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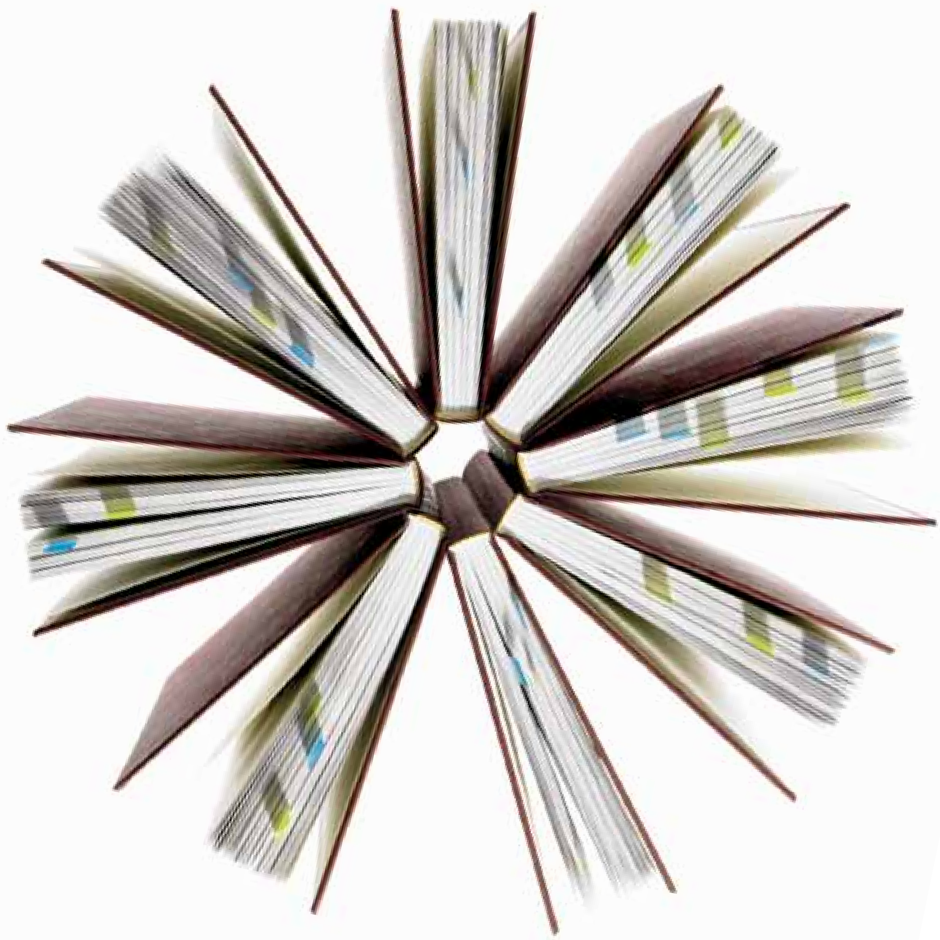
Amalgamation in the higher education sector
Moving in the right direction



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Introduction

This document set outs key drivers of consolidation in the higher education sector and identifies key areas of focus for any organisations embarking on integration, merger or the creation of a new entity. It seeks to identify key issues for consideration to ensure that such collaborations achieve real benefits, while also achieving cost synergies.

Context

The recent drive for amalgamation in the higher education sector has been prompted by the recommendations of the National Strategy for higher education to 2030 ("the Hunt Report"), which was published in January 2011.

The Hunt Report makes recommendations for the future development of the higher education sector in Ireland. Stated objectives for the higher education sector include a reduction in the reliance of the sector on the Exchequer and the consolidation of smaller institutions.

Due to the reduced levels of funding available to the higher education sector, extensive cost cutting exercises have been implemented in recent years. However, in light of the EU/ IMF programme for Ireland, organisations and institutions in the higher education sector now need to consider new approaches to deliver within budget cuts.

Recent amalgamations in the higher education sector include the National Qualifications Authority of Ireland, HETAC and FETAC, as authorised under the Qualifications and Quality Assurance (Education and Training) Bill, 2011.

University College Cork and the Irish Management Institute have formed a deepening alliance which began in 2009. In September 2011, Tipperary Institute amalgamated with Limerick Institute of Technology.

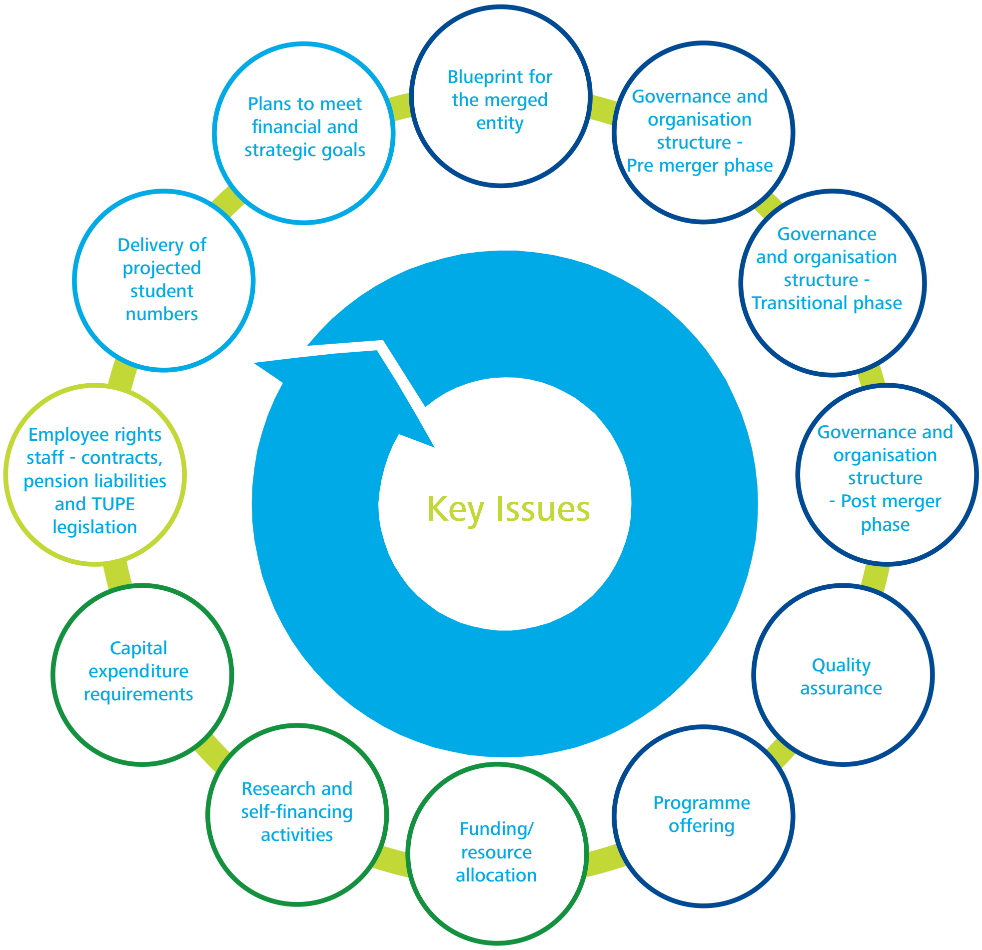
In November 2011, the Irish government approved the merger of the Irish Research Council for Science, Engineering and Technology with the Irish Research Council for the Humanities and Social Sciences to create a new joint Council operating under the aegis of the Higher education Authority.

It is likely that there will be further amalgamations in the higher education sector in the coming months and years. With this in mind, we have set out overleaf the key issues for consideration in advance of any proposed amalgamation.

Amalgamations in the education sector present significant strategic opportunities, including the following:

Strategic opportunities	
1	Secure the long term future and viability of each entity.
2	Expand the geographical reach of each individual entity, including potential international reach, and access significant additional physical and human resources.
3	Strengthen and enhance existing higher education hubs in co-operation with existing campuses and achieve combined strengths in research, development and enterprise support.
4	Improve the attraction and retention of students through an increase in the course portfolio, resulting in increased student numbers where there is sufficient capacity.
5	Deliver on efficiency gains and improved financial performance.
6	Realise synergies in the development and delivery of academic programmes and in support areas.
7	Maximise available human and infrastructural resources, which can offer the potential for an increase in student numbers and improvement in the level of service delivered to students, industry and community in the region.
8	Leverage the opportunities for improved learning delivery through technology and new blended learning pedagogies.

Figure 1. Key issues for consideration in advance of any proposed amalgamation



1. Blueprint for the merged entity – vision, mission, goals and objectives

It is crucial that the joint steering group, a group comprising representatives from the entities to be merged, formulates the vision, mission and goals of the merged entity.

There must be a clear picture of the future, all parties must be aware of the long term rationale for the merged entity and defined goals and objectives must be set.

When devising the above, the joint steering group must ensure that they foster unity across all merging entities and subsequently the merged entity needs to operate as one.

In order to deliver on the above core and fundamental objectives, an initial paper, 'The Blueprint of the Merged Entity', should be drafted outlining its principles and values and the process to bring about the merger.

This will ensure the efficient and integrated management and administration of the merged entity, better coordination between operations and strategy and enable the merged entity to maximise synergies across faculties.

Integral to an effective integration is ensuring all interested parties are engaged from the outset, the right structures are in place from the start and a clear communication plan is put in place.

2. Governance and organisation structure – pre merger phase

There are three main phases involved in the merger or integration process:

1. Pre merger phase
2. Transitional phase
3. Post merger phase

Management of each phase of the merger or integration process and changes required will consume significant senior time which needs to be factored into resource planning.

An appropriate governance and management structure should be put in place at the outset of any proposed integration and tailored to each phase as required.

It is likely that once the integration process commences any structural changes to be implemented will fall into a two-phased approach as follows:

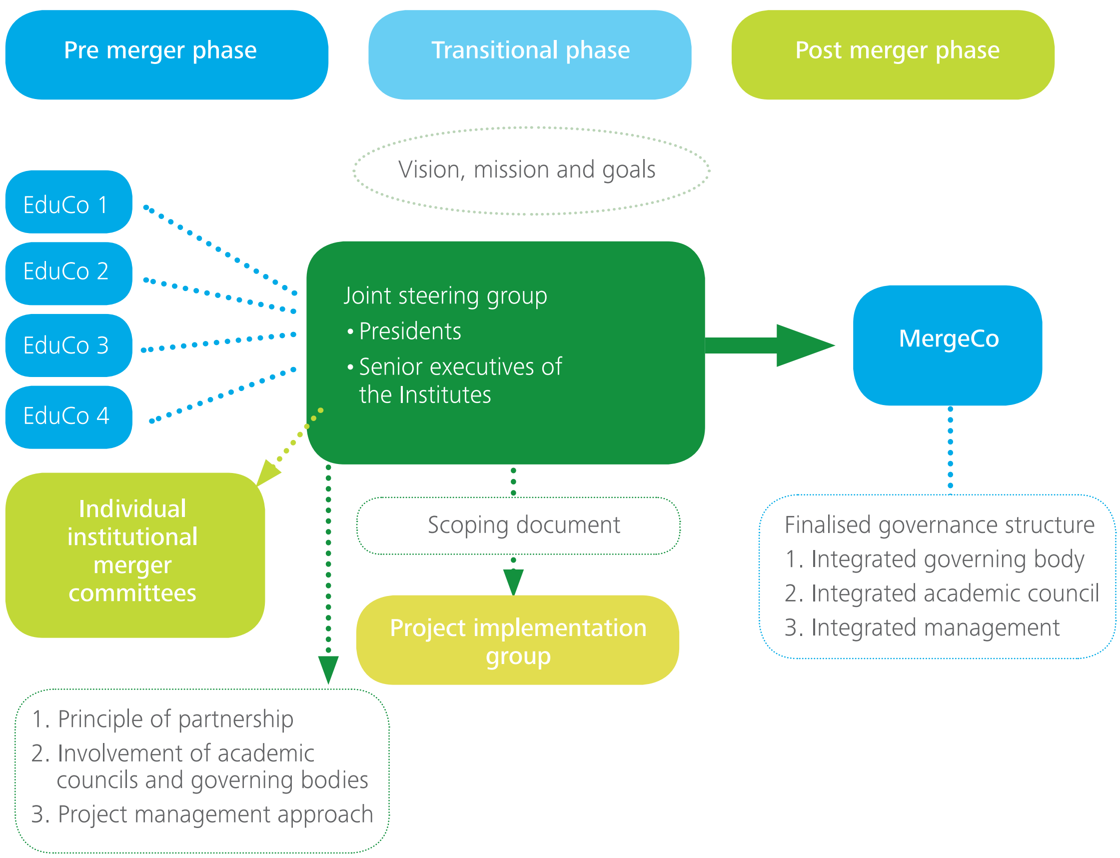
- An interim structure to be adopted during the transition phase
- Post merger, a longer term structure that will address the needs of the long term vision for the combined entity

Prior to any merger or integration taking place a joint steering group should be established in order to carry out the following:

- Facilitate merger negotiations
- Convene joint task teams
- Investigate and drive mission, vision, branding and marketing

There may also be a requirement for individual institutional merger committees in a broad advisory and representative capacity at the beginning of the process, to report on specific areas such as academic affairs, corporate affairs and governance.

Figure 2. Phases of the merger/integration process



It is also recommended that a principle of equal partnership is implemented whereby there is equal, or where not practicable to do so proportional, representation on committees.

Furthermore, it is essential that the academic councils and governing bodies of all merging entities are involved at the early stage of the process.

Finally, in order for the process to be conducted in an efficient and effective manner it is important that a project management approach is taken.

This approach would involve the appointment of an institutional merger manager and the establishment of a merger office, staffed by administration personnel from the relevant institutions.

Joint steering group

The joint steering group is a key party in the merger or integration process and plays a pivotal role from the pre merger phase through to the post merger phase.

The joint steering group will consist of the following parties:

- Presidents
- Senior Executives of the Institutes

The joint steering group should be charged with scoping out the vision of the final merged entity and a process for the merger or integration.

Furthermore, the basis for the creation of the integrated organisation should be detailed in a scoping document covering areas such as those outlined below.

Scoping document outline	
1	Proposed governance structures
2	New academic and administrative structures
3	Financial arrangements
4	Human resource arrangements
5	Infrastructure
6	Academic offerings over a five year period including potential consolidation of existing programmes
7	Relationship with industry, commerce and community
8	Rationalisation of programme provisions, adoption of common quality assurance, systems and controls, examination of programme structure, offerings and delivery models.
9	Growing student base both regionally/ nationally and potentially internationally
10	Utilisation/application of multi campus facilities
11	Funding opportunities and protections from deterioration in public funding
12	New budget framework
13	Communication plan

It is recommended that a clear structural plan is adopted prior to any comprehensive re-organisation being implemented.

Possible options should be explored through benchmarking the governance and management structures in other similar institutes.

3. Governance and organisation structure – transitional phase

Key to the transitional phase is the establishment of the project implementation group.

Project implementation group

Following the initial announcement of the integration, and once there is visibility on regulatory approval for the proposed integration, a project implementation group should be established.

The role of the project implementation group is to plan and integrate the entities in a cohesive and coherent way to ensure that academic quality, organisational effectiveness and operational efficiency is preserved and enhanced in the best interest of students, staff and the region served.

A detailed plan to effect organisational change should be commenced immediately by the project implementation group. This would set out the steps to be taken to achieve a successful integration.

It will be necessary to identify and map key business, academic and auxiliary processes supporting the delivery of programmes and self-funding activities.

Processes necessary to be reviewed should include, but are not limited to:

Processes to be reviewed	
1	Academic calendar and systems
2	Academic quality procedures including development of new programmes, admissions, examinations, appeals, research, consultancy, etc.
3	HR function
4	Finance function
5	Estates and facilities
6	IT functions
7	Health and safety

For each process, a change management process should be identified, together with appropriate timelines.

Focus on merger integration

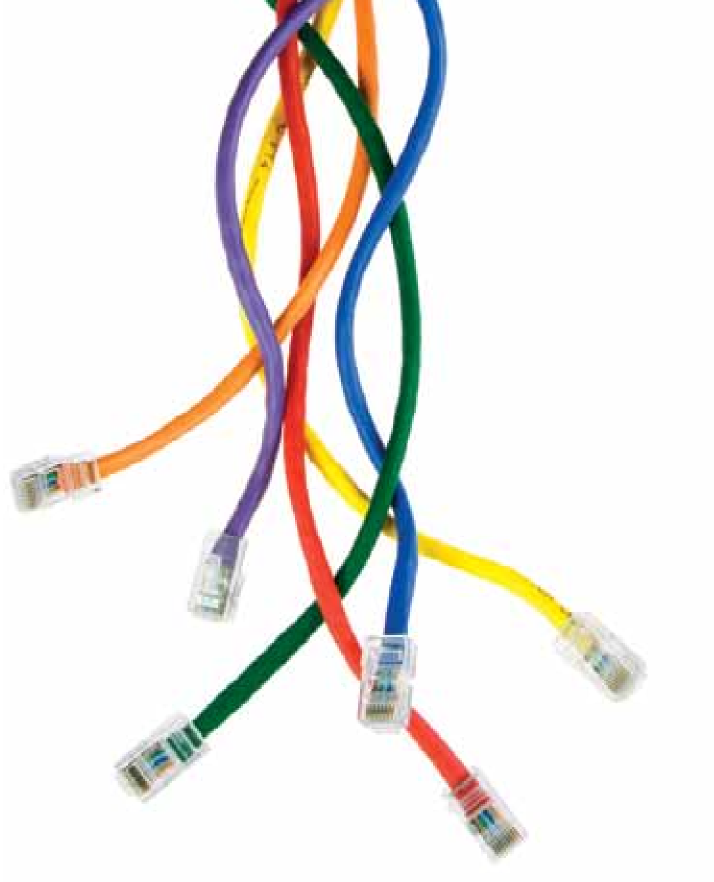
A key focus of the joint steering group should be that of merger implementation.

It is vital that all elements of integration are considered in order for the merger or integration to be successful:

- Academic integration
- Administration integration
- Multi-campus governance model (whereby planning, budgeting and key administration and support functions should be managed from the centre)

Detailed below is a list of key considerations to be discussed in order to effectively advance the process to the post merger phase.

Key considerations	
1	Set out timetable and date for merger
2	Decide seat of merged institution
3	Decide name of merger institution
4	Set up a task team to review legal and policy compliance and integration, in particular in the area of HR
5	Financial, commercial and legal due diligence
6	Memorandum of Agreement
7	Merger plan
8	Resource strategy
9	Communication plan and people management



4. Governance and organisation structure – post merger phase

Once the entities have made the transition and have effectively merged, a longer term structure that will address the needs of the long term vision for the combined entity needs to be established comprising the following:

- Integrated governing body
- Integrated academic council
- Integrated management

An integrated approach to the corporate governance and organisation structure will ensure that the merged entities are both seen to and operate as one and will foster unity and allegiance from all parties.

It is recommended that the merged entity continues to review its performance in light of the objectives set out in the implementation plan with particular focus on the achievement of key milestones in the first 18 months of the post merger phase.

5. Quality Assurance

A common quality assurance framework will need to be developed across the new entity ensuring it is compatible with the operations of each campus. This provides an opportunity to incorporate the existing Institute 'best in practice' quality assurance policies and procedures for the benefit of the new entity. The development of the quality assurance framework will require the support of all the academic staff and will be a key foundation block for the development of the new entity.

An integrated approach to the corporate governance and organisation structure will ensure that the merged entities are both seen to and operate as one and will foster unity and allegiance from all parties.

6. Programme Offering

There are a number of very significant issues to be considered here including:

- Will all programmes be offered at each campus
- Will all levels of award be offered at each campus
- Will selected programmes be phased out at some campuses
- Will some campuses concentrate on the delivery of certain types of programmes
- Where will apprentice programmes be available
- Will all programmes be semesterised

The above is not an exhaustive list and undoubtedly the agreement of the programme offering and the requirements of the student population are likely to be a key area of focus and discussion.

7. Funding/resource allocation (part of wider funding consideration)

In light of the current national deficit, there is a risk that historical funding levels will not be maintained in the future.

There will also be integration costs associated with the proposed integration for which funding will be required. These costs may be significant. The estimation and management of integration costs will require rigorous project management and co-ordination between all advisors and the due diligence team.

Given the importance of sufficient funding levels to the success of any proposed amalgamation, funding concerns should be addressed as early in the process as possible.

A high level financial strategy will be required and the impact of a performance funding model also needs to be considered.

8.Employee rights

Harmonisation of staff contracts

Following a detailed programme review, synergies will arise from the integration which will necessitate consideration of the potential for redeployment of staff or the possibility of availing of shared services in the Institute of Technology (Institute) sector or with other government agencies.

All staff on specific purpose contracts will need to have their contracts amended to reflect their new employer. Consideration should be given to the potential impact of any amendment on staff entitlements.

Harmonisation of staff contracts may present issues from an industrial relations perspective and it is recommended that appropriate consultation is undertaken with UNITE, IMPACT, SIPTU, the TUI and IFUT in respect of the integration of staff into the new entity.

Amendments to specific purpose contracts should be carefully monitored to ensure CID status is not awarded by default. Staff who may have achieved CID contracts without being formally recognised by the DoES should be considered. The cost impact of all staff entitled to CID being put on a permanent contract should also be identified.

A detailed review of factors such as workload arrangements and concessions in respect of all employees should be conducted.

Potential pension liabilities

It is recommended that details of pension schemes in operation in each of the entities included in the proposed amalgamation are identified at the outset to assess any differences and any potential pension liabilities which may arise for the integrated entity.

Any pension rights potentially established by staff on CIDs should also be considered.

Application of TUPE legislation

Consideration needs to be given to whether the European Communities (Protection of Employees on Transfer of Undertakings) Regulations 2003 ("TUPE legislation") applies to employees in respect of the proposed amalgamation.

TUPE legislation implements an EU Directive aimed at safeguarding the rights of employees in the event of a transfer of an undertaking, business or part of a business to another employer as a result of a legal transfer or merger.

Under the terms of the legislation, all of the rights and obligations of an employer under a contract of employment (including terms inserted by collective agreements) existing on the date of transfer, other than pension rights, are transferred to the new employer on the transfer of the business or part thereof. The new employer must continue to observe the terms and conditions of the collective agreement until it expires or is replaced.

The application of TUPE legislation to an integration may pose difficulties in varying the terms and conditions of employment of staff, where different.

It is recommended that legal advice is sought on the application of TUPE legislation at the outset of any integration.

9. Ability to deliver and retain projected student numbers

One of the key risks to the feasibility of any proposed integration is the risk that projected student numbers will not be delivered.

The right programme offering is considered to be integral in order to attract students, and thus considerable time and focus should be allocated to the programme offering of the merged entity.

It is recommended that the academic offering and module catalogue is reviewed to produce a mapping between merging institutions.

The demographic of the student population continues to grow and change with internationalisation now playing a key role in attracting and adding to student numbers.

In addition to the attraction of students, retention of students is critical to ensure the delivery of projected student number targets.

Detailed due diligence work should be carried out on historical student trends and current student numbers. Where retention issues are identified, a plan to mitigate same going forward should be put in place.

The effect of any proposed increase in the student contribution charge or fees for higher education could have an adverse effect on student numbers. It is recommended that sensitivity analysis is undertaken to assess the impact of increases in the student contribution charge or fees on student numbers and revenue and a contingency plan is put in place to address the impact of same.

It is recommended that a detailed operational plan is prepared to facilitate the achievement of targeted student numbers and to ensure that the enlarged organisation has sufficient financial, infrastructural and academic resources to deliver growth in full time student numbers.

The adequacy of existing facilities and infrastructure needs to be reviewed in the context of optimal delivery of both existing and new programmes and the cost of running incremental courses and providing better facilities /supports should be quantified.

A marketing plan should be developed for the new entity to promote the full range and the location of programmes to prospective students.

10. Stress testing ability of plans to meet financial goals of integration process

From a financial perspective, a detailed set of financial projections for the proposed entity post integration is required.

Key risks that may lead to the integration process not being successful in meeting its financial goals include:

- Student numbers are lower than projected
- Government funding does not continue in line with anticipated levels of funding

It is recommended that the financial projections are stress tested for different levels of student take-up and government funding to identify the critical success factors for the integration so that they can be appropriately managed.

The combined entity will require a plan to effect appropriate and significant organisational change in case of lack of delivery under either of the above headings.

11. Research and self-financing activities

Research and self-financing activities undertaken at each of the entities considering the proposed amalgamation should be examined.

The impact of previous self financing activities and the existence of a pipeline should be considered. There may be potential liabilities or financial commitments as a result of previous engagements delivered on.

Cost allocations to self-financing projects should also be considered.

Other issues for consideration include the ownership of Intellectual Property (IP), which may not have been correctly established. A robust due diligence review of self-financing activities should be performed to ensure all IP assets are identified and liabilities are recorded / insured and that there is no ongoing obligation contracted to provide services.

12. Capital expenditure requirements

A detailed review of existing facilities should be performed to ensure that all capital investment required is identified and prioritised.

Capital spending requirements to deliver projected student number targets should be considered.

A high level review of the commercial ability to achieve funding for the necessary capital spend should be performed.

The entities may not have access to sufficient capital finance to achieve target growth requirements.

Capital commitments at each of the Institutes should also be considered to identify any future cash flow requirements and restricted cash balances.

An appropriate financial plan should be agreed which will incorporate all elements of funding requirements together with appropriate safeguards on debt repayments.

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The road ahead

The most significant risk to the success of the merger is that the entities merging continue to operate as standalone entities post merger, legacy practices and procedures remain in place and are not reconfigured to reflect the new structure.

Open, informed and inclusive communication throughout all stages of the merger process is considered to be key to mitigating the above risk.

The level of 'buy-in' being received from the outset of the integration process should be closely monitored. Where issues arise, remedial actions should be taken. If an "as one" culture does not commence early in the process, it is unlikely that the merged entity will be able to deliver on this strategic objective.

Further amalgamations in the education sector appear to be inevitable.

The challenges and opportunities for third level entities centre on ensuring that they amalgamate with the right partner(s). This will ensure that the amalgamation delivers the long term viability of the entities and ensures that strategic opportunities presented by a potential amalgamation are maximised.

The adoption of an appropriate governance and management structure both in advance of and post amalgamation is assessed to be a critical success factor in any proposed amalgamation.

There are a number of potential pitfalls to a successful amalgamation but, with adequate planning and a clear and focused strategy to address the key issues likely to arise, the ability to achieve real and additional benefits from the amalgamation are greatly enhanced.

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