprehensive best practice. It identifies key stages which will be relevant in most cases:

- options review
- testing the feasibility of the preferred option
- memorandum of understanding
- consultation
- business case (especially for external funding)
- review and revision of the proposal
- approvals
- implementation plan
- monitoring and evaluation.

35. During the study many institutions said it would have been helpful if detailed guidance had been available to them in technical areas, such as tax, pensions, equal opportunities, due diligence, change management and implementation planning. This could have saved time in reaching decisions and made it easier to deliver their projects effectively. As part of this consultation, we are interested in views as to whether we should work with the sector to develop more detailed guidance, and if so, which areas (and not necessarily those listed in this paragraph) should be covered.

36. We encourage institutions to evaluate their CAM activity. We also suggest that they publish the results in a suitable format, to continue disseminating the lessons learned to the wider sector and provide a basis for further research. This could take place through HEFCE's web-site or some other appropriate national body.

HEFCE's policy on CAM activity

37. The project was designed to present objective findings to help institutions make better decisions. In responding to potential CAM projects in the sector in the future, we will be guided by a set of principles, set out at Annex E, focusing on:

- HEFCE's primary role of safeguarding the collective interests of current and prospective students and the wider public, encouraging the development of a more diverse and dynamic sector and supporting student choice
- maintaining an intelligent, open and constructive working relationship with all types of institutions and other partners

- providing objective assessment where public funding or student interest is involved
- securing the strength and sustainability of institutions across the sector, while respecting institutional autonomy.

Action required

38. We would like comments on any aspect of this document, and also seek input on specific questions: the full list is in Annex B. Responses to this consultation should be e-mailed to CAMconsultation@hefce.ac.uk by **midday on Wednesday 6 June 2012** using the response form which can be accessed alongside this document at www.hefce.ac.uk/pubs.

39. This is an open consultation and we welcome views from anyone with an interest in higher education.

40. We aim to publish a summary and analysis of consultation responses as part of the updated guidance later in 2012.

Introduction

Purpose of the project

41. The purpose of this project has been to develop guidance for institutions considering whether and how to engage in collaborations, alliances and mergers (CAM activity). We have done this by looking at past experience in the higher education (HE) sector and elsewhere, identifying major themes from this activity and drawing out lessons to be learned. This guidance aims to improve the likelihood of success in such ventures in HE by presenting a range of good practices for institutions to consider. It is intended to be helpful and informative, and not directive or prescriptive.

42. This report is written for a variety of audiences: principally for senior managers and governors, because of the importance of leadership and governance in all CAM projects; and also for staff, students and other stakeholders of higher education institutions (HEIs).

43. This is a consultation document, and we invite responses to eight questions at various points, which are listed for convenience in **Annex B**. The consultation aims to test the draft guidance, seek further evidence to address any major omissions, help institutions already engaging in CAM activity, and ask the sector what further guidance (if any) it wishes to have. While reading this document, please consider the following general questions:

Consultation question 1

Are there any major types of CAM activity in the HE sector that are not covered by this report and should be included?

Consultation question 2

Are there any major themes and lessons learned from the sector's experience of CAM activity, both its successes and failures, which are not covered by this report?

Consultation question 3

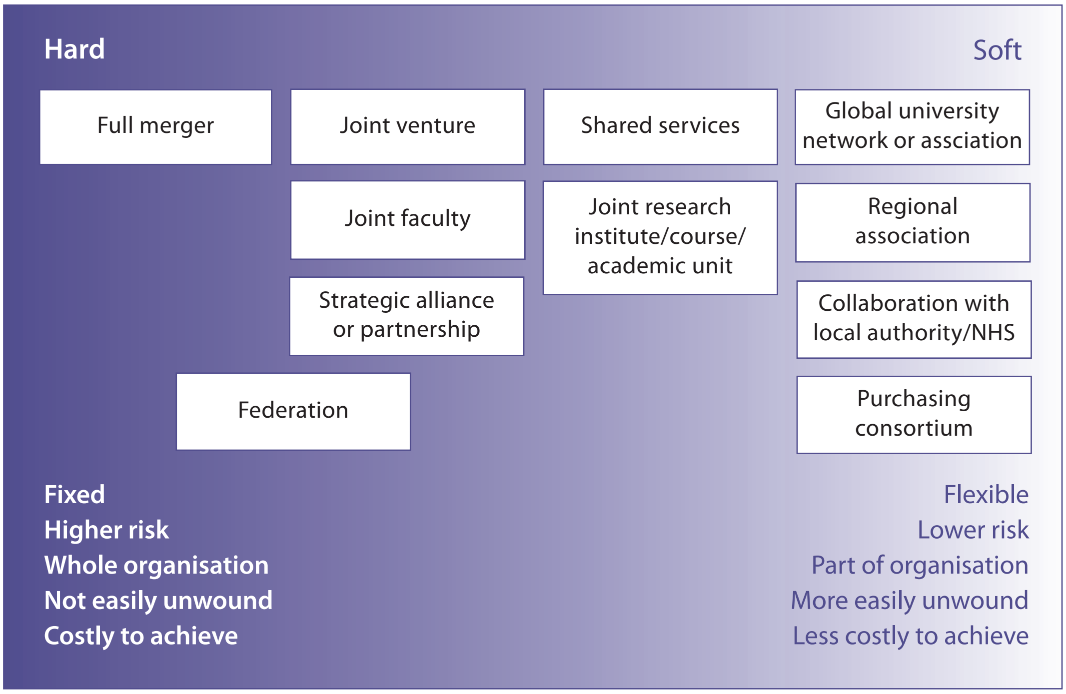
Are there any major themes and lessons learned from the sector's experience of CAM activity outlined in this report with which you fundamentally disagree? Please explain your reasons.

44. The project was overseen by an expert steering group, whose members had experience of CAM activity across the HE and private sectors: for details see Annex C.

The 'CAM spectrum' and definitions

45. There are many possible types of relationship between institutions. This 'CAM spectrum' runs from 'softer' forms such as associations or consortia, through shared services, different varieties of joint venture and alliances, to full mergers at the 'harder' end. This is presented in simplified form in Figure 1.

Figure 1 **The CAM spectrum**



46. Structures at the 'harder' end of this spectrum are usually more difficult and costly to put in place, and therefore generally involve higher risk to institutions. However, in the right circumstances they might yield greater benefits than simpler, more flexible arrangements that can be more easily unwound. These issues are explored in more detail throughout this report.

47. For this project we focus on three main forms of activity:

- **Collaboration**: two or more partners working together in a particular area of business, which may involve combining existing operations, pooling areas of expertise or creating something entirely new. This project focuses on institutional arrangements rather than relationships between groups of academics. There are many different forms of such collaborations, as indicated in Figure 1: examples include joint research institutes or joint faculties, which might have their own distinct brand. Sometimes collaborative ventures are known as partnerships or co-operation agreements. In this report we discuss the general characteristics of these various forms, so that we can compare them with mergers.

- **Alliance**: a more systemic form of collaboration between two or more partners, covering a wider range (but not all) of their operations, where the partners retain their separate identities.

- **Merger**: two or more partners combining to create a single institution, which may retain the name and legal status of one of them or be an entirely new legal entity. In the 'holding company' model, one institution can have subsidiaries that retain separate names, brands and operations, to varying degrees. Federations can be seen as a more flexible version of full merger.

Context

48. The pace of change in the HE sector appears to be accelerating in many countries due to a number of complex and interacting factors. In England the new approach to the funding of teaching is likely to have a big impact on institutional behaviour in the coming years, and changes are also taking place in other major sources of funding. There is renewed emphasis on placing students at the centre of the HE system. In Wales there has been a strong impetus for consolidation of the sector to improve performance and competitiveness. In many other European countries there have been major CAM developments, often actively promoted by governments. In general, institutions are affected by a number of important global trends, such as those highlighted in a report from UNESCO[1]:

- globalisation: the integration of the world economy
- internationalisation: the policy responses to globalisation, by governments and institutions
- increasing demand for higher education and rising participation rates
- inequalities in access and the development of policies to address them
- increasing student mobility, including between countries
- the growing role of the private sector.

49. There are other, related, major influences on HEIs across many countries:

- the existence and increasing use of international rankings of institutions
- research competition and concentration
- a growing emphasis on knowledge exchange and knowledge transfer
- changing student needs and expectations
- opportunities and challenges presented by new information and communication technologies (ICT)
- continuing constraints on public funding
- greater emphasis on fundraising and developing alumni networks
- governance reforms and greater institutional autonomy, balanced by increasing expectations of HE's role in society and the economy
- regional initiatives by institutions, governments and supra-national organisations[2].

50. Institutions are being challenged as never before to reconsider their fundamental role, market position, structures, relationships, partnerships, policies and processes. They will need to continue questioning how they operate internally, engage externally with other

1 Altbach PG, Reisberg L and Rumbley LE, 2009, 'Trends in global higher education: tracking an academic revolution', UNESCO.

2 For example, within Europe, initiatives such as the Bologna Process, the Erasmus programme and the EU Lifelong Learning Programme 2007-13 (see ec.europa.eu/education/lifelong-learning-programme/doc78_en.htm).

institutions and organisations, and interact with the wider society. This raises the profile and potential relevance of collaborations, alliances and mergers and how they might help institutions to address three important questions:

a. What are the purposes of HE institutions in the 21st century?

b. Which institutional forms will serve those evolving purposes?

c. How can institutions become more adaptive?

51. CAM activity may be part of a response by institutions to the above influences and drivers. For example, merger or collaboration could enable them to strengthen research in the face of national and international competition, and improve their position in the rankings. Partnership with the private sector might be one means of making better use of new ICT or enhancing the student experience more broadly. Institutions with a strong commitment to widening access and effective outreach programmes might become useful partners for other institutions that have less experience in these areas. Nonetheless, institutions are autonomous and there is no question of a top-down approach in England.

Learning from past experience

52. Institutions can learn from what has worked well or less well elsewhere. This section considers sources of information and evidence that could be of help to the sector.

Published information

53. A 2010 literature review by Oakleigh Consulting[3], commissioned by HEFCE, noted that most research on the HE sector, both in the UK and elsewhere, has focused on mergers rather than other forms of CAM activity such as collaborations, alliances, consortia or joint ventures. The review also reported the lack of publicly available information, in the form of post-merger evaluation reports or other analyses of outcomes, that might show the impact of mergers and collaborations in the HE and further education (FE) sectors. One article[4] has noted that although there are useful accounts of the main drivers for merger and of the overall process, there has been little discussion of the longer-term results and impacts.

54. There is considerably more research in the private (commercial) sector, where it has been estimated that between 50 and 75 per cent of mergers fail outright or do not achieve the expected benefits in terms of increased shareholder value or efficiency gains (though this may be partly explained by the transfer of value to the seller). Fifty per cent of alliances and joint ventures in the private sector are also judged to fail. The main reasons given for this poor success rate include:

- lack of a clear vision or strategic objectives
- inadequate planning
- insufficient due diligence work

3 'Literature review for the higher education collaborations, alliances and mergers project: Report to HEFCE by Oakleigh Consulting' (November 2010), available in full at www.hefce.ac.uk/pubs/rdreports

4 See Harman G and Harman K, 'Strategic mergers of strong institutions to enhance competitive advantage', Higher Education Policy, 2008, 21.

- poorly managed post-deal integration in the face of organisational complexity
- directors failing to provide leadership
- poor communication
- low priority given to cultural issues and the impact of change on staff[5].

55. There are no comparable figures for success or failure in the HE sector; the research has not been done, and any assessment is complicated by the multiple purposes of HEIs (see paragraph 75). Nonetheless, the issues mentioned in paragraph 54 are equally relevant to the HE sector. These are addressed in the section 'Major themes and lessons learned' (paragraphs 70-169).

56. Although a high proportion of mergers in the private sector fail to meet expectations, organisations are still coming forward with proposals. This may be explained by the fact that in some markets there are clear advantages in achieving scale, and often this cannot readily be done through organic growth. Issues relating to size and scale specifically in the HE sector are discussed in paragraphs 94-100.

57. The Leadership Foundation for Higher Education (LFHE) commissioned Eversheds early in 2011 to produce a paper on collaborations and mergers in HE[6]. This sets out models of institutional relationships: contracting, setting up a new entity or merging. It also explores possible future scenarios, such as greater use of shared services, private sector support for institutions, investment in part of an HEI, and teams or departments moving between institutions.

58. Guidance on aspects of CAM activity already exists in a variety of forms and we have considered the following documents during this project:

a. HEFCE's previous good practice guidance, 'Mergers in the higher education sector: a guide to good practice' (HEFCE 2004/09)[7] described a process for mergers specifically and did not explicitly cover collaborations.

b. Ten years ago the Chartered Institute of Public Finance and Accountancy (CIPFA) produced 'Mergers and collaboration: A guide for further and higher education institutions'[8].

c. The Charity Commission has published general guidance for institutions as charities: 'Collaborative working and mergers: an introduction' (November 2009), and related publications[9].

d. The National Audit Office report on the creation of Ofcom offers wider lessons for public sector mergers that may also be helpful to the HE sector[10].

5 See the discussion of the private sector experience in the Oakleigh report in footnote 3.

6 Available from LFHE at www.lfhe.ac.uk/research/res1011/otcollab.html/

7 All HEFCE publications are available at www.hefce.ac.uk

8 Available from CIPFA at www.cipfa.org.uk

9 Available at www.charitycommission.gov.uk/publications/cc34.aspx

10 'The creation of Ofcom: Wider lessons for public sector mergers of regulatory agencies', July 2006, available at www.nao.org.uk/publications/0506/the_creation_of_ofcom_wider_l.aspx

Our research

59. To supplement the relative lack of published information specifically relating to HE and the wider 'CAM spectrum' (see paragraph 45), we conducted our own research into the sector's experience, to identify major themes and the lessons learned. We did this mainly through questionnaires, discussions with institutions, a review of their internal documents, analyses of sector data, and interviews with key stakeholders.

60. We sought to include many different types of arrangement, although within the constraints of such a project our coverage could not be comprehensive. For example, collaboration can take many different forms: institutions working with other HEIs, further education colleges (FECs), private providers, commercial enterprises, charities and international partners. They can also take part in research pooling (as in Scotland) or clustering. Even mergers come in a variety of forms, with some having a dominant partner, while there are others where this not the case. Among our varied case studies we have included two contrasting examples from overseas, though we did not examine collaborations between English and international partners. Our aim has been to derive general principles that might apply to most CAM activities.

61. It is possible to learn from both success and failure. Institutions have understandably been more willing to talk about what has worked well, although our case studies include useful observations about what these particular institutions would have done differently with the benefit of hindsight. There are very few examples of independent reviews of failed merger discussions in HE[11] and none, as far as we are aware, of abortive collaborations. In most cases there is little written evidence, largely because such proposals tend to be rejected at an early and informal stage of development. Afterwards, institutions generally wish to 'move on' and not dwell on the past, and the senior managers involved in those discussions may no longer be in post when several years have passed.

62. The case studies are presented after paragraph 69, and the overall findings (major themes and lessons learned) appear in paragraphs 70-169. We have updated our own general guidance for HEIs for a process to develop CAM activity (see Annex A).

63. During our study many institutions said it would have been very helpful if more detailed guidance had been available to them in technical areas, such as tax, pensions, equal opportunities, due diligence, change management and implementation planning. Transferring pension obligations, for example, can be complex, time consuming and costly, and if not handled correctly can risk undermining the project's viability. Guidance in such areas could have saved time in reaching decisions and made it easier to deliver projects effectively. Since institutions are likely to need similar overall advice, it may be more efficient for HEFCE or other bodies to develop briefing guides, if there is sufficient demand from the sector.

Consultation question 4

Is it helpful for HEFCE to provide guidance for the sector covering the range of CAM activity?

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[11] A rare example is the 'Review of the terminated merger discussions between the University of Wales Institute, Cardiff and the University of Glamorgan', by the Higher Education Funding Council for Wales Audit Service, September 2004, mentioned in www.assemblywales.org/tb-07-020.pdf

Consultation question 5

Is the process outlined at Annex A broadly appropriate to most cases of CAM activity? If not, please offer suggested improvements.

Consultation question 6

Do you think HEFCE or other bodies should develop detailed briefing guides on CAM-related issues for the sector? If so, which areas (such as, but not limited to: tax, pensions, equal opportunities, due diligence, change management and implementation planning) do you consider to be the most important?

Evaluating the outcomes

64. The evaluation of outcomes in the private (commercial) sector is generally simpler than in HE because the rationale for restructuring is primarily financial: the aim is to maximise shareholder value. For HEIs there is no similar single and relatively objective measure. Research papers and published documents indicate a variety of motivations for CAM activity, such as resolving financial problems, improving academic viability and quality, enhancing market position, and improving the student experience.

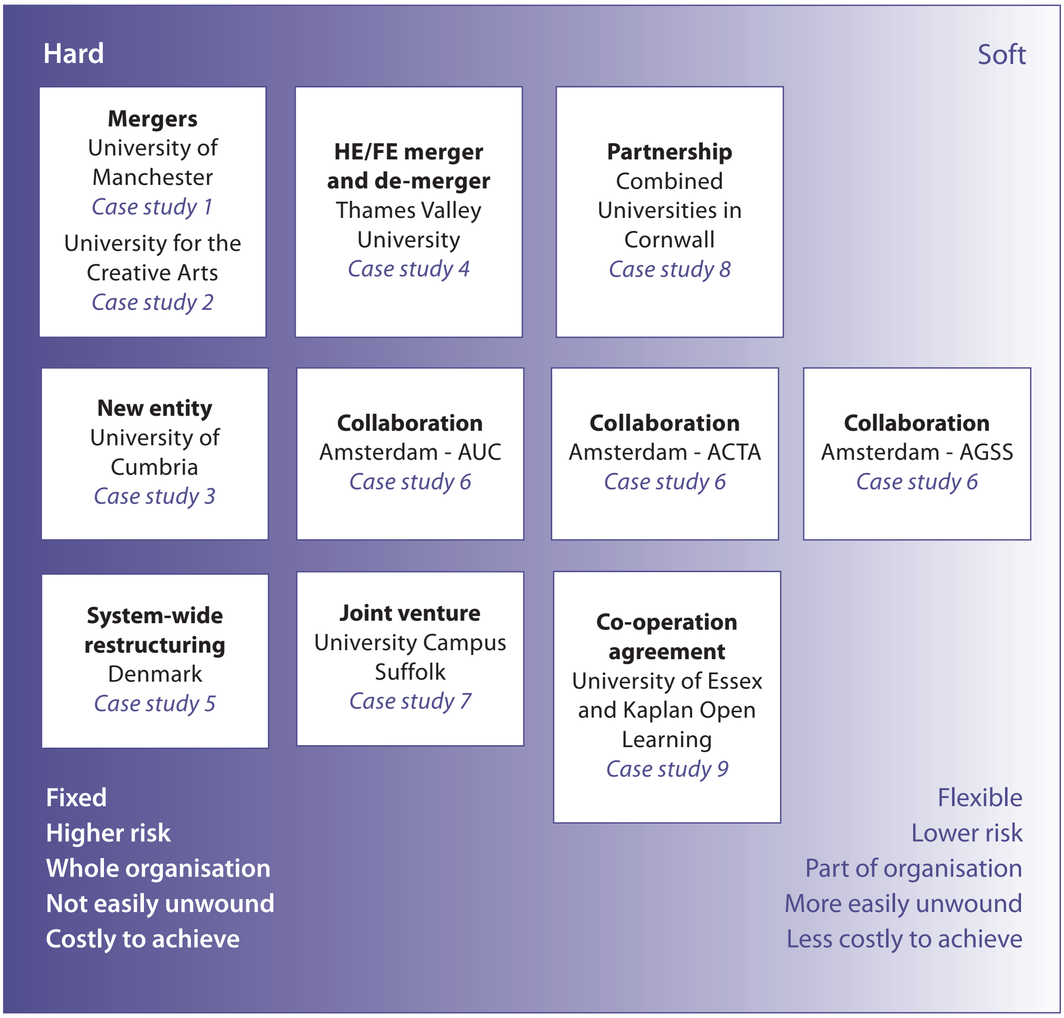
65. How can we assess the outcomes of CAM activity given this fundamental difference with the private sector and the general lack of independent research and evaluation in the HE sector? In some cases there has been external monitoring by public sector funders, related to the purposes for which funding was given. Only a few institutions have carried out their own evaluations, but the participants in our study have outlined the principal outcomes and compared them with the original objectives, where these were clearly stated. We have not attempted any independent evaluation, but these responses have been the starting point for more detailed enquiries in each of the case studies.

66. Several participants in our study have commented that the full effects of CAM activity in the HE sector become evident only in the long term, because of the length of the business cycle. Most of the activity presented in the case studies took place during the past 10 years, so we may not yet have a complete and balanced picture of the outcomes. We did consider some earlier examples. However, the events tend to be more poorly documented, many of the key people are no longer in post, and the outcomes are often less distinguishable from the effects of other subsequent events.

Case studies

67. This section presents an overview of the case studies that have helped to identify the major themes and lessons learned from CAM activity in the HE sector. They were selected to illustrate a broad range of experience, including mergers and de-mergers, system-wide restructuring, collaborations and partnerships. The case studies can be located on the 'CAM spectrum' (see paragraph 45) as shown in Figure 2, using the descriptions provided by the institutions and other characteristics.

Figure 2 **Locating the case studies on the CAM spectrum**



68. The case studies are grouped toward the 'harder' end of the spectrum because:

- the clearest evidence in the sector exists for forms such as mergers (see paragraph 53) that have resulted in significant change for the institutions concerned
- some examples of CAM activity at the 'softer' end (shared services and purchasing consortia) have been addressed by other projects and reports[12] and we have therefore not considered them in detail here
- global or regional alliances between institutions that have a similar mission remain under-researched[13] but are broadly outside the scope of this project.

69. We have agreed the wording of the following case studies with the institutions and organisations concerned. The points mentioned reflect their willingness to share their experience and lessons learned with the wider sector. We refer to relevant aspects of these case studies in the section 'Major themes and lessons learned' (paragraphs 70-169).

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12 For example, see 'Shared services in the higher education sector: Report to HEFCE by KPMG' (available at www.hefce.ac.uk/pubs/rdreports) and 'Efficiency and effectiveness in higher education: A report by the Universities UK Efficiency and Modernisation Task Group', September 2011 (available at www.universitiesuk.ac.uk/Publications/Documents/2011/EfficiencyinHigherEducation.pdf).

13 A useful survey is found in Beerkens HJJG, 2004, 'Global opportunities and institutional embeddedness: Higher education consortia in Europe and Southeast Asia', Enschede: CHEPS.

Case study 1 **University of Manchester**

Description

The Victoria University of Manchester and the University of Manchester Institute of Science and Technology merged in 2004 to create the new University of Manchester[14]. The merger plan was known as 'Project Unity'.

Background and process

Discussions between the two universities began in 2001 as a strategic review to consider how they might make a step-change in performance, so as to deliver world-class research, scholarship and teaching across a broad range of disciplines by 2011-12.

A joint working group was set up under independent chairmanship to consider five options. Its findings led to a recommendation for full merger, which was then subject to a more detailed evaluation, due diligence process, and the preparation of a full business case. The assessment criteria included: academic standing, flexibility and responsiveness, the quality of accommodation and facilities, continuity of operations, timescales, staff recruitment and retention, student satisfaction, financial viability and affordability.

The merger was effected by a double dissolution, creating a new chartered university with changed governance, management and academic structures. The existing vice-chancellors and board chairs stood down, and a new vice-chancellor and chair were appointed externally.

An important feature was significant investment: over £250 million in the estate and nearly £40 million in other costs. The great majority of this was funded from the institutions' own reserves and asset disposals. Direct public funding amounted to £65 million.

Outcomes and evaluation

Merger was seen as a 'once in a lifetime opportunity' to achieve more than simply aggregating the two existing institutions. There is general acknowledgement both within and outside the university that the merger has been a success, as evidenced by: improved research performance, an enhanced external profile, greater attractiveness to staff and students, the creation of an environment in which Nobel Laureates are nurtured and recruited, and renewal of the estate. The university recognises that there was more focus on research than on the student experience in the early years, but this has now been re-balanced.

Under its new vice-chancellor the university set a new vision, 'Towards Manchester 2015'. This aimed to make it one of the top 25 universities in the world and created new objectives and targets. External funders monitored the university's post-merger performance against the original business case, which was the basis for funding.

[14] For more information see www.manchester.ac.uk

Lessons learned

Much of the advice to other institutions concerns process: the importance of developing and presenting real options, planning the project properly and not rushing ahead, communicating with staff and students, and managing expectations. The university recognises the power of 'a single, forward-looking idea' to drive change. Where one partner is significantly larger or more dominant, it is essential that this change comes through a shared vision, expressed in new language. Key individuals make a difference, and appointments should be made on merit, not to achieve some balance between the merging institutions. Not everyone will be able to accept the new agenda, and some people may need to be managed out of the institution with tact and respect.

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Her Majesty the Queen presenting the Royal Charter to Anna Ford, co-chancellor of the University of Manchester, 22 October 2004

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

The Royal Charter of the new University of Manchester

Case study 2 **University for the Creative Arts**

Description

In 2005 the Surrey Institute of Art and Design University College and the Kent Institute of Art and Design merged to form the University College for the Creative Arts. It achieved university status in 2008 as the University for the Creative Arts[15].

Background and process

As members of a regional consortium of specialist institutions, the two institutes established a rapport based on common aspirations. In 2003 the Kent Institute of Art and Design initiated discussions with the Surrey Institute about a possible strategic alliance. In 2004 the Government announced that university status would be made available to specialist institutions with taught degree-awarding powers. The two institutes needed to merge to achieve the threshold of 4,000 full-time equivalent HE students required for university status.

A business case was prepared by the Surrey Institute. This considered four options against assessment criteria: the impact on institutional strategy, staff and students, and the region; and the fit with funders' core aims. The preferred option of merger was subject to an affordability review based on three different sets of assumptions. Each institution carried out a due diligence on the other, although this did not identify some important issues that emerged later in the merger process. The two institutions worked together to produce a joint business plan, on the basis of which HEFCE provided £2.3 million in direct funding.

From the outset both parties presented this as a 'merger of equals' to enable the deal to go ahead. This was reflected in the post-merger structure, the allocation of senior management posts between the two institutions, and the formation of a new board from an equal number of members of the existing boards.

Outcomes and evaluation

After careful planning, the merger proved quite straightforward, and university status was achieved as expected. Quality and standards, and support services, were quickly harmonised, but the compromises over the post-merger structure and some appointments took some time to be rectified. The impact of the loss of the two institutions' former identities was underestimated and led to a drop in student applications for two years. However, the new brand ('UCA') is now more strongly established than the brands of the predecessor institutions, and applications have risen very significantly. One particular challenge remains the spread of operations across five campuses in two counties, which potentially limits the scope for economies of scale and the efficient use of resources. Post-merger costs proved higher than expected, but the university was able to manage these adequately.

15 For more information see www.ucreative.ac.uk

Lessons learned

With hindsight, the university recognises the value at the point of merger of bringing in new people to senior management posts and to the board. Some of the compromises to achieve a merger of equals proved problematic in the short term, but these were probably necessary to achieve the overall objective. The university underlines the need for resilience and stamina in dealing with inevitable difficulties along the way. The university found it helpful to appoint an external project consultant who was able to act objectively, although such support needs to be time-limited.

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Cutting the ribbon at the Canterbury campus of the University for the Creative Arts, September 2008

Case study 3 **University of Cumbria**

Description

The University of Cumbria[16] was established in 2007 from the merger of St Martin's College and Cumbria Institute of the Arts, and the inclusion of some of the Cumbrian assets of the University of Central Lancashire.

Background and process

The immediate trigger for the creation of the university was the publication in 2005 of a report from Sir Martin Harris sponsored jointly by HEFCE and the North West Development Agency (NWDA)[17]. This was in response to identified unmet demand for HE and economic challenges across the region. An earlier proposal had been to create a network of collaborating campuses from different institutions, and to allow relationships to develop before considering further integration. However, the institutions and other stakeholders soon agreed with the Harris Report that merger was the best way to achieve the objectives, both educational and economic.

A business plan was prepared and agreed, costed at £149 million for the first phase of operation from 2006-07 to 2011-12. A number of public agencies agreed in principle to make significant contributions, with NWDA being the largest external funder. The various stakeholders met regularly through a Funders Forum and a Project Management Group. A joint senior management team from St Martin's College and Cumbria Institute of the Arts co-ordinated the delivery of the project plan, and a shadow board provided governance scrutiny and advice to the existing governing bodies. Reflecting the project's complexity, a number of external consultants, advisors and managers were brought in.

Outcomes and evaluation

In spite of the demanding timescale, the university was established on time. The business plan was created in an era of economic growth and funding for increasing student numbers. However, as the project progressed, the external environment changed dramatically, the majority of the funding agreed in principle by public agencies was no longer available, and the university did not act swiftly enough to revise its plan. In addition, the project was complicated by the differing objectives and needs of the various funders.

Deficits were always expected in the years after merger to meet the costs of post-merger work, including estates rationalisation and restructuring. However, these turned out to be much larger than forecast, due to the harsher economic environment, the inability to grow income in line with the business plan, and the

16 For more information see www.cumbria.ac.uk

17 'Initial proposal for a new University of Cumbria: Report by Sir Martin Harris', available at www.hefce.ac.uk/news/hefce/2005/cumbrep/#dwnld

difficulty of reducing costs quickly enough to reflect the changed operating conditions. These deficits created problems for the new university, which required additional financial support from HEFCE in the form of a short-term repayable loan.

Lessons learned

It is important to spend time discussing and agreeing shared aims, vision and mission, as this helps when issues and difficulties arise. Support from influential partners and stakeholders is essential, but these relationships, and any potentially divergent aims, need to be actively managed. Financial planning and risk assessment have to be rigorous and realistic. The university believes the short timeframe for merger was helpful as it focused minds and activity, but it left many important actions to be taken post-merger. Finally, in addition to financial costs, mergers involve significant opportunity costs, present distractions from the core business and can lead to a loss of productivity.

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The University of Cumbria Learning Gateway at the Fusehill Street Campus, Carlisle

Case study 4 **Thames Valley University**

Description

Thames Valley University (TVU)[18] merged with Reading College from the FE sector in 2004, and de-merged in 2010.

Background and process

TVU itself was the product of several mergers during the 1990s, which created an institution with extensive FE provision. The purpose of the merger with Reading College (in effect an acquisition) was to create a region-wide tertiary institution with vertical integration combined with strong FE-HE progression. The business case for merger, prepared by the two institutions and agreed with HEFCE and the Learning and Skills Council, was largely based on expected growth in both FE and HE student numbers, which was consistent with overall government policy at the time. Through this growth and the consolidation of the two institutions' balance sheets, the enlarged university was forecast to become financially robust. The case for merger also presented a wider set of objectives and milestones by which the merger could be monitored and evaluated.

Outcomes and evaluation

Student numbers decreased substantially rather than increased; this fundamentally undermined the economic argument for merger. Most of the key objectives and targets were not met, often because no action was taken post-merger. The case for merger asserted the need to monitor progress against the targets through performance data, but in many cases this was never done.

More fundamentally, some material risks in the pre-merger institutions were not properly identified or evaluated. For example, an Ofsted inspection failure at Reading College just prior to merger did not cause a reassessment of the whole proposal. Although on re-inspection Ofsted's judgement was raised to satisfactory, there was a further failure in 2008.

At the operational level, the two institutions never properly integrated systems and cultures. The difficulty of these tasks was underestimated.

Financial performance actually worsened after the merger due to a number of factors, including unrealised income growth, pay harmonisation and the costs of operating on several sites, which made it difficult to achieve economies of scale.

An independent options review led the university's board to decide to re-focus on core business and to divest the FE provision at Reading.

18 TVU changed its name to the University of West London in April 2011 to reflect a strategic shift for the university and a re-positioning of its operations to its West London campus. For further information see www.uwl.ac.uk. Throughout this document, we have referred to the institution as 'TVU'.

Lessons learned

It is important to begin with an academic vision. The case for merger, arising from the consideration of a wider range of options, needs to be presented in a balanced and honest way, and engage with dissenting arguments. It cannot be seen primarily as a solution to pressing financial and other concerns. The proposal should be tested by a comprehensive and rigorous financial and risk analysis, based on the history and current performance of the institutions, and drawing on the results of the due diligence process. The identified mitigating actions need to be realistic rather than aspirational. The method of monitoring against targets should be agreed and put in place before the merger takes place, and then followed through. There are particular issues about culture, structures and processes in bringing together HE and FE activities from different institutions, and these require determined and consistent management action. The university concluded that the merger was 'an idea without a rationale'.

Case study 5 **Denmark**

Description

In 2006 Denmark engaged in a system-wide restructuring, involving a consolidation of HEIs and mergers with government research institutions. The case study involved discussions with the Ministry of Science, Technology and Innovation[19], the University of Aarhus[20] and the Technical University of Denmark (DTU)[21].

Background and process

Three major developments prepared the way for the restructuring of the Danish HE sector. Firstly, the University Act 2003 granted more autonomy to institutions and modernised governance arrangements. Secondly, an OECD report in 2005 recommended the merger of single-faculty institutions. Finally, the prime minister's Globalisation Council in 2005 addressed the need to support the knowledge economy. As part of the agenda for change in higher education, government research institutions were to be merged into HEIs to improve research synergy, utilise the teaching resources of the government research institutions and foster partnership with the private sector.

The Ministry of Science, Technology and Innovation led the process during 2006, inviting all HEIs and government research institutions to specify preferred merger partners and make an educational case. The process was voluntary, on the principle that successful mergers require willing partners. There was no explicit requirement for institutions to consider financial or risk issues, and while there was no additional funding to support mergers, the overall level of public funding for HE was increasing, so the sector was considered able to absorb the costs. The Ministry held bilateral discussions with institutions to reconcile the preferences and determine the future map for HE, which was finalised late in 2006. All the mergers took place on 1 January 2007.

Outcomes and evaluation

Consolidation reduced the number of institutions from 12 to eight, and the number of government research institutions from 13 to three. DTU acquired five government research institutions and decided to reorganise shortly after merger, in order to rationalise activities and achieve synergies. By way of contrast, the University of Aarhus, which merged with two HEIs and two government research institutions, made few changes in the first three years so as to allow the enlarged institution to come together organically; it then embarked on a consultative

19 For more information see www.en.vtu.dk/

20 For more information see www.au.dk/en/

21 For more information see www.dtu.dk/English.aspx

process for reorganisation. Both universities assess that they grew stronger as a result of the mergers, notwithstanding the demanding timetable for the merger discussions and the consequent lack of preparation.

Lessons learned

From the Ministry's perspective the key lessons in a sector-wide restructuring are to act swiftly, provide leadership to the sector, and link the policy objective to an overarching strategy (in this case, globalisation).

For the two universities and their potential partners, even though the mergers came as an unexpected opportunity, the main consideration was whether they were consistent with their overall educational and research strategy; growing in size was not itself an objective. Both emphasised the importance of keeping core business processes operating effectively during the post-merger period. Although each had a different approach to reorganisation, there was a shared understanding that embedding change and delivering benefits takes many years, however soon you start.

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'Fusionfest' celebration in the University Park at Aarhus University, summer 2007 (Photo by Soeren Kjeldgaard)

Case study 6 **Amsterdam**

Description

The two major universities in Amsterdam, the Universiteit van Amsterdam (UvA)[22] and the Vrije Universiteit Amsterdam (VU)[23], have developed several collaborative ventures. This case study focuses on: a joint dentistry faculty (ACTA)[24], the Amsterdam Graduate School of Science (AGSS) and Amsterdam University College.

Background and process

UvA and VU are two long-established research and teaching universities, each with a distinct history, mission and culture. Notwithstanding these differences, they have found ways to work together for mutual benefit and to expand educational opportunities.

ACTA started in 1984 as a response to the risk that one of their dentistry schools would have to close as part of policy and funding changes in the Netherlands. The new joint faculty protected provision and created the foundation for significant growth in research in later years, which had not been foreseen at the outset.

AGSS began in 2009 as a partnership between the Faculties of Sciences and Earth and Life Sciences at VU and the Faculties of Natural Sciences, Mathematics and Computer Science at UvA. The goal of the partnership is to streamline the graduate degree programmes offered by these faculties and to increase overall enrolment, especially among international students. AGSS aims to launch a number of new joint masters programmes.

Amsterdam University College is a small, selective joint institute of UvA and VU, offering an English-taught bachelors degree programme crossing the boundaries of languages, cultures and academic disciplines. It was launched in 2009.

Each of these collaborative ventures began in a different way, in response to specific needs and ambitions. ACTA and AGSS might be described as centrally driven initiatives, while Amsterdam University College was more the product of the vision of leading individuals.

Outcomes and evaluation

The coming together of existing activities (ACTA and AGSS) has involved complications in operating across two universities with different processes. In the case of ACTA these have largely been resolved pragmatically over time, whereas in the newer AGSS there remain issues about governance, organisation, processes and financing. Amsterdam University College as a wholly new entity has been able to innovate more outside of the existing organisational structures.

22 For more information see www.english.uva.nl/start.cfm

23 For more information see www.vu.nl/en/index.asp

24 ACTA: Academisch Centrum Tandheelkunde Amsterdam (Academic Centre for Dentistry in Amsterdam).

All these ventures are widely acknowledged to be successful. This has led the two universities to consider ways of working together more systemically in other areas, for example by setting up further joint graduate schools or integrating research, to improve quality and synergy, and attract the best staff and students. At present there appear to be fewer benefits to the universities and the region from bringing together undergraduate provision, where the existing student bodies are already large.

Lessons learned

Effective collaboration comes from trust between the two parties, especially at board level, and particularly during the negotiation and transition periods. The universities need to have common goals and be of a similar size and status, to allay fears of imbalance in the relationship. It is important to have a clear rationale for the collaboration and to take 'unmistakeable steps', so that stakeholders can see that something new is being created. In each case, people in leadership positions play a key role in driving the process and overcoming the inevitable obstacles, as well as ensuring an inclusive approach. The process itself is time-consuming, as in the case of mergers, and so requires patience and persistence.

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Grand Opening of Amsterdam University College on 22 September 2009 with the rectors of UvA (left) and VU with the Major of Amsterdam

Case study 7 **University Campus Suffolk**

Description

University Campus Suffolk (UCS)[25] is a joint venture[26] centred in Ipswich between the University of East Anglia (UEA)[27] and the University of Essex[28], working with five FECs, across six locations in Suffolk. It opened in 2007 and offers a wide range of degrees – foundation, honours and postgraduate – as well as continuing professional development courses.

Background and process

The collaboration emerged from a long-standing relationship between UEA and Suffolk College (one of the UCS partners) and joint activity between UEA and the University of Essex to develop HE provision in the county, where participation rates were low and no local university existed. The aim was to build on HE provision at Suffolk College and develop a main campus in Ipswich. The project was supported by Suffolk County Council, Ipswich Borough Council and the East of England Development Agency. There was clear support for a model involving more than one HEI. Total project costs to date amount to £95 million.

The venture was managed initially through a project planning group, comprising senior staff from the two universities and Suffolk College. A chief executive officer was first appointed in 2006. UCS is run by an executive and overseen by a board, chaired in rotation by the vice-chancellors of the two universities. The universities are ultimately responsible for UCS, including its financial performance. Academic awards to undergraduate and taught postgraduate students are made jointly.

Outcomes and evaluation

Since the venture is still under development, a formal evaluation has not yet taken place. However, there has been clear oversight of progress through the UCS Board, the two universities and accountability to the funders.

Student numbers have increased each academic year to reach 4,224 FTE in 2010-11. The original plan was to have 7,500 FTE by 2011, but this could not be achieved due to slow recruitment initially, then the imposition of the student number control limit by HEFCE. Recent changes to HE funding and the more challenging economic environment have also slowed the project's development, but the original vision remains valid. The operation has proved to be viable, and the two universities are content with the current arrangements.

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25 For more information see www.ucs.ac.uk

26 UCS is a company limited by guarantee jointly owned by the two universities.

27 For more information see www.uea.ac.uk

28 For more information see www.essex.ac.uk

Lessons learned

UCS is currently a unique and successful operation. One general lesson for other collaborative ventures is the importance of a clear vision and strong strategic leadership. A dedicated project team should be put in place at a very early stage. A key issue is identifying all the significant assets and liabilities which are in play (for example, land and capital) and how they are to be dealt with. Firm commitments are needed from the main funders. As the example of UCS highlights, a willingness to work collaboratively is critical, supported by goodwill from the various parties.

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The Waterfront Building, UCS Ipswich, opened in 2008

Case study 8 **Combined Universities in Cornwall**

Description

Combined Universities in Cornwall (CUC)[29] is an unincorporated partnership of five HEIs and FECs working together to provide more opportunities to access higher education in Cornwall[30]. It includes the Peninsula College of Medicine and Dentistry, a joint medical school of the universities of Exeter and Plymouth established in 2000[31].

Background and process

Strategic discussions began in the 1990s between various institutions and government agencies to improve higher education participation and foster economic regeneration in Cornwall through the development of a knowledge-based economy. Since the start of CUC in 2001, the main sources of funding have been the EU, the South West Regional Development Agency, central government and HEFCE. The process of designing, agreeing and monitoring the project has required considerable commitment by the partners and funders, given the project's complexity and lengthy timeframe.

CUC operates through the Tremough Campus, managed and run by the University of Exeter and University College Falmouth, and the University of Plymouth offering HE via the two FECs across the county. In 2008 Dartington College of Arts merged with University College Falmouth and two years later relocated to Tremough.

CUC is governed by two groups comprising representatives from the partner institutions: a steering group providing overall strategic direction, and an executive group delivering that strategy.

Outcomes and evaluation

There have been evaluations at each of the three stages of the project's development, tracking progress against the original objectives. The CUC Annual Review 2010[32] reported total investment to date of £261 million and major progress in building new facilities, increasing student numbers, developing employer-focused courses and growing research income. The partners recognise, however, that the full benefits of the project will take a longer timeframe to achieve, and changes to the funding regime for higher education may impact on the original objectives.

29 For more information see www.cuc.ac.uk

30 The current partners of CUC are: the University of Exeter, University of Plymouth, University College Falmouth, Cornwall College and Truro and Penwith College.

31 For more information see www.pcmd.ac.uk

32 See www.cuc.ac.uk/uploads/files/CUC%20Review%202010%20singles.pdf

Lessons learned

Many challenges arose from creating a new venture with a distinct profile and brand, from the collaborative efforts of institutions that continued to run their own operations and pursue their own strategies. It was therefore essential to develop a strong shared vision, particularly around the academic aims, and to maintain this through discussions with funders and other stakeholders, while allowing flexibility as circumstances changed. Such projects need influential people with the authority to commit their organisations and bring in other partners. They should provide some continuity of leadership within a democratic and consultative model. There has to be respect for the identity of each party, but also a will to go beyond separate institutional priorities and make concessions for the good of the whole. Disagreements or differences of opinion among the partners need to be handled through the leadership teams at a senior level.

PHOTO REDACTED DUE TO THIRD PARTY RIGHTS OR OTHER LEGAL ISSUES

University of Exeter student conducting field research in Cornwall

Case study 9 **University of Essex and Kaplan Open Learning**

Description

In 2007 the University of Essex and Kaplan Open Learning[33], part of the US-based for-profit Kaplan group[34], entered into a five-year co-operation agreement to provide part-time fully online foundation degrees to home and EU students. In 2008 this was expanded to offer honours degrees. The main subject areas are business studies and criminal justice.

Background and process

Kaplan Open Learning approached the university after identifying a market opportunity to deliver vocationally oriented learning to people unable to access traditional routes. The university had a similar aspiration to develop the access and employer engagement agendas. Kaplan Open Learning sought a partner with a good reputation and league table position, and a 'can do' attitude, while the university wanted to buy in expertise and capacity from an experienced provider.

For the university the relationship has been handled in much the same way as other partnerships; for example, it conducted a standard 'institutional evaluation' of Kaplan Open Learning. Some members of senate initially expressed some concerns at working with the private sector, and this was addressed by an exploration of the benefits of a well-managed partnership and clear commitment from the senior management team.

Outcomes and evaluation

The original agreement is due to be renewed in 2012 and discussions are already in progress. For both parties the partnership has been a success, although student numbers have not grown as rapidly as intended. There have been unexpected challenges in branding and marketing courses to make them visible to potential students.

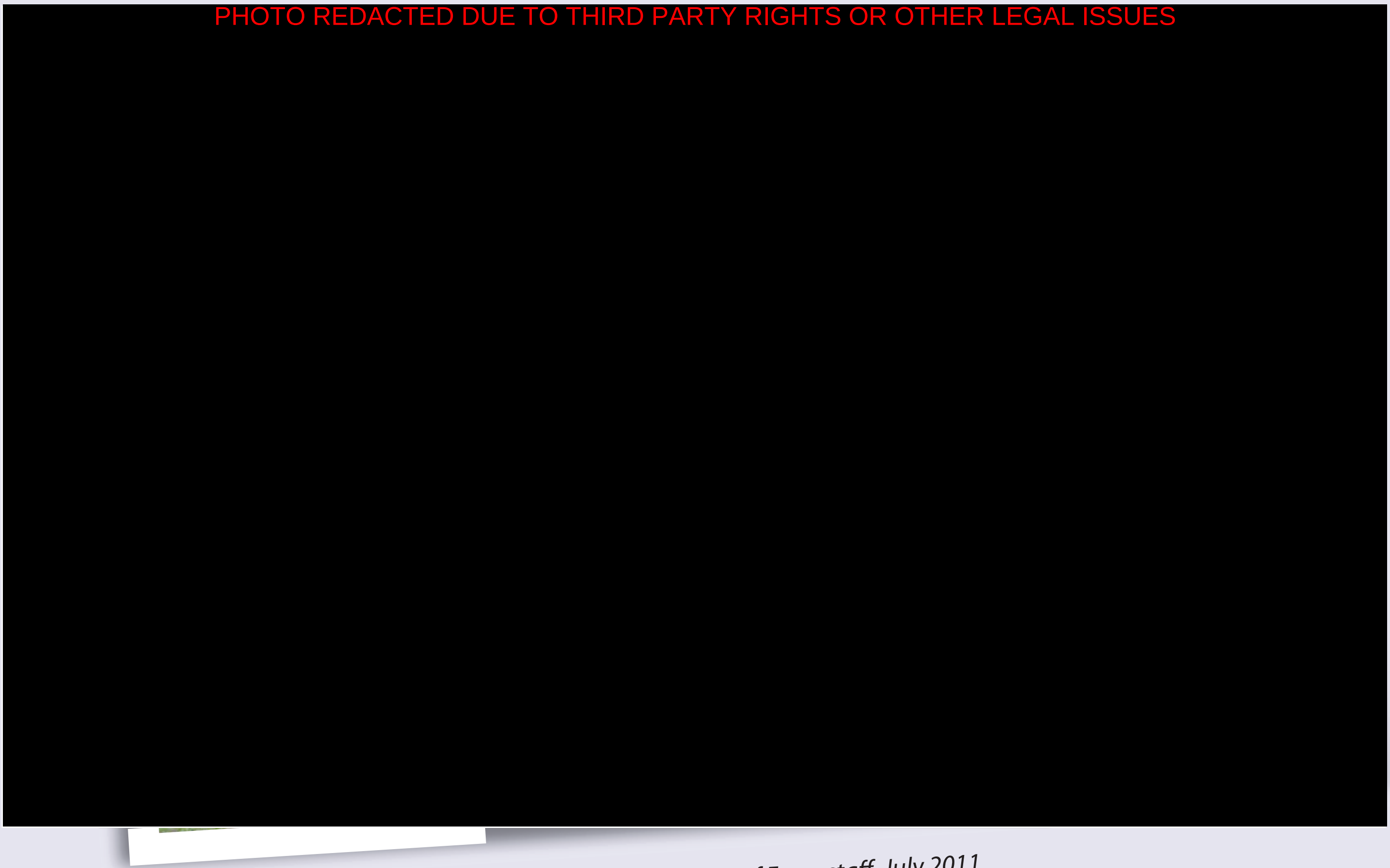
Both parties believe they have learned from each other. The cultures of the two organisations are very different, with Kaplan Open Learning being more obviously commercially driven, but the shared vision and commitment to educational outcomes has made the relationship work.

33 For more information see www.kaplanopenlearning.org.uk

34 For more information see www.kaplan.com

Lessons learned

The key issue is how to ensure two very different organisations can work effectively together on a venture that has novel characteristics for each. There must be agreed common goals, supported by senior managers and reinforced by regular staff contact at the operational level. Within a solid framework of structures and procedures, the approach needs to be flexible and pragmatic. In particular, the business model must work for both parties, which involves recognition of the other's needs and openness to renegotiation.



Kaplan Open Learning graduates with KOL and University of Essex staff, July 2011

Major themes and lessons learned

70. This section draws together the main findings from the case studies presented in the overviews above, together with material from other examples of CAM activity in the UK, recent international developments, interviews with sector representatives and other stakeholders, and a review of academic literature (including the Oakleigh report[35]) and existing guidance.

71. We have identified as **major themes** those issues that arose on many occasions during the course of our study. They are points for consideration by institutions before entering into CAM activity because they might influence decisions about both the choice of relationship and how it might be developed from proposal through to implementation. **Lessons learned** generally represent observations made frequently in the case studies (though not necessarily recorded in the overviews above); in other examples of CAM activity; or in the academic literature. However, given the diverse nature of the case studies, we have sometimes highlighted striking points made by individual commentators, which might have wider relevance to the sector. It is unlikely that these lessons will apply in every case, so institutions should consider which are most appropriate to their own circumstances. Both the major themes and the lessons learned are reflected in the updated guidance at Annex A.

72. In line with the findings of independent research (see paragraph 64), our case studies and interviews have confirmed that institutions engage in collaborations, alliances and mergers for a wide variety of reasons. Sometimes the rationale may not be fully explicit or subject to rigorous questioning internally or externally. Some of the common explanations advanced by institutions are:

- responding to external drivers (such as government policy)
- improving the scale, range and quality of research
- improving the range and quality of learning and teaching for students
- achieving synergies (economies of scope)
- obtaining capacity and expertise
- strengthening market position, whether nationally or internationally
- acting to prevent competitors seizing a particular opportunity
- gaining financial strength through acquiring assets and income, or achieving economies of scale.

73. An institution's stated objectives for the CAM project may not be wholly realistic or mutually compatible, and it may not know how to achieve them. The challenges involved, and how they might be addressed, are explored detail in the following sections.

74. The findings from our study are organised under headings that address three fundamental questions institutions are likely to ask:

- What form of relationship is most appropriate in this particular case?

35 See footnote 3.

- What evidence is necessary to inform decision-making?
- What process should be adopted to ensure the most effective outcome?

These questions are addressed in the following three sections.

Forms of relationship

Purpose of CAM activity

75. All the participants in the case studies emphasised that in HE, unlike in the private sector, the financial imperative should not be primary. Teaching, research and knowledge exchange are the core purposes of HEIs, and a clear case based on them should be at the heart of all CAM projects. This implies a strong focus on those whom HEIs serve: in particular, students, the academic community and the wider society. Publicly funded institutions should consider the 'public good' as well as business needs. In this broad context, any proposal should meet an agreed strategic need and demonstrate a clear strategic fit between the partners, such as complementary academic provision.

76. This 'academic' purpose contrasts with some of the more narrowly focused economic or financial arguments for CAM activity often mentioned in the press and elsewhere. That is not to say that economic considerations are unimportant, but rather that they should serve the core purposes of HEIs. This issue is also explored in connection with other issues raised in this report: size and scale (paragraphs 94-100); the economic analysis of options (paragraph 117); and efficiencies and economies of scale (paragraphs 126-128).

77. The University of Manchester's observation about 'the power of a simple, forward-looking idea' (case study 1) is relevant in all situations. The 'strategic narrative' about what the parties want to achieve, including the 'big wins' (paragraph 156), should be clearly understandable to all stakeholders and recognised as realistic. This will clarify the purpose, underpin the argument for change, provide direction and help to make sense of the varied activities in the project's implementation plan. The aim is for the whole (the merged entity, collaboration or new venture) to be greater than the sum of the existing parts or operations. Some of the intended benefits may only become evident after many years, so institutions need to take a long-term view (see paragraph 66).

78. An initially clear purpose may become clouded or complicated by the involvement of additional partners. External funders may have their own agenda, which can alter priorities. As the University of Cumbria has noted (case study 3), there are challenges in dealing with potentially divergent aims. Strong leadership is required to maintain and pursue institutional objectives.

79. CAM projects can enable institutions to share risk with partners as they attempt to achieve their objectives. This can involve sharing cost (with other institutions or external funders), acquiring expertise or capacity, achieving critical mass or accelerating development. These potential advantages need to be balanced against the inherent risk of engaging in collaborations, alliances and mergers (paragraph 129).

Opportunity

80. All the forms of relationship on the 'CAM spectrum' shown in Figure 1 (after paragraph 45) present opportunities, but one clear message from the case studies is that merger in particular can be a 'point of discontinuity' with the past. It can provide the occasion and rationale for making a whole series of changes (to governance and management arrangements, academic strategy and structure, operational processes and so on) that would be much more difficult to achieve piecemeal during 'business as usual'. Indeed, some institutions have taken this opportunity provided by merger to reconsider almost everything they do, 'capitalising on the process of change', as more than one commentator has said. This will almost certainly demand a lot of effort and resources.

81. Institutions sometimes find they need to consider mergers and collaborations at times not of their choosing. Mergers in particular are often driven by external events, as in Denmark in 2006 (case study 5), where institutions had to maintain clear objectives in a rapidly developing process led by the Ministry of Science, Technology and Innovation. Moreover, decision making may not always be a rational process or involve a careful, measured evaluation of all the evidence and alternatives. The timetable may be set by other parties that have different needs and deadlines. Institutions may need to slow the process down, if they can, and allow for periods of reflection. This is discussed further in paragraphs 152-153.

82. Some of the English case studies also show the influence of public policy initiatives: to increase participation, fill in the map of HE and support project costs (the University of Cumbria, University Campus Suffolk and the Combined Universities in Cornwall: case studies 3, 7 and 8). We should note that the current policy and funding environment is very different from the time when these projects were conceived and developed. Where public bodies are now less able to provide impetus, leadership and financial support, institutions will need to identify and develop opportunities for themselves.

Collaborate or merge?

83. One key observation from many of the case studies is that the whole portfolio (teaching, research and knowledge exchange; all subject areas and all levels) should be taken into account when considering CAM activity. The evaluation of options and assessment of likely success (discussed in paragraphs 115-119) needs to reflect the multiplicity of institutions' objectives, as well as their engagement with society and the wider economy.

84. Mergers are more likely to be successful where, through a careful analysis of objectives and activities, most of the institutions' major operations are compatible or complementary. Where such alignment is not possible, more selective forms of joint working would be more appropriate. Mergers require a high level of commitment from the parties precisely because they involve all activities.

85. The opportunities presented by mergers (see paragraph 80) may sometimes result in organisational and operational difficulties that can take years to resolve and distract attention from the core business. As noted in paragraph 54, research has identified various explanations why mergers can fail to deliver the expected benefits in the private sector. Comparison with the HE sector is difficult because of the general lack of comprehensive post-merger evaluations. The complex purposes of HEIs may increase the challenges of

achieving good outcomes across all the major areas of activity. However, the external pressures may be less than in some parts of the private sector, and consequently institutions may have more time to realise the full benefits from merger.

86. On the other hand, creating new forms of collaboration between institutions that otherwise remain unchanged brings the risk of increased complexity to management, governance and operations. The interface with existing structures and processes will need to be considered carefully. This might be resolved by moving from localised collaboration to a strategic alliance, where structures and processes become gradually and more systemically aligned.

87. It is not possible to establish a general rule here; institutions will need to identify the merits and drawbacks of merger, collaboration or strategic alliance in each case, noting that collaboration itself can take many forms (see the 'CAM spectrum', Figure 1) that have different legal implications. This should include an assessment of the impact on staff and students. All these issues should be addressed in the options review process (paragraphs 115-119). As one commentator said, the aim of working together should be to 'join forces, not join problems'.

88. This raises the question of whether collaboration or a strategic alliance is best seen as a step toward, or an alternative to, full merger between two or more parties. Where collaboration is considered a route toward eventual merger, should institutions be explicit about this? There are risks either way. Staff will quite reasonably want to know the longer-term intention and its implications, but this debate might disrupt short-term objectives.

89. In presenting collaboration as an alternative to merger, institutions should note that it may be harder to identify gains and then pursue them to a clear timetable. Mergers tend to have more of a momentum than collaborations, so the parties will need to take 'unmistakeable steps' to demonstrate that something new is happening.

90. Any collaboration will need to be kept under review. As the University of Essex and Kaplan Open Learning (case study 9) have observed, the business model must work for all parties: a particularly important point where HEIs seek commercial partners. Inevitably, the partners will learn from their experience of working together and should remain open to renegotiation as needs and circumstances change.

91. In summary, the main differences between mergers and collaborations are shown in the table below:

Issue	Mergers	Collaborations
Range of activities considered	The whole portfolio should be considered and a high degree of compatibility or complementarity is essential	Only specific or localised activities need be considered
Objectives	All objectives should be agreed	Specific (and possibly time-limited) objectives should be agreed

Issue	Mergers	Collaborations
How achieved	Achieved through a single step – though mergers between more than two parties can be done either sequentially or as a 'big bang'	Possibly developed incrementally, with the option of moving to a strategic alliance or merger later
Restructuring	Organisation-wide restructuring may be necessary	Wider restructuring is probably not necessary
Management and governance structures	Unified structures are required – though the 'holding company' model allows for some local autonomy	Local arrangements for the collaboration need to interface with existing structures
Momentum	Strong momentum	Need to take 'unmistakeable steps' to maintain momentum
Review	Post-merger evaluation of lessons learned	Collaboration agreement should be kept under review
Impact on staff and students	Higher and more widespread impact	Lower or localised impact
Overall risk	Higher risk in general, though the 'holding company' model may be lower risk	Lower risk to the organisation as a whole

Federations and similar models

92. Federations (see the 'CAM spectrum', Figure 1) can be seen as a more flexible version of full merger. However, they may be less successful at achieving major rationalisation and integration, and they carry with them greater risk of ineffectiveness[36]. For the constituent institutions they can also raise significant issues about identity and branding (see paragraphs 109-111).

93. The federal arrangements of both the University of London and the University of Wales arose at a very different point in the evolution of the HE system, and have changed considerably over the years. Although such initiatives have not been replicated elsewhere, structures with some similar characteristics have emerged. One example is the 'holding company model', where one institution (or an entity created specifically for this purpose) has a number of subsidiaries that retain separate names, brands and operations[37]. In the future there may be a greater role for private providers in the HE sector, and this may lead to the creation of new types of structure.

36 Harman G and Harman K, 'Institutional mergers in higher education: lessons learned from international experience', Tertiary Education and Management, 2003, 9 (1), 29-44.

37 One such case is the 'Glamorgan Group' comprising the University of Glamorgan, the Royal Welsh College of Music and Drama and Merthyr Tydfil College. See www.profile.glam.ac.uk/partnerships/

Size and scale

94. One theme that arises regularly in the case studies and academic literature is the importance of size and scale. CAM activity, and especially merger, is often justified on the basis of needing to reach a sustainable scale of operation. Some operations may be too small to be economically or academically viable, but beyond a certain size they may become more difficult to manage or change. It is worth noting that many highly successful institutions are also relatively small.

95. There is no clear evidence for a minimum or maximum size for viability or efficiency. This is not surprising given the wide range of the sector's activities and the diversity of its providers, which mean that institutions can have very different sources of income and cost structures. These factors present many practical difficulties in estimating, and making generalisations about, economies or diseconomies of scale in HEIs (see paragraphs 126-128). Furthermore, there has been little economic analysis of the effect of mergers in higher education[38]. The argument about size and scale is not purely economic, however.

96. For research, at least anecdotally, scale seems to be a distinct advantage to achieve critical mass, attract good researchers, win contracts, enable cross-disciplinary work and build international reputation. This was a key argument for the creation of the new University of Manchester (case study 1). In a more general sense, merger was perceived to bring scale advantages for the University for the Creative Arts (case study 2) and the University of Cumbria (case study 3).

97. For knowledge exchange, there may also be economies of scale in deploying specialist staff and facilities. Larger institutions may find it easier to develop a reputation for being broadly business-focused, although smaller and specialist institutions can operate effectively in niche markets.

98. As regards learning and teaching, the picture is less clear. There may be disadvantages of scale at the institutional level, in terms of the impact on the quality of the student experience, although that does not appear to be true in our case studies (see paragraph 134). Much will depend on how learning and teaching are organised. Academic research has little to say on the impact of mergers on educational quality[39].

99. This is a complex issue, because merger (for example) might increase the diversity of course offerings or ensure the viability of courses, thereby improving student choice. However, one of the aims of merger or collaboration might be to rationalise academic provision, where there is overlap between the institutions. There are likely to be particular difficulties in achieving scale efficiencies through bringing together HE and FE activities.

100. Increased size may provide opportunities for greater efficiency in the delivery of services and 'back office' operations, such as finance, HR, registry, ICT and estates management. Shared services agreements may be the best means of achieving this.

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38 See discussion in Green C and Johnes G, 'Economies of scale and mergers in higher education', International Handbook of Higher Education, M Tight et al (eds), 2008, Routledge.

39 See Ursin J, Aittola H, Henderson C and Välimaa J, 'Is education getting lost in university mergers?', Tertiary Education and Management, December 2010.

Merger versus takeover

101. In the case of merger, there is often an issue about the relative size of the partners. In the HE sector the term 'takeover' has generally been avoided, partly out of respect for the smaller or weaker institution and concern for its staff and students. Some mergers may have a dominant partner that is the stronger (but not necessarily larger) party, but these can still be satisfactory for both parties, especially if the arrangement is clearly voluntary. For example, small institutions may consider they will have a stronger future as part of a larger entity. In any negotiation it is important to recognise that each party is likely to have different needs and objectives.

102. In situations where the two parties are similar in size and status, such as the University for the Creative Arts (case study 2), there is often considerable effort to create a 'merger of equals' to enable the proposal to be accepted. However, this may not reflect reality in financial or academic terms. The resulting compromises about post-merger structures and operations can be costly and inefficient, whereas in a more straightforward arrangement the new entity would be set more challenging targets. Such compromises may also delay post-merger integration of systems and cultures. Furthermore, the presentation of a 'merger' as opposed to a 'takeover' may be at variance with widely held perceptions and so result in a loss of credibility among staff, students and other stakeholders.

Synergy, distance and geography

103. The desire for synergies is often part of the rationale for merger or collaboration. The case studies and academic literature demonstrate that although they are often talked about, they are difficult to identify, measure or achieve. Synergies are likely to come through new ways of working and over the long term.

104. This is linked with the issue of geography, one frequently mentioned by institutions. Activities will usually need to be co-located to deliver significant synergy or efficiency, and even short distances and travel times can be a constraint[40]. Co-location itself can be costly to achieve and take many years to realise. In any post-merger rationalisation of multi-site operations, there will be a tension between functional and territorial structures. There may be logic in reorganising along disciplinary lines, but this may disconnect a campus from its local community, adversely affect students and weaken demand for places.

105. Geographical dispersion can present operational difficulties and even challenge the notion of there being a single institution. A distance of only 120 km between Vrije Universiteit Amsterdam and Windesheim University of Applied Sciences in the Netherlands was one major reason why their post-merger integration failed[41]. For staff and students, the need to travel between locations can be highly inconvenient and costly.

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40 The same point is made in Skodvin O-J, 'Mergers in higher education – success or failure?', Tertiary Education and Management 5: 65-80, 1999: 'International experiences with mergers have shown that the most successful mergers took place between institutions which were physically not far from each other, or [were] in the same place.' However, 'exceptions are some diversified mergers … where the strategy is that institutions should complement and supplement each other'.

41 The formal (legal) merger between the two universities at the level of the supervisory and executive boards took place on 1 January 2004. The relationship was evaluated in 2008, and shortly thereafter the executive boards separated. A full de-merger is expected in the near future.

106. However, extending geographical reach can be a major part of the vision for the new institution or venture. The University of Cumbria (case study 3), University Campus Suffolk (case study 7) and the Combined Universities in Cornwall (case study 8) are examples where a multi-site model was considered essential to meeting the key objective of improving HE participation rates in these counties. Institutions may also wish to deliver different courses at different locations, to meet the needs of local markets. These three examples also illustrate the role of public policy and funding to extend HE opportunities to students in areas previously inadequately served by HEIs.

107. Where joint working could be beneficial but full co-location is not realistic, collaborations that are focused on specific activities might be a better choice. This might involve relocating those activities between institutions or creating clusters of related activities. Another possibility is for neighbouring or similar institutions to transfer or exchange activities: a means by which the sector might rationalise provision in economically challenging times.

108. Regional networks show how both geography and mission can be important factors in the development of certain forms of collaboration. For example, the White Rose Consortium is a strategic partnership between the research-focused universities of Leeds, Sheffield and York[42]. Such regional groupings can focus on the delivery of individual projects or cover broader areas of common interest, and over time they might develop into full strategic alliances (paragraph 86).

Institutional brand

109. The sector is becoming more aware of the importance of brand, both nationally and internationally. This is because name recognition, and institutional identity and differentiation, are increasingly significant to prospective students and staff. This is equally true for corporate partners and in the globalised market for research contracts.

110. In mergers the question is when and how to retain existing highly valued brands, or whether to create an entirely new brand. This will influence the choice of relationship and structure. With collaborations there is an issue of whether and how to build on institutional brands.

111. Our case studies illustrate different approaches to the challenge of branding. The University of Manchester (case study 1) put a lot of effort into building on the existing widely known name, but with a new set of ideas and images. Brand is often linked to a particular place. The University for the Creative Arts (case study 2) initially suffered a drop in student applications as a result of the loss of the two former institutions' identities, but ultimately the new university name and brand have proved to be far more marketable. The University of Essex collaboration with Kaplan (case study 9) has faced the challenge of achieving visibility among potential students, where the latter is not yet widely known as an HE partner in the UK. All these examples illustrate that the choice of name is significant and that it takes time to establish a new brand, whether in a merger, collaboration or joint venture.

42 See www.whiterose.ac.uk

Forms of relationship: lessons learned

- The case for all CAM activity should be based on the core purposes of institutions: teaching, research and knowledge exchange.
- The proposal should meet a clear strategic need and demonstrate strategic fit between the partners.
- Pragmatism is not sufficient; agree a 'strategic narrative' that expresses where you want to be in five or 10 years' time.
- Note the risk of different funders confusing or complicating the project's objectives.
- Recognise 'the power of a simple, forward-looking idea'.
- Aim for the new entity or venture to achieve more than could be delivered separately by the individual parties.
- Balance the opportunity to share risk with partners against the inherent risk of CAM projects.
- Be clear and realistic about what will be required to achieve synergies and efficiencies.
- Pay attention to the brand, and especially the question of whether to retain an existing brand or develop a new one.
- Developing any relationship requires time, effort, trust – and above all, leadership.

For collaborations specifically:

- Consider whether collaboration or strategic alliance could be a first step toward, or a valid alternative to, merger.
- Take 'unmistakeable steps' to demonstrate that something new is being created.
- Consider how management and governance structures, and processes for the new venture, will interface with the existing arrangements of the collaborating institutions.
- Ensure that the business model works for all parties, and keep it under review.

For mergers specifically:

- Size in and of itself is rarely a good argument for merger, except perhaps in research and knowledge exchange; focus instead on what will be gained or lost by achieving scale, and how the benefits will be delivered.

- Be honest about relative size, strength or status, and acknowledge that each party may have different needs and objectives; efforts to present a 'merger of equals' can lead to costly compromises.
- Consider the opportunity for wide-ranging change that might otherwise be difficult to achieve.
- Geography and distance sometimes constrain the effectiveness of mergers and can adversely affect staff and students, so selective collaboration might be a better alternative. Conversely, extending geographical reach may be an essential part of the new vision.

Evidence to inform decision-making

112. Case studies, independent reviews and academic literature on CAM activity in the HE sector demonstrate different approaches to the use of evidence by institutions. Some have felt able to make important decisions with relatively little objective and verifiable information. There can be a tendency to see the case for a particular proposal as being self-evident, and for alternatives or dissenting views to be dismissed too readily.

113. It is impossible to generalise about the nature, quantity and quality of evidence needed to inform decision-making. Much will depend on the form of the activity, its scale and significance, the experience of the parties, and the costs and risks involved. Full mergers are likely to require more evidence, and with more of it derived from independent sources, than collaborations or alliances, although this will not always be true. Riskier ventures will demand more cautious and deliberative approach.

114. In this section we consider the use of evidence to inform decision-making under the following headings:

- options review
- estimating costs
- efficiencies and economies of scale
- risk analysis
- due diligence
- sector data.

Options review

115. Many of the case studies presented here involved options reviews. However, there are other examples across the HE sector where these were done inadequately, not carried out at all, or not even considered to be necessary. The 'preferred option' may therefore emerge prematurely and not be subject to sufficient analysis and debate. The parties might then proceed with the wrong solution or become burdened with unnecessary effort, cost and risk.

116. Options need to be presented at the right time, which means before any decisions have been made 'in principle', and with both objectivity and consistency. The consultation should actively engage with dissenting views. The best options reviews include a set of assessment criteria agreed at the outset by all parties, encompassing the full range of the institutions' activities and other major impacts, including:

- academic mission
- range and breadth of provision
- finances
- estates
- brand and reputation
- relationships with key funders
- impact on staff and students
- impact on the continuity of operations
- legal issues and implications
- institutional flexibility
- degree of risk
- timescales to deliver key objectives.

117. Institutions sometimes prepare an 'economic analysis' of the options, whereby forecast cashflows, both capital and revenue, are used to calculate a 'net present value'. Its main benefit is that it provides an objective means of evaluating the financial consequences of entirely different options; the principal drawback is that it might bias the discussion of options toward economic and financial issues and away from other considerations. As noted in paragraphs 75-76, institutions have emphasised the primacy of the 'academic' case for CAM activity based on their core purposes: teaching, research and knowledge exchange.

118. In assessing the options one essential financial issue is affordability. At this stage there should be an initial estimate of costs and savings, with assumptions clearly stated. Where the net costs are material it is important to identify likely sources of funding. For example, there may be a higher risk to options that depend on the disposal of assets or uncommitted support from third parties.

119. The assessment may not favour the same option in each of these areas. This will lead to a debate about the relative importance of the various criteria to each of the parties. Where a proposal affects students, their interests and needs will be a major priority. If each institution has a different preferred option, they may need to negotiate further or revise the options. There is a balance to be struck between safeguarding the existing interests of the individual institutions and making necessary compromises to achieve a greater future benefit.

Estimating costs

120. Once the preferred option has been agreed 'in principle', there should normally follow a more detailed analysis of its financial and risk implications, and the alternative investment and implementation strategies that could be adopted. For example, the University for the Creative Arts (case study 2) tested the merger proposal under three different sets of assumptions, thereby providing assurance about its robustness.

121. At this stage if net project costs are material, there needs to be a further investigation of possible sources of funding, whether internal (cash and asset sales, primarily) or external (lenders or public funders and agencies). Many of our case studies received public funding, but this is likely to be less available in future. In a more challenging economic environment, institutions need to take a particularly rigorous approach to costing and financing. Where funding is uncertain, conditional or subject to negotiation, the affordability of the preferred option will need to be kept under review as the project progresses. Final approval may need to be subject to confirmation about funding and affordability.

122. Some mergers and collaborations have proceeded without much detailed costing. This was the general position in Denmark in 2006 (case study 5), where the sector-wide process driven by the ministry allowed little time for a detailed financial and risk analysis by individual institutions. Furthermore, the absence of additional government funding for the mergers required institutions to manage them entirely within existing budgets, although the overall funding environment was favourable.

123. An important finding from our research is that merger costs are often underestimated, particularly in areas such as harmonising pay and benefits structures, ICT systems and administrative processes, and sometimes even the cost of the merger process itself (project management, communication and professional fees). These costs may be very significant where the merger is between HE and FE institutions. In general, there is a tendency to emphasise renewing the estate, which can be easily presented as a clear outcome from merger, and for which costings may be more readily obtained. Other costs may be more difficult to estimate, but there are considerable risks in trying to achieve mergers at little or no cost, because major problems may not be identified and addressed.

124. A related point is the significance of opportunity costs, in terms of management time and effort. These can be easily overlooked. To some extent they can be contained by buying in external support (paragraph 150), but senior people will inevitably be involved in negotiations, communications, consultations and decisions, and in providing leadership (paragraph 142).

125. It is not possible to generalise about the cost of conducting a merger. Much depends on the institutions' objectives, needs, resources and ability to access external funding. In many cases institutions can tailor the merger project to what they can afford, but deferring expenditure may prove less efficient and more costly in the long term. The unique nature of collaborative ventures makes it difficult to benchmark project costs.

Efficiencies and economies of scale

126. One of the general arguments for merger (and to a lesser extent, collaborations) in any sector is that bringing operations together will deliver economies of scale. Academic research shows this to be a contentious area, as diseconomies of scale can also exist. In the HE sector the evidence is very limited, but in which areas of activity might it be reasonable to assume scale efficiencies could be achieved? There might be an argument for institutions to bring together some of their 'back office' operations, such as HR, finance, registry and estates management, although these are also functions that could be outsourced relatively easily. There may also be efficiencies in learning and teaching that maintain or enhance quality and the student experience.

127. Notwithstanding the limited evidence on economies of scale in the sector, institutions may still see the potential for them, especially over the longer term. They will often make commitments to protect existing staff in mergers, and this may be essential to mitigate understandable anxiety and manage the transition. Such commitments would normally be time-limited.

128. On occasions, reducing cost will be an essential part of the merger or collaboration: for example, where a financially weak institution is looking to the merger to secure its future. In these cases, it is important to be open with staff about the situation and to take action promptly, in consultation with staff representatives and other interested parties. The effect on students should be assessed and managed carefully so as to safeguard their experience.

Risk analysis

129. It is important to consider the risk implications of all CAM activity. All mergers and most collaborative ventures are inherently risky and need to be planned accordingly. Many of our case studies, such as (but not confined to) the University of Manchester, University for the Creative Arts, University of Cumbria and Combined Universities in Cornwall (case studies 1, 2, 3 and 8) involved explicit risk analyses, in varying degrees of complexity and detail. In other examples around the sector, key risks are not always formally acknowledged and managed. Risks arise from the option itself and from project management, and since these will change over time, they should be continually reviewed and managed. Beyond the date of merger or collaboration, this might happen as part of the overall risk management process.

Due diligence

130. The due diligence process covering financial, legal and commercial issues should be considered an essential part of any proposed merger or collaboration. This includes the transfer of employee contracts and liabilities under TUPE[43] and other relevant legislation. However, the sector's experience in conducting due diligence is varied. In some cases it was not carried out, or was done so late in the process that the parties were already almost irrevocably committed to the venture and could not easily withdraw or renegotiate, whatever the results. There were also examples where the process was flawed and failed to identify difficult and costly issues, which emerged only much later, once the decision had been taken. In at least one case significant issues were properly identified, but these were not taken into consideration as part of the merger process.

43 Transfer of Undertakings (Protection of Employment Regulations) 2006.

131. Quite apart from trying to ensure a rigorous and professional due diligence process, there is an argument for splitting the process in two: conducting initial enquiries at the options review stage, to see if there are any fundamental concerns that might alter the assessment of the options; and then commissioning fuller investigations as part of the implementation plan. Even at this stage, however, the parties should recognise the possibility of abandoning the venture if materially adverse information comes to light. This links with the issue of agreeing break points (paragraph 153).

Sector data

132. CAM activity, particularly mergers and major collaborations, might be expected to have an effect on institutions' performance in many areas. Indeed, improving performance is almost always a rationale for such ventures. To investigate whether this has been achieved in practice, we looked at data from a variety of sources, including the Higher Education Statistics Agency, for most of the English case study institutions, focusing on:

- staff costs and administrative costs as a percentage of total income
- total expenditure and administrative costs per student FTE and as a percentage of total income
- Transparent Approach to Costing (TRAC) deficits as a percentage of total income
- National Student Survey (NSS) results – for mergers only
- the overall financial position.

133. For collaborations there is little identifiable impact at the institutional level, presumably because these activities are generally relatively small in relation to the overall size of the institution. For mergers, there is a more complex picture. In most cases, staff costs as a percentage of income increase post-merger, but then fall to pre-merger levels a few years later. Our discussions with the institutions concerned suggest common themes: rising costs due to agreements with staff, pay harmonisation and investment in new posts, followed by restructuring to reduce costs. For administrative costs there is no consistent pattern, although in some cases they increase after merger as a result of transition costs and the introduction of new systems. Overall, this confirms the conclusion that mergers may not save money in the short term, and in the implementation period often increase costs. Savings and efficiencies typically come some years later.

134. Both TRAC data and NSS results are inconclusive about the effect of mergers. Given the suggestion from some institutions that mergers can be disruptive to students in the short term, it is perhaps surprising, although gratifying, that NSS results do not indicate any obvious reduction in overall student satisfaction. It is likely that merged institutions have been mindful of maintaining the quality of the student experience.

135. There are no common trends in the overall financial position of merged institutions. As we see in some of the case studies, significant investment from internal sources can be an important part of the merger plan, and this can result in deficits. Thus, balance sheet and income and expenditure account financial indicators can worsen in the short term. In the longer term many other factors influence financial performance, so it is difficult to single out the effect of mergers alone.

Conclusion on the importance of evidence

136. Having discussed here various sources of evidence, we might consider their relative importance in deciding what to do. At various points we have noted the multiple objectives of HEIs, and the need for a comprehensive set of assessment criteria. The case studies generally stress the need for rigorous costings, risk analyses and due diligence. In some situations, however, the strategic vision of what might be achieved from the CAM activity should carry at least the same weight as the financial case. The Danish case study illustrates the point that sometimes a unique opportunity arises where it is simply not possible to prepare a full business case.

Evidence to inform decision-making: lessons learned

- Consider and present real options.
- Assess the options objectively and consistently.
- Actively engage with dissenting views about the options.
- Do not focus on a single measure of value but take into account the full range of the institutions' mission and activities.
- Where students are affected by the proposal, their interests and needs should be a priority.
- Prepare a rigorous business case that estimates capital and transition costs and includes a financial and risk analysis, but recognise the importance of strategic vision.
- Focus on affordability: the level of investment and transition costs, savings and economies of scale, and sources of funding.
- Note the challenge in achieving efficiencies and economies of scale, and be realistic about the timescale.
- Note the importance of the due diligence process, which should be timed so that its findings can be properly considered.

For mergers specifically:

- Merger costs are often underestimated, and there are risks in trying to achieve mergers at little or no cost.
- Mergers also involve significant opportunity cost, in terms of management time and effort.
- Do not allow the financial analysis to drive the decision but see it as supporting evidence.
- If the case for merger is based significantly on reducing costs, be open about this with staff and act quickly; also assess and manage the impact of reducing costs on students.
- The pre-merger business case and financial plan should not necessarily bind the post-merger institution, as it develops a new strategy.

The process

137. HEFCE's previous guidance to institutions[44] focused solely on mergers rather than a wider range of CAM activity, and was designed specifically for institutions intending to seek project funding from HEFCE. It was based on existing models of investment appraisal, setting out a two-stage process whereby institutions would prepare a business case to gain approval for the project, and then a business plan to implement it. Accordingly, there was a strong emphasis on the financial aspects of the process.

138. The case studies presented here and other research have shown that CAM projects are highly varied in nature, and are generally both more complex and less linear than implied by this earlier document. Many institutions have commented on the 'messiness' of the process. Consequently, our updated guidance that now covers all CAM activity (see **Annex A**) takes a very different approach and uses terminology that more closely reflects what institutions do in practice. The following paragraphs highlight some of the major issues that have arisen from that experience.

Developing the vision and initiating the process

139. It is essential for the various parties to develop a shared vision before acting. Clarity about objectives will energise the parties and bring them together, whereas ambiguity could lead to wasted time and effort. This vision should arise from a perceived opportunity or problem. At this initial stage, however, the parties need to keep an open mind about the likely outcome because there may be many different ways of realising the vision; that is the purpose of the options review (paragraphs 115-119). It may be necessary to have very early discussions with key stakeholders. Further investigation might lead to the conclusion that this particular vision cannot or should not be pursued at this time.

140. This raises the question as to when might be the best time to make a public announcement about the discussions and any proposal. There are pitfalls in both haste and delay. The main argument for early publicity is that information, possibly inaccurate, is likely to leak out anyway, leading to rumours and speculation that might cause concern to students and staff, destabilise the institutions and undermine confidence in their leaders. The principal reason for delaying communication is that the first stages of discussion can be very tentative and difficult, particularly where the proposal might lead to major organisational change. There may also be issues of commercial sensitivity. Where such negotiations take place in the full glare of publicity, options might be prematurely abandoned or conclusions reached too quickly. For example, the failure of the proposed merger between UCL and Imperial College London in 2002 has been attributed to significant publicity about the proposal before discussions had taken place with their academic communities[45].

141. The broader point is that in most cases the initial communication to key stakeholders, particularly staff and students, should be about the process, before the outcome has been settled. It should actively seek comments and other forms of input, either as part of the options review itself or the ensuing consultation. This should engender confidence in the process, even while the debate continues.

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44 'Mergers in the higher education sector: a guide to good practice' (HEFCE 2004/09).

45 Harman G and Harman K, 2008, op cit, 112.

Leadership and governance

142. In every case we studied, the participants emphasised that key individuals make a difference and drive the process. Leadership at the outset is vital, since all the initial questions concern mission and strategy and might involve institutions moving in a radically new direction. Once the process has started and many more people become involved, leadership is still necessary to communicate the 'strategic narrative' (paragraph 77), keep the project on track, overcome obstacles and conduct high-level discussions with stakeholders.

143. Some proposed mergers fail at an early stage because the participants cannot agree on the new senior management structure. If this issue is deferred, senior managers who have a strong commitment to existing arrangements could become an obstacle to change. Sometimes the existing chief executives plan to share power for a transitional period to provide reassurance to both institutions that their separate interests are being protected. However, this can lead to ambiguity about roles and also result in defensive behaviour rather than serving the needs of the new institution. In any case, key appointments should be made on merit rather than simply trying to achieve balance between the merging institutions. Some people who cannot accept the new agenda and arrangements may need to leave the institution, and this process should be managed with tact and respect by both sides.

144. A related issue for mergers is whether there should be continuity of leadership or a new head of institution. The case studies indicate that either can work well, and institutions might be reluctant to lose experienced leaders, particularly where they have played a major role in developing the new vision. However, where the parties intend there to be a 'merger of equals', new leadership might be the most straightforward solution, because it will be easier to demonstrate that there is no bias toward either of the pre-merger institutions.

145. Similar considerations apply to governance. The University of Manchester (case study 1) created completely new arrangements as a result of its 'double dissolution'; in contrast, the University for the Creative Arts (case study 2) formed its new governing body entirely from the existing boards and only later added governors who had no experience of the predecessor institutions. There appears to be a wide recognition, however, that creating a new institution requires the appointment of at least some new people. There are additional advantages in having a neutral chair of the new governing body.

Oversight of the process

146. At a very early point in both mergers and collaborations there is a need to create new structures to oversee and manage the whole process. Owing to the great variety of possible CAM arrangements, and of the legal and constitutional circumstances of the parties, it is not possible to specify 'model' structures, although the Eversheds report commissioned by LFHE[46] sets out the broad options.

147. Oversight of a CAM project can come in the form of a joint working group, comprising representatives (at least the chief executives and governing body chairs) from all parties, and with an independent chair. In addition to steering the options review, it should help the

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[46] See paragraph 57 and footnote 6.

parties agree a memorandum of understanding clarifying a number of important issues, such as the overall vision, the new senior management structure and appointments process, project management, and governance arrangements for both the transition and the new entity. The joint working group should ensure there is adequate, consistent and synchronised reporting to the institutions' governing bodies.

148. Existing boards will need to assure themselves that the interests and mission of their individual institutions are being properly safeguarded and that current business operations are being maintained during the negotiations and transition phase. This will include explicit consideration of the effect on current and prospective students. For mergers it is advisable to set up a 'shadow board', whose task will be to oversee the transition and ensure effective communication with the existing boards. It should then go on to form the core of the new institution's governing body.

Project management

149. Project management is likely to be devolved to a separate task force or project team. This group should focus solely on the project and have no responsibility for continuing operations. Some CAM projects have been made more difficult by a failure to recognise the scale of challenge involved in creating new structures and processes. Almost all our case study institutions said their projects required more time, effort and money than they originally expected. Institutions should ensure that project management is given sufficient resource because there are considerable risks in trying to implement complex projects at minimal cost.

150. The case studies illustrate different approaches to using external consultants for more than the formal due diligence process. Some institutions found it helpful to buy in support, while acknowledging the hidden cost of hiring, briefing and managing people from outside the organisation. External consultants can bring an independent perspective that challenges existing assumptions, though this can be lost as the project progresses. There is also a risk of 'mission creep': gradually extending the scope of the consultants' work, becoming overly dependent on them and avoiding taking managerial responsibility yourself.

151. Whatever the level of resourcing for the project, and whether or not external people are used, it is vital to keep the existing business going through both the implementation phase and any subsequent restructuring. There can be no interruption to the fundamental operations of recruiting, registering and teaching students, conducting research and consultancy, paying staff and suppliers, running HR processes and meeting all other legal obligations. This underlines the need for a separate project team.

Managing the unexpected

152. The joint working group, shadow board and project team will together manage the process. Project management disciplines are necessary but, as many of the participants in our case studies emphasised, it is also important to recognise that even with proper planning, the change process is dynamic, often messy and subject to the influence of unexpected events. The unforeseen and unforeseeable might completely alter the original assumptions. For example, the results of the detailed due diligence process (see paragraphs

130-131) could raise material new problems and costs that need to be considered. For TVU (case study 4), the Ofsted inspection failure should have led to a reassessment of the whole merger proposal.

153. How can the parties avoid becoming swept along by the whole process and either missing warning signs or ignoring them? One approach is to agree break points as part of the memorandum of understanding (paragraph 147), at which stage the parties can take stock and formally consider whether the original objectives can still be optimally met by the proposal.

Communication

154. In managing the process it is important not to lose sight of the people most affected by the change. Both the transition and the new arrangements will often involve friction, and sometimes loss, to staff and students. Institutions have repeatedly underlined the need to communicate regularly and consistently with all stakeholders, and this should be a two-way process. The detailed messages should be tailored to the needs of each audience. Since people can become excessively hopeful or fearful about the consequences of new ventures, there is a need to manage expectations and keep them realistic. Support for change is likely to be developed and resistance reduced if there is a concerted effort to explain the vision and address fears. Above all, institutions should be concerned about the impact on both current and future students.

Investing and restructuring

155. Mergers and collaborations often involve reorganisation and restructuring. This may be a key element of the venture's rationale: for example, bringing improvements, achieving synergies or driving efficiency (paragraphs 126-128). Alternatively, the CAM activity may itself provide the opportunity to achieve wide-ranging change (paragraph 80). A failure to reorganise may limit the benefits that can be gained[47]. There is likely to be particular complexity in overcoming differences between HE and FE cultures, structures and processes, as noted by TVU (case study 4).

156. Institutions are therefore faced with important questions about when to invest. Many of our case studies confirm the importance of upfront investment. It may be possible to take out cost in later years, once the new arrangements are fully embedded, and this was the experience of the University of Manchester (case study 1). Early efforts to reduce cost could prove counter-productive, although sometimes this will be necessary. In any case, investment should be targeted. Institutions should identify and deliver high-impact projects and 'big wins', because apart from the intrinsic benefits, they change perceptions and so help to shape the new emerging reality of the merger or collaboration.

157. Institutions have taken different approaches to the timing of reorganisations. The Danish experience (case study 5) shows the contrasting philosophy of DTU, which decided to rationalise activities shortly after merger, and Aarhus University, which let the constituent parts of the enlarged institution come together organically over a number of years before formally restructuring. Some institutions have talked about a 'window of opportunity' for

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47 For example, see 'Evaluation of the impact of the merger of Cardiff University and the University of Wales College of Medicine, for the Higher Education Funding Council for Wales by Oakleigh Consulting Limited, at www.oakleigh.co.uk

change, which closes within a year or two, and during which it is possible to build on the hopes and energy of staff and other stakeholders. However, the scale and complexity of change is often underestimated, so there may be a case for acting more slowly and only after extensive consultation.

Organisational culture

158. Bringing about change involves addressing people and cultural issues, which are inevitably complex. However we define organisational culture[48], its form in any particular institution will have developed over a number of years, and some of its main features may not even be obvious to those working within it. In addition, each institution will have its own unique history and characteristics.

159. To what extent should institutions formally consider cultural issues in collaborations and mergers? Once again, the case studies present different emphases, and although it is true that no institutions have ignored culture, few have gone so far as to develop what might be called a 'cultural audit' as part of the due diligence process. They might have considered this too difficult and time-consuming, or believed that effective leadership would overcome any cultural differences between the parties. As TVU has noted (case study 4), there may be particular cultural issues in bringing together HE and FE activities.

160. Collaborations might give rise to different challenges. For example, staff coming together from the 'parent' organisations may have dissimilar and even incompatible cultural norms and expectations. These might result in friction and inefficiency if they are not acknowledged and addressed.

161. Any organisation is likely to contain more than one culture, and differences in culture within an institution could be as significant as those between institutions. Nonetheless, there is a strong case for acknowledging that culture will affect the success or otherwise of attempts to achieve organisational change. That being so, institutions will need to focus on communication and consultation, and on the social integration of staff and students[49].

Implementation, monitoring and evaluation

162. An implementation plan is an essential part of the process, and work would normally start on it once the preferred option has been identified. The plan should cover the whole period until all the major actions have been taken, though the later stages may be sketched out in less detail. A commonly used tool to manage the integration process in the private sector is the '100 Day Plan', which sets out required activities during the first three months[50].

163. Noting the dynamic nature of the change process (paragraphs 152-153), institutions should keep the plan under review and modify it as necessary. The plan would normally

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48 Hill and Jones ('Strategic Management', 2001) define organisational culture as: 'The specific collection of values and norms that are shared by people and groups in an organisation and that control the way they interact with each other and with stakeholders outside the organisation.' Deal and Kennedy ('Corporate cultures: The rites and rituals of corporate life', 1982) summarise it as: 'The way things get done around here.'

49 See discussion in Locke W, 'Higher education mergers: integrating organisational cultures and developing appropriate management styles', Higher Education Quarterly, January 2007.

50 See 'In the eye of the storm: moving from collaboration to consolidation', PricewaterhouseCoopers, 2010, available at www.pwc.co.uk

include key milestones and targets, against which an implementation or monitoring group (reporting to the board or shadow board) would track progress.

164. TVU's experience (case study 4) shows that a rigorous monitoring process is needed to detect when important post-merger (or post-collaboration) actions are not taken, so that the board can be properly alerted. This applies equally when fundamental assumptions prove to be incorrect, for example, when external funding is no longer available on the scale originally envisaged (University of Cumbria, case study 3), or when planned increases in student numbers fail to materialise (TVU).

165. Few institutions appear to have actively tracked project costs beyond the date of merger or collaboration. External funders will require institutions to report on expenditure for accountability purposes, but otherwise institutions have tended to include project costs, however funded, in overall budgets and to manage them accordingly. The important point is that they are indeed managed.

166. This leads to an interesting observation about publicly funded mergers: funders tend to look backwards to the original business case (which provided the rationale for funding) and monitor progress against it, whereas institutions want to 'move on' with the continually evolving business. This difference in needs can make the monitoring process rather artificial for institutions. Furthermore, as one institution remarked, it is questionable whether the business case of old pre-merger institutions can legitimately bind the new post-merger institution.

The role of government agencies and funders

167. What are the lessons for public sector bodies, as regulators and funders? The overall message from the case studies is that where they are involved, they can offer advice and objectivity, but must also respect institutional autonomy. Where funding is available, the criteria and processes should be clear and simple (for example, by linking them to a known strategy), and decisions made without delay. Even small amounts of financial support might help to leverage in contributions from other parties. When funding is not available, they can still offer useful support, for example by helping to bring potential partners together.

168. Government agencies have their own objectives and priorities that may not coincide with those of institutions or may complicate them (paragraph 78). The offer of discretionary funding is sometimes essential to the affordability and forward momentum of the project, but it can create complications and distort institutional behaviour, for example by altering investment decisions. As noted in paragraph 166, the external monitoring process for the purpose of public accountability may also be at variance with institutions' current needs and processes. It may be helpful for funders to agree common monitoring requirements with institutions.

169. Overall, funders and regulators need to engage flexibly with institutions, because each case will have unique characteristics. In common with institutions, they should also recognise the dynamic nature of the change process and be alert to the impact of unexpected events on the original plan (paragraphs 152-153).

The process: lessons learned

- Key individuals make a difference and drive the whole process.
- Develop a shared vision first, then act.
- Set up a joint working group comprising representatives from all the parties, to oversee the process; consider having an independent chair.
- Create a Memorandum of Understanding to ensure clarity between the parties.
- Ensure all the governing bodies receive consistent information and at the same time.
- Set up a separate task force or project team, and provide sufficient resources.
- Actively manage the change process, but recognise that the process is dynamic, often messy, and may involve major surprises.
- Prepare an implementation plan and monitor its delivery.
- Invest upfront to deliver benefits.
- Identify and deliver 'big wins', because they change people's perceptions.
- Consider carefully the timing of any restructuring.
- Consider the importance of organisational culture in achieving change, but note that an over-emphasis on it might create obstacles to the effective and timely delivery of the project.
- Recognise the particular challenges in bringing together HE and FE activities.
- Manage expectations and keep them realistic.
- Communicate regularly and consistently with stakeholders, especially staff and students, and ensure that this is a two-way process.
- Note that transition usually involves friction for both staff and students, and take action to minimise it.
- Attend to the student experience.

For mergers specifically:

- Agree the new senior management structure at an early stage.
- Note the pitfalls of sharing power, even during the transition period.
- Consider the advantages and drawbacks of externally recruiting a new head of institution.
- Make key appointments on merit, not to achieve balance between the institutions.
- Set up a shadow board to plan for the new institution and oversee the transition, and to form the core of the new governing body.
- Appoint to the new governing body a mix of existing governors and new people; consider having a neutral chair.

- Agree break points.
- Keep the business going through merger and restructuring.
- Consider using external support, but note the limitations and potential drawbacks.

For government agencies specifically:

- When offering funding, act swiftly and keep the criteria simple.
- Link the engagement to an overarching strategy that is clearly understood.
- Offer advice and objectivity, while respecting institutional autonomy.
- Note the risk of distorting, or unnecessarily complicating, institutional objectives.
- Agree a monitoring process with the institutions, but recognise the limitations of monitoring against the pre-merger business case.
- Avoid onerous, inappropriate and inflexible monitoring arrangements, and be sensitive to institutions' evolving needs.
- Engage flexibly and be alert to the impact of unexpected events.

Taking this forward

170. The project was designed to present objective findings so as to help institutions make better decisions. There is no intention either to encourage or to discourage CAM activity. We have provided financial support to many CAM projects in the past and expect to continue doing so where needed. In responding to potential CAM projects in the sector in the future, we will be guided by a set of principles, set out at Annex E, focusing on:

- HEFCE's primary role of safeguarding the collective interests of current and prospective students and the wider public, encouraging the development of a more diverse and dynamic sector and supporting student choice
- maintaining an intelligent, open and constructive working relationship with all types of institutions and other partners
- providing objective assessment where public funding or student interest is involved
- securing the strength and sustainability of institutions across the sector, while respecting institutional autonomy.

171. At present HEIs in England are required under the Financial Memorandum with HEFCE[51] to inform the Council at an early stage when they are considering merging with another body. Although there is no similar obligation about collaborations or alliances, we would expect institutions to adopt proper governance processes for all projects. In the spirit of constructive dialogue HEFCE continues to welcome discussions with institutions about any major CAM activity, in terms of its impact on their strategy, as well as its possible effect on the wider sector. Contact should, in the first instance, be with the relevant regional consultant at HEFCE.

172. There is a broader issue about helping the sector to continue to learn from its evolving collective experience. As mentioned in paragraph 63, we expect that some institutions will want more detailed guidance in technical areas of common interest to the sector. More generally, the updated guidance at Annex A suggests that institutions publish the results of future evaluations of their CAM activity, to continue the process of disseminating the lessons learned and provide the basis for further research. This could take place through HEFCE's web-site or through some other national body, to bring these findings to the attention of the wider sector.

Consultation question 7

How might HEFCE and the sector work together to continue to disseminate the lessons learned from CAM activity in the sector?

Consultation question 8

Do you have any other comments on this document or further suggestions for what we might do?

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51 'Model financial memorandum between HEFCE and institutions' (HEFCE 2010/19).

Annex A

A process for developing CAM activity: updated guidance

Introduction

1. This annex presents a structured approach to developing CAM activity, drawing on the findings and lessons learned set out in the main report. It is shown as a logical, linear process in order to explain how the various elements fit together. However, as many of the institutions involved in our case studies have observed, the change process is dynamic, often messy and may involve major surprises. While maintaining proper project management disciplines, institutions should therefore be alert to the need to change the process or reiterate stages.

2. The process outlined here is necessarily generalised: not all of the stages will apply in every case, or in the suggested sequence. Depending on the circumstances, the individual elements of the process will require more or less detail, and more or less time. Mergers are likely to require a more complex and comprehensive approach than collaborations.

3. This is written as a general guide, not a set of formal requirements or an attempt at comprehensive and detailed 'best practice'. Where institutions seek discretionary funding from us to support a project, we will expect them to present a case that addresses the issues outlined in this annex.

4. The process is summarised in the diagram below. The principal elements are described in the sections that follow, with references to the main text of this document where the issues are discussed in greater detail. As appropriate, institutions may also wish to refer to other sources of guidance, such as:

- 'Collaborative working and mergers: an introduction' (Charity Commission, 2009)[52]
- 'Mergers and collaboration: A guide for further and higher education institutions' (CIPFA, 2001)[53].

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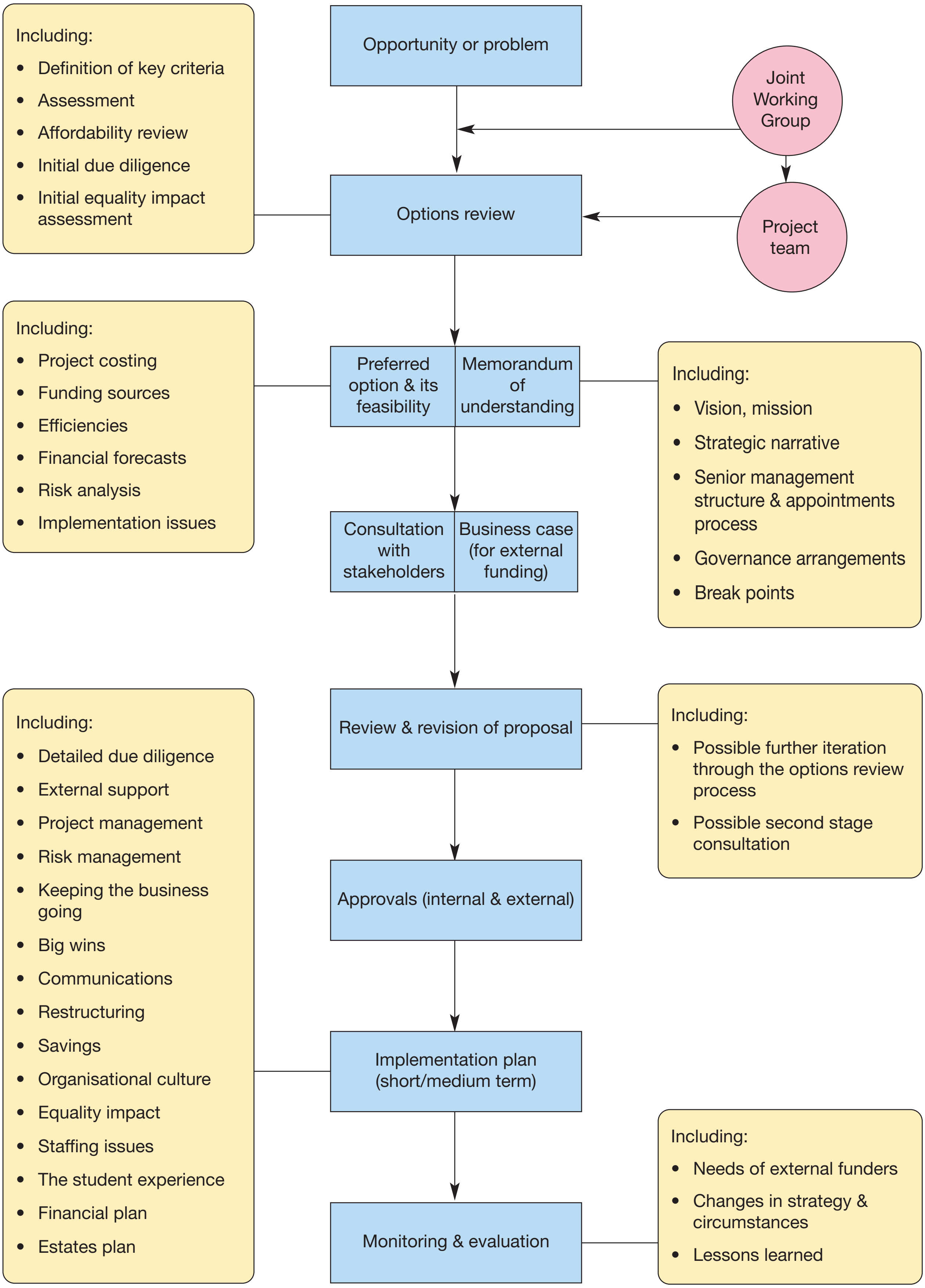
52 Available at www.charity-commission.gov.uk/Library/guidance/cc34text.pdf

53 Available from CIPFA at www.cipfa.org.uk/

Figure 3 **Outline of a process for developing CAM activity**

(A simplified presentation of what is likely to be a complex and iterative process)



The process

Opportunity or problem (paragraphs 72-73 and 80-82)

5. This is the starting point for discussions about CAM activity between potential partners. The opportunity or problem may be external or internal; in any case, it should represent a clear strategic need for the partners, related to their mission and core purposes (paragraph 75).

6. A joint working group, comprising representatives from all the parties and ideally under an independent chair, may be set up to oversee the project. It may commission a project team, often with some external support, to engage in the detailed work of the following stages. For mergers it is advisable to establish a 'shadow board' to focus on the transition and become the core of the new board, while the existing governing bodies concentrate on maintaining the current operations (paragraphs 147-148 and 151).

7. It may be necessary to talk with key stakeholders very early on, even before the options review has started (paragraph 139).

Options review (paragraphs 115-119)

8. It is important for options to be considered before any decision is made 'in principle'. The parties should agree assessment criteria covering the full range of their activities, concerns and ambitions. The interests and needs of students will be a major priority. Affordability is likely to be a key issue where the net project costs are material and sources of funding uncertain.

9. The launch of the options review would be an appropriate point at which to make a public announcement (paragraph 140), that starts the dialogue with stakeholders, particularly staff and students. However, it may be necessary to delay this, for example where there are issues of commercial sensitivity.

Preferred option and its feasibility

10. Once the preferred option has been identified and agreed 'in principle', subject to the outcomes of any consultation (see paragraphs 13-14 below), it is appropriate to do more work on its feasibility. This will focus on the financial and risk implications (paragraphs 120-129), as well as practical points about implementation. Issues to be investigated include: project costs (both revenue and capital items); new income sources; savings and efficiencies; and sources of funding (whether internal or external). All this could be brought together in financial forecasts for the new operation, which should be kept under review and revised as necessary. For the larger and more uncertain projects there is merit in testing different sets of assumptions and doing a 'sensitivity analysis'.

Memorandum of understanding

11. As part of the options review and the development of the preferred option, the joint working group could help the parties agree a memorandum of understanding (paragraph 147). This will clarify basic issues for the new venture, such as its overall vision, the senior management structure and process for making appointments to it, and governance arrangements. The aim is to identify and resolve potential areas for disagreement before further work is done.

12. The memorandum of understanding should also agree 'break points' (paragraph 153), where the parties can take stock of the process, emerging information and external developments, and formally consider whether the preferred option is still the best outcome. For example, one break point could be the completion of the detailed due diligence process (paragraphs 130-131).

Consultation with stakeholders

13. The extent and timing of any consultation with stakeholders will depend on the nature of the venture. The preferred option should be presented in the context of the options review: the range of options considered, assessment criteria and outcomes, and the implications of the preferred option. Ideally, this should not be shown as a 'fait accompli', but as a proposal open to further discussion and development. For mergers in particular, it is essential to engage with staff and students before the proposal is agreed, because they are likely to be affected by it and will certainly have concerns. It is also possible that their views and insights could improve either the proposal or the method of its implementation, or lead to a different conclusion about the best option.

14. Such a consultation should not be seen as a single event, but as a first stage in a process of engagement that will continue through the implementation phase (paragraphs 154 and 161).

Business case (especially for external funding)

15. The business case sets out a detailed discussion of the economic and financial issues of the proposal. This will be important for internal discussion and planning, and for engagement with potential external funders. Where funding is sought from government agencies or other bodies, it may be necessary to present all the foregoing stages – the opportunity or problem, options review, preferred option and its feasibility, and the memorandum of understanding – as a single document. This will articulate the case for investment or funding in terms of the funder's objectives and criteria.

Review and revision of the proposal

16. The results of the consultation process with stakeholders, and the response of external funders to any request for funding, should lead to a formal review of the original proposal by the joint working group and the institutions' governing bodies. This may confirm the preferred option or lead to the conclusion that it should be revised or abandoned. Any major revisions will require a further iteration through the options review process and possibly a second-stage consultation and submission to external funders.

Approvals (internal and external)

17. Beyond the review stage, any proposal will need approval by the institutions' governing bodies. Any external funding will also need to be agreed and, if the project's viability depends upon it, this should happen before formal approval by the governing bodies. Institutions should consider carefully the timescale between approval and implementation. For example, in mergers it is often desirable to start planning detailed work on management, governance and organisational changes – or at least setting up appropriate working groups – before the merger date. Collaborations may be able to proceed in a more piecemeal fashion.

Implementation plan

18. The implementation plan should cover the period up to the start of the new venture or the merger date, and extend thereafter until all the major actions to deliver the objectives have been completed. Essential issues to be addressed include the project management arrangements and how to keep the existing businesses going while the new structures and processes are put in place. The plan will address in detail how and when any restructuring will happen, investments made and the 'big wins' delivered (paragraphs 155-157). There are also important people issues to be considered: work to overcome cultural barriers between organisations (paragraphs 158-161), and continuing two-way communication with staff and students (paragraph 154).

Monitoring and evaluation

19. Monitoring will usually start with the implementation plan. The joint working group or shadow board may continue to oversee the process and the work of the project team. Institutions may set up a separate monitoring group, perhaps comprising representatives of the major stakeholders, including staff and students. This might also meet the needs of external funders, so as to minimise the burden of public accountability (paragraphs 167-169). The monitoring process should consider major changes in institutional strategy and external circumstances and their possible impact on the project.

20. The final stage of the process is a formal evaluation of the outcomes compared with the original objectives, and a reflection on the lessons learned. This is likely to be of benefit to the institutions concerned when planning other major projects, and it may be a requirement of external funders. Institutions might consider publishing such findings more widely to add to the collective body of knowledge in the sector and provide a basis for further research.

Annex B

Consultation questions and how to respond

Responses should be e-mailed to CAMconsultation@hefce.ac.uk by **midday on Wednesday 6 June 2012** using the response form, which can be accessed alongside this document at www.hefce.ac.uk/pubs.

All responses may be disclosed on request, under the terms of the Freedom of Information Act. The Act gives a public right of access to any information held by a public authority, in this case HEFCE. This includes information provided in response to a consultation. We have a responsibility to decide whether any responses, including information about your identity, should be made public or treated as confidential. We can refuse to disclose information only in exceptional circumstances. This means responses to this consultation are unlikely to be treated as confidential except in very particular circumstances. Further information about the Act is available at www.informationcommissioner.gov.uk.

Consultation question 1: Are there any major types of collaborations, alliances and merger (CAM) activity in the HE sector that are not covered by this report and should be included?

Consultation question 2: Are there any major themes and lessons learned from the sector's experience of CAM activity, both its successes and failures, which are not covered by this report?

Consultation question 3: Are there any major themes and lessons learned from the sector's experience of CAM activity outlined in this report with which you fundamentally disagree? Please explain your reasons.

Consultation question 4: Is it helpful for HEFCE to provide guidance for the sector covering the range of CAM activity?

Consultation question 5: Is the process outlined at Annex A broadly appropriate to most cases of CAM activity? If not, please offer suggested improvements.

Consultation question 6: Do you think HEFCE or other bodies should develop detailed briefing guides on CAM-related issues for the sector? If so, which areas (such as, but not limited to: tax, pensions, equal opportunities, due diligence, change management and implementation planning) do you consider to be the most important?

Consultation question 7: How might HEFCE and the sector work together to continue to disseminate the lessons learned from CAM activity in the sector?

Consultation question 8: Do you have any other comments on this document or further suggestions for what we might do?

Annex C

Steering Group membership

Members

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Clive Bane, Retired Director of Human Resources, University of the Arts, London

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Professor Elaine Thomas, Vice-Chancellor, University for the Creative Arts

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Annex D

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Institutions

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University of Cumbria

Danmarks Tekniske Universitet (Technical University of Denmark)

University of East Anglia

University of Essex

University of Exeter

University College Falmouth

Kingston University

University of Manchester

Middlesex University, London

University of Plymouth

Royal Holloway, University of London

St George's, University of London

University of Sheffield

Sheffield Hallam University

University Campus Suffolk

Trinity Laban Conservatoire of Music and Dance

Universiteit van Amsterdam, Netherlands

Vrije Universiteit Amsterdam, Netherlands

UCL

University of West London

Organisations

Barclays Bank

Higher Education Funding Council for Wales

Kaplan Open Learning

Lloyds TSB

Ministry of Science, Technology and Innovation, Denmark

Scottish Funding Council

People

René Bugge Bertramsen, City of Copenhagen, Denmark

Steve Cannon, University of Aberdeen

Sue Cavanagh, Equality Challenge Unit

Paul Clark, Universities UK

Jeremy Connix, Training and Development Agency for Schools

Mike Hudson, CEO, Compass Partnership

Matt Hyde, National Union of Students

John Lakin, former Head of the Education Practice at PricewaterhouseCoopers, and Key Associate with the Leadership Foundation for Higher Education

Sir Richard Lambert, former Director General, CBI

Sir Moir Lockhead, Senior Governor, University of Aberdeen

Debbie Mellor, Department of Health

Tim Miller, Chair, School of Oriental and African Studies

John Wyn Owen, Chair, Cardiff Metropolitan University

Kees Rutten, Hogeschool Inholland, the Netherlands

Rick Rylance, Arts and Humanities Research Council

Andy Shenstone, Oakleigh Consulting

Ken Sloan, Serco Global Strategic Projects

John Standen, Chair, University of Hull

Glynne Stansfield, Eversheds

Geoffrey Thomas, Chair, University of Wales Trinity Saint David

Alan Thorpe, Research Councils UK

Knud Warming, Aarhus University

Andy Westwood, GuildHE

Annex E

HEFCE's policy statement on CAM activity

Introduction

1. This annex sets out HEFCE's initial response to the 'lessons learned and guidance for institutions' in this consultation.

2. The CAM project was guided by an expert steering group, which sought to present objective findings to help institutions make better decisions. There is no intention either to encourage or to discourage CAM activity.

3. Nonetheless, we are aware that many institutions and other stakeholders will expect to know our reaction to the issues raised by the report and how we see our role in responding to potential HE CAM activity in the future. We therefore set out below the principles that will guide our actions and interactions with the sector.

Principles underpinning HEFCE's response to HE CAM activity

4. Our response to potential HE CAM activity will be underpinned by the following principles:

a. Our primary role is to safeguard the collective interests of current and prospective students and the wider public. We seek to encourage the development of a more diverse and dynamic sector, characterised by opportunity, student choice and an excellent student experience.

b. HEFCE will maintain an intelligent, open and constructive working relationship with universities, colleges, FECs, private sector providers and other partners. This relationship will give us oversight of developments and trends and enable us to identify any emerging opportunities or vulnerabilities for HE as a whole. Working with partners, we will develop an evidence base of what works and seek to disseminate this knowledge so that CAM activity is more likely to yield benefits for students and institutions.

c. We will seek to provide objective assessment where public funding or student interest is involved. We acknowledge that each HE CAM opportunity has unique characteristics and that the educational and research case for such activity is of prime importance.

d. While respecting institutional autonomy, HEFCE has an interest in securing strength and sustainability in institutions and across the HE sector. We aim to be unobtrusive but have the necessary powers to respond proportionately if institutions face financial or other difficulties that pose a threat to their academic or financial sustainability. CAM activities provide important opportunities but can also carry risk. HEFCE monitors institutions to ensure financial stability and will intervene as necessary, and (as we do now) if an institution is deemed to be financially at risk.

List of abbreviations

ACTA	Academisch Centrum Tandheelkunde Amsterdam (Academic Centre for Dentistry in Amsterdam)
AGSS	Amsterdam Graduate School of Science
CAM	Collaborations, alliances and mergers
CIPFA	Chartered Institution of Public Finance and Accountancy
CUC	Combined Universities in Cornwall
DTU	Danmarks Tekniske Universitet (Technical University of Denmark)
FE	Further education
FEC	Further education college
FTE	Full-time equivalent (students)
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEI	Higher education institution
ICT	Information and communication technologies
LFHE	Leadership Foundation for Higher Education
NSS	National Student Survey
NWDA	North West Development Agency
Ofcom	Office of Communications
Ofsted	Office for Standards in Education, Children's Services and Skills
TRAC	Transparent approach to costing
TVU	Thames Valley University
UCA	University for the Creative Arts
UCS	University Campus Suffolk
UEA	University of East Anglia
UNESCO	United Nations Educational, Scientific and Cultural Organization
UvA	Universiteit van Amsterdam, the Netherlands
VU	Vrije Universiteit Amsterdam, the Netherlands