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## MERGERS AND ACQUISITIONS IN HIGHER EDUCATION\*

*The article analyzes merger and acquisition processes in higher education field. The author examines the merger and acquisition experience of higher education institutions in foreign countries and pays special attention to the substantiation of prospects for universities amalgamation in Ukraine.*

**Keywords:** universities' amalgamation; higher education; mergers and acquisitions; university life cycle.

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## ЗЛИТТЯ І ПОГЛИНАННЯ У ВИЩІЙ ОСВІТІ

*У статті проаналізовано сутність процесів злиття і поглинання (M&A) в галузі вищої освіти. Досліджено досвід M&A вищих навчальних закладів за кордоном. Особливу увагу приділено обґрунтуванню перспектив укрупнення університетів в Україні.*

**Ключові слова:** злиття університетів; вища освіта; злиття і поглинання; життєвий цикл університету.

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## СЛИЯНИЯ И ПОГЛОЩЕНИЯ В ВЫСШЕМ ОБРАЗОВАНИИ

*В статье проанализирована сущность процессов слияния и поглощения (M&A) в сфере высшего образования. Исследован опыт M&A высших учебных заведений за рубежом. Особое внимание уделено обоснованию перспектив укрупнения университетов в Украине.*

**Ключевые слова:** укрепление университетов; высшее образование; слияния и поглощения; жизненный цикл университета.

**Problem statement.** Amalgamation of higher education institutions (HEIs) should be expected in higher education of Ukraine in the near future. At the beginning of the 2015/2016 academic year, a network of HEIs of Ukraine comprised 659 institutions of all levels of accreditation and ownership forms, including 288 HEIs of the III–IV levels of accreditation (ukrstat.gov.ua). This significantly exceeds the actual needs of Ukraine. In the majority of countries, populations of which are comparable with the population of Ukraine in terms of a number and age, quantity of public universities is considerably lower and accounts for 96 in Great Britain, 78 in France, 47 in Spain, and 65 in Italy. The Ministry of Education and Science of Ukraine initiates the optimization of the network of Ukrainian HEIs in order to form effective regional research universities. These universities will concentrate scientific, pedagogical, and methodical potential of HEIs in a certain region (osvita.ua).

**Recent publications analysis.** Domestic as well as foreign scientific literature mainly presents researches of economic, legal, and managerial aspects of amalgamation of industrial companies. There are numerous publications dedicated to universi-

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ty amalgamation. Papers of A. Yu. Borzenko-Miroshnichenko (2013), J. Durand (2009), J.P. Myklebust (2015), O.O. Romanovskiy (2008), A.V. Voronin and I.R. Shegelman (2013) are the most noteworthy in this regard. Nevertheless, many aspects of this problem remain not only unsolved, but also unnoticed as such.

**The research objectives.** The article's purpose is to analyze merger and acquisition processes in higher education of foreign countries and the prospects of this experience implementation in Ukraine.

**Key research findings.** In economic and legal literature, a merger is referred to as an agreement between two and more companies that results in the formation of a new company, which establishes control over assets and liabilities of former companies, and the latter cease to exist. Merger consists in the formation of a new economic entity as well as new legal entity. Acquisition is a transaction, in which one company completely buys out another company for the purposes of managing and gaining absolute or partial ownership right, which means expansion of its influence scope and economic powers. Acquisition is conducted due to the purchase of company's shares or buying out a controlling block of shares, i.e. purchase of a company. An acquired company ceases to exist as an economic entity and an independent legal entity, but becomes part or a subsidiary of that company, which has acquired it. Both an acquirer, and an owner (owners) of an acquired company can be initiators of this process (Volkov, 2009).

There are many distinctions between merger and acquisition processes in higher education. *An asset merger* occurs if the rights of control over several agreement participants are transferred to a new united HEI, but the former continues to operate. In this way, for instance, faculties of two or more independent HEIs of the same city or region join each other to eliminate identical specialties. Such organizational transformation does not affect position of staff, but can be an initial phase of the complete organizational merger of HEIs (Romanovskiy, 2008).

*Partial merger* consists in formation of associates through creation of a new branch due to involvement of two and more HEIs (e.g., a common faculty, an institute, an inter-university scientific center). Participants of a partial merger manage new branch together. In Western countries, there is a common practice of creating virtual universities which combine resources of HEIs deployed in different regions, in order to start particular educational programs together. Such projects are mainly implemented in technological areas (the California Virtual University, the Open Learning Agency of Australia etc.). These actions form organizational, economic, and social basics for a possible prospective complete merger of institutions.

*Full merger* is combination of two and more educational institutions, which previously existed separately, into a new HEI. At the same time, participants lose their status of a legal entity and, as a result, they are winded up. Acquirers can conduct full merger according to a branch feature (e.g., those being managed by the same ministry) as well as a regional feature through cluster joining under retention of best staff, and also scientific, methodical, and other property of each institution (Borzenko-Miroshnichenko, 2013).

*Acquisition* consists in a process of joining one HEI with another under particular conditions and retention (or without retention) of its status and name. Acquisition can be friendly (by an agreement of owners and managers of a target HEI) as well as

hostile one (without such an agreement). Extent of acquisition can also vary (Romanovskyi, 2008).

Synergy effect is traditionally considered as an incentive for amalgamation of universities thorough mergers and acquisitions. This effect comprises: reduction of costs for organizing education processes, management, scientific research and experimental design at the expense of elimination of identical branches and the effect of scale; strengthening financial position of a university, more interest from large investors; entering new educational markets, i.e. not only markets of educational services, but also markets of educational commodities (student's books, methodical materials, monographs, videodisks etc.), information, analytical, and scientific commodities etc.; formation of transnational universities; better HEI management; increase of a market share and competitiveness of a united university. That is to say, the value of united university is often considerably higher than the value of separate HEIs.

Nevertheless, as P. Morosini (2005) points out, competitive advantages of organizations, which emerge due to M&A processes, are different. They are grounded on the combination of intellectual assets and social opportunities based on knowledge, education and entrepreneurship. Emergence of a solid structural interrelation and/or synergy between companies, which are joined, is a result being subject to evaluation, but not a factor conducing to value creation. Real factors creating values for the key stakeholders (customers, staff, stockholders, and other representatives of society and different institutions from the environment of this organization) consist of unique transformations of its tangible and intangible assets and resources into exceptionally competitive products and services. Creation of solid relations, i.e., general unity of joining companies, plays the determinant role in this transformation.

Such processes are of great importance for higher school. Amalgamation of education organizations is accompanied by transactional as well as transformational changes (Armstrong, 2002: 197, 214–216). Usually, transactional (operational) changes consist in modification for methods of organizing educational and scientific process, interaction of scientific and pedagogical staff and other employees of HEIs daily. Transformational (strategic) changes are considerably radical. Frequently, they concern technological changes in a society and education branch, redivision of property and education market shares. Further, there are significant changes in the mission of education organization, its goals and structures, forms and ways of operation, organizing culture etc. Transactional (operational) changes can be carried out through administration, without coordination of interests and cohesion of joined staff. In contrast, it is impossible to carry out transformational (strategic) changes in such a way.

Nature and extent of transactional and transformational changes inside amalgamated HEIs are determined by numerous factors. They are as follows: HEI ownership form; "age" (a life cycle phase) and HEI size; periods of evolution and revolution.

In a majority of cases, HEI managers and owners (in the private sector of higher education) consider amalgamation to be *an anti-crisis measure*. They renounce a merger with other educational institutions until their HEI exhausts the potential of its evolutionary development, i.e. passes through the phases of appearance, formation, prosperity, and maturity (the highest point) in the classical life cycle, which provide

transactional changes – continuous enhancement of organizational structure, re-projecting certain procedures and processes, modernization, improvement of educational product properties etc. Simultaneously, indices of organization activity increase linearly and gradually. Nevertheless, after the maturity phase recession begins and ends in a crisis. At that time, it will be too late to change anything: organization fails or goes through reorganization processes. Crisis in education institution development can be overcome only due to revolutionary changes and transformational conversion.

Applying the life cycle model of L. Greiner (1998), we can arrive at the same conclusion. However, the scientist pointed out that periods of evolutionary and revolutionary development accompany each phase of an organization life cycle. There is a possibility of managerial crisis emergence at each of them (not necessarily in the recession phase). In the first phase (growth through creativity) growth of an HEI occurs due to creation of the formalized structure of management, establishment of rules, priorities and principles of work, increase in students enrollment and proposition new educational products. If competences of HEI managers do not conform to these tasks, the first leadership crisis occurs. In the second phase (growth through direction), after overcoming the crisis, HEI growth continues due to increase of a HEI subdivision number (foundation of a new institution, faculties, departments, scientific laboratories etc.). Notwithstanding this process, if centralized management hinders subdivisions' managers from making independent decisions, there might emerge preconditions for the autonomy crisis. In the third phase (growth through delegation), in terms of correction of managerial errors, HEI growth consists in management decentralization. However, in due time, there is a possibility of the control crisis occurrence. In the fourth phase (growth through coordination), HEI managers again forcedly turn to tight controlling and strengthening requirements to reporting on the part of subdivisions and staff. Nevertheless, if formal procedures override general goals and tasks, the red tape crisis emerges and a HEI loses its flexibility. In the fifth phase (growth through collaboration), the search for effective methods of stimulation of scientific and pedagogical and pedagogical staff continues. This search can strengthen labor intensity and result in psychological exhaustion of staff. The growth crisis evolves. The sixth phase (growth through alliances) was suggested in order to supplement the Greiner's model ([changingminds.org](http://changingminds.org)). In this phase, an organization turns to external growth, including that through M&A.

The author emphasises that transformation of a HEI can be applied in any phase of its life cycle if an educational organization cannot overcome another crisis of growth.

The first method is to indicate the most competitive subsystem of a former system (strategic subdivisions, institutions, and faculties of a HEI) and to provide its development. The process of changes should begin beforehand (before an organization will be forced to begin it). The second way is to amalgamate. If an education system does not yet exhaust resources for development, it can be merged with another, "younger" system performing the same function. If education system is not able to develop, it is expedient to acquire or to wind it up.

In many cases, amalgamation of universities is not aimed at overcoming a crisis, but at *participation in rivalry*. Amalgamation is carried out to form large and techno-

logical HEIs being able to compete at global education markets. Combination of potentials of several universities occurs in the phases of prosperity or maturity during the evolutionary development period. For this purpose, strategical planning of universities is combined with scientific forecast of the education sector's future and development of possible scenarios of further development of the branch in general and for each HEI in particular. Foresight researches in higher education field are of especial importance. In the USA, this method was already applied back in the 1980s. Universities of Great Britain and many other countries use the same method (Munck and McConnell, 2009). The intention to form education and scientific centers of the world level is a uniting idea for scientific and pedagogical staff and students.

In the early 2000s, the University of Manchester was formed after a merger of two universities (the Victoria University of Manchester and the UMIST). Nowadays, it is one of the largest universities of the world.

In September 2015, the University of Paris-Saclay emerged in France. It combined two universities, 10 higher education institutions, and 7 scientific and research organizations in the capital of France. They comprise well-known organizations such as Ecole Polytechnique, HEC Paris Business School, and the National Centre for Scientific Research (CNRS). The university should become the best multidisciplinary university in the continental Europe and aims at top-10 in the Shanghai Academic Ranking of World Universities (Coughlan, 2014).

In Finland, university integration process started in 2009 according to the state policy of education programs quality enhancement in higher professional education and strengthening competitiveness of a brand "education in Finland". Consequently, the reforms result in a decrease of a number of classical universities, in which there are more than 170 thousand students, down to 16 institutions.

In Norway, the government forms "mega-universities". In 2015, the government set the goal to unite 14 universities and colleges into 5 new universities and university colleges (Myklebust, 2015).

The most large-scale project on merging universities and colleges was implemented in China during 1990–2000s according to the Project 211: instead of 600 educational institutions, the government created 100 national universities conforming to international standards of education and science. Nowadays, Chinese government officially supports 110 key universities and carefully works on bringing several leading universities to the world level. At first, there were 9 target universities. Now there are 30 universities. 3 of them are included into the top-100 of the world list.

However, amalgamation of HEIs can deal with managerial, economic, and psychological obstacles. These obstacles are coming from the inconsistency of cultures and internal norms of the joined HEIs, long period of a merger process, weakening of strong HEIs and difficulties of managing a newly created university, implementation of changes without taking into account staff views, psychological discomfort of lecturers in the process of work in new teams etc. Governments should overcome such obstacles. Otherwise, we would follow the experience of Russian Federation, where the government acknowledged the absence of a direct relation between amalgamation of a HEI and enhancement of its competitiveness. In 2013, only 7 HEIs (particularly, 3 federal universities) of the 20 largest HEIs were included in the top-20 list of Russian universities (akvobr.ru, 2013). The main reason is deterioration of educa-

tional conditions, which particularly consists in the decline of financing volumes per student and decrease in the number of lecturers (dostup1.ru, 2013).

It is worth mentioning that under the conditions of private ownership mergers and acquisitions of HEIs can turn out to be *a simple commercial operation or an administrative decision of owners*. There is a noteworthy article of Argentinian professor J. Durand (2009) on mergers and acquisitions of private HEIs in Latin America, where the government hardly controls this sector. For instance, in the 2000s there were mergers of private Chile universities such as Universidad Andres Bello, Universidad San Sebastian etc. In 2006, the owners closed a private university Unikuljis in Bolivia because it was unable to compete with other 15 universities in its region. Similarly, the financial crisis and the bankruptcy of a bank in Argentina caused cessation of Universidad Hebraea Argentina Bar Ilan, and 800 students were forced to look for another educational institution. Legislation in the majority of Latin American countries does not regulate such issues. Only Peru legislation requires the Congress to approve a resolution on creation or merging of educational institutions. J. Durand (2009) raises questions being important for higher education: 1) can private sector possess universities as objects of private ownership?; 2) is the purpose of owners of private HEIs to gain profit?; 3) does government need to interfere in M&A of universities?

In Ukraine, processes of HEIs amalgamation are defined as a measure of *HEI quantity optimization*. In fact, these are reorganizations of the higher education system under conditions of its popularization. In 2015, the government liquidated 76 HEIs and branches, which did not provide appropriate quality of education (tyzhden.ua, 2016). Factors, which lead to resistance to these organizational changes include: legislative imperfectness in part of regulation of such reorganization processes, especially regarding merging private and state owned HEIs, which differ in labor conditions and salary rates; incomprehensiveness of the sense and purpose of amalgamation; unwillingness of managers of the united HEIs to lose positions and control over financial flows; a lecturers' fear to lose job and particular social status etc.

In March 2011, the government created Kryvyi Rih National University due to the merger of Kryvyi Rih Technical, Kryvyi Rih State Pedagogical University, Kryvyi Rih Faculty of National Metallurgic Academy, Kryvyi Rih Economic Institute of Kyiv National Economic University named after Vadym Hetman, and a set of state-owned companies (Scientific and Research Mining Institute and Scientific and Research Institute of Labor Protection and Ecology in the Mining and Metallurgic Industry). In 5 years, the public pressure forced the Cabinet of Ministers of Ukraine passed the Decree No. 51 as of 27.01.2016. Consequently, 3 institutes were excluded from Kryvyi Rih National University. Kryvyi Rih Pedagogical Institute was turned into the State Higher Educational Establishment "Kryvyi Rih State Pedagogical University". Kryvyi Rih Economic Institute was joined to State Higher Educational Establishment "Kyiv National Economic University named after Vadym Hetman". Kryvyi Rih Metallurgic Institute was joined to National Metallurgic Academy (Dnipro).

The government also failed to unite higher educational institutions in Sumy region, Odesa State Agrarian University to Odesa National Academy of Food Technologies, and to unite agrarian HEIs in Kharkiv.

Joining Bukovyna State University of Finance and Economics to Yurii Fedkovych Chernivtsi National University according to the Decree of the Cabinet of Ministers of Ukraine No. 51 as of 27.01.2016 also caused same conflicts. Lecturers and students of Bukovyna State University of Finance and Economics announced this to be an illegal takeover of their educational institution and announced they would fight for their HEI (vnz.org.ua, 2016).

**Conclusions and prospects for further research.** Taking into consideration the existence of different types of organizational changes, diversity of goals, reasons, and consequences of HEI amalgamation, there is a need to raise a question on managing amalgamation of HEIs. The latter consists in settling several matters.

The first thing is preparation for HEI amalgamation: a) analysis of a current state, audit of target HEIs; b) strategy development and planning particular actions on carrying out transformations; building in amalgamation processes into the system of HEI strategies (general university, business, functional (marketing, HR, financial) strategies; HEI amalgamation should conduce to carrying out a mission and goals of an educational organization, be adjusted to macroeconomic conditions and provide increase of HEI competitiveness and achievement of strategic indices of HEI development; c) making decisions on the matters concerning the development of new processes, systems, procedures, products, and markets; d) determination of necessary resources and budgets.

The second matter is managing the very transition from the current state of a university to desired one. In this phase, the necessity for overcoming resistance to organizational changes and managing risks of further development increases. The goal is to provide gradual of adaptation to new conditions of functioning, restructuring of an educational system, and formation of synergy relations.

The third phase consists in post-amalgamation management of a newly created HEI and evaluation of amalgamation processes efficiency. Since HEI mergers and acquisitions are related to transferring property rights and concluding corresponding agreements, evaluation of transactional costs of HEI amalgamation is of considerable importance. Transactional costs increase general costs of amalgamation, thoroughly modify interrelations between joining HEIs, and can cause certain negative phenomena such as the unbalance at the educational services market, conscious inconformity to labor legislation, retreating into the shadow etc. High transactional costs may transform amalgamation into an inexpedient and unbeneficial process.

However, M&As of universities in Ukraine are not legally justified yet. The Law of Ukraine "On Higher Education" (Article 31, 1.07.2014, # 1556-VII) defines the subjects of formation, reorganization (merger, joining, division, transformation) and liquidation of HEIs. But the mechanism of HEIs consolidation is not explained. The legislator only establishes that reorganization or liquidation of HEI should not violate rights and interests of persons studying in this university. Solving all issues of continuous higher education for students is the responsibility of the founder (founders) of HEI.

In addition, M&A of Ukrainian universities should not be the ultimate goal of education reform in Ukraine and a tool of saving budget funds. The problem is not the number of universities, but the efficiency of Ukrainian education system. Society

should not lose the benefits of education. National economic growth and transition to knowledge economy are not possible without professionally trained employees.

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