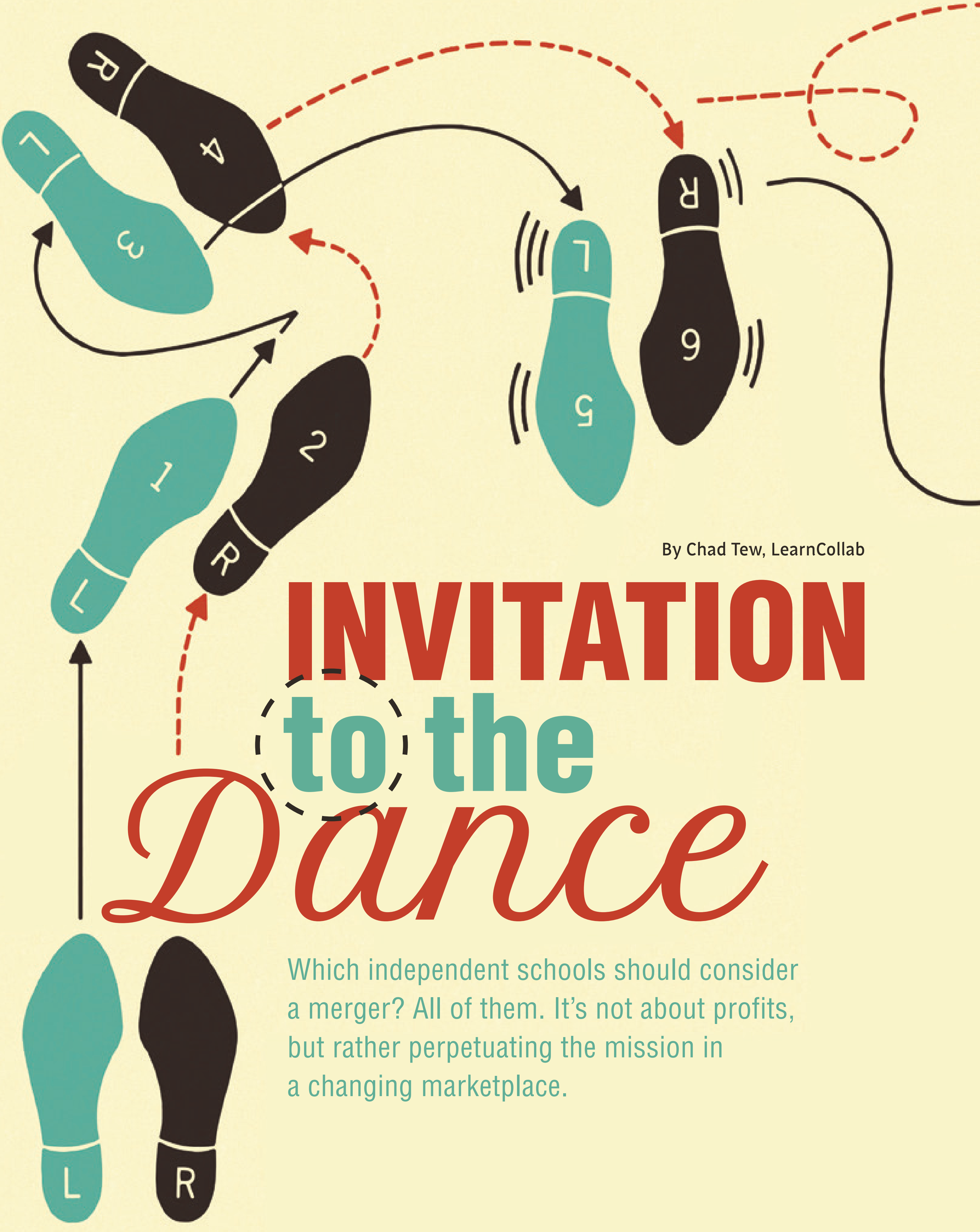
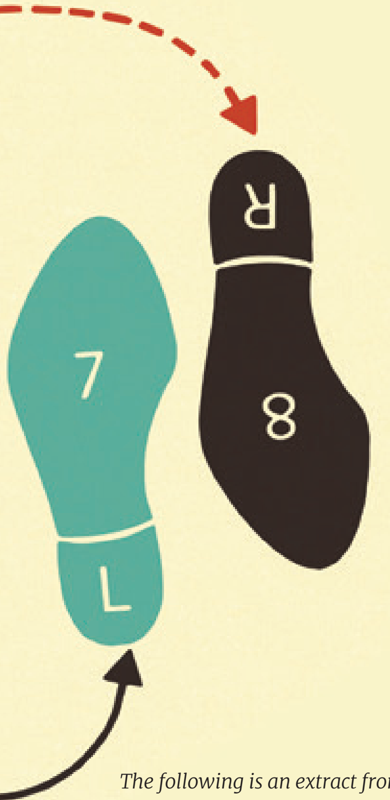
By Chad Tew, LearnCollab

INVITATION to the *Dance*



Which independent schools should consider a merger? All of them. It's not about profits, but rather perpetuating the mission in a changing marketplace.



THE BOTTOM LINE

- In the for-profit world, mergers are welcomed by both buying and selling parties as opportunities for growth. Schools would do well to consider mergers as another possible tool for success.
- While for-profit mergers and acquisitions focus on maximizing profitability, nonprofit mergers focus on public benefit and mission, though due diligence is similar for both.
- An acquisition, in which a dominant party swallows up a weaker party, is rarely a successful construct in the case of independent schools. Instead, nonprofit mergers should be collaborative.

The following is an extract from a forthcoming white paper from NBOA, "Mergers and Acquisitions: Legal, Financial and Tax Considerations for Independent Schools," by Chad Tew of LearnCollab; Anne Gerson, Grace H. Lee and Caryn Pass of Venable; and Ben Aase, Sarah Reichling and Jennifer Tingley of CliftonLarsenAllen. The white paper will be available for NBOA members to download in late September at ***nboa.org/whitepapers****.*

On a personal level, we've all faced the existential question: Is it time for a committed relationship?

Culture teaches us to be self-sufficient, rugged individualists, but sometimes going it alone is a struggle. Even when life is going well, we might get the nagging sense that if we pledged our troth to another, mapped a shared future or at least moved in with someone to split the rent, we could accomplish more and fulfill a higher mission. Life often works better as a team sport. But the thought of making that leap can be daunting. Simultaneous attraction to and fear of a committed relationship seems to be baked into our DNA.

As it is with individuals, so it goes with the organizations they create. But rather than calling this relationship a marriage or domestic partnership, we call it a merger.

Mergers and acquisitions are a cornerstone of business success. A constant refrain throughout my career — from teaching entrepreneurship at UCLA to founding and growing independent schools to judging new venture seed competitions — is that many organizational objectives are achieved through sustainable growth. When an organization reaches market saturation, its leaders go looking for new markets. When demand dries up or a competitor undercuts you on price, the business innovates and reconnects with market demand at a competitive price.

While bootstrapping business growth and innovation internally is one option, a more common route to success in business is through merger and acquisition. Smaller companies and their investors are focused on the exit, the liquidity event that occurs when their start-up is acquired by a larger player or when they "go public" and sell their company to investors. Fortune 500 companies are focused on their strategic acquisitions — how they are building market share and moving into related product and service sectors by combining with organizations that have already built a foundation in those new areas. Mergers are looked on by both parties as beneficial.

This background may help independent schools' stakeholders understand why my short answer to the question, "Who should consider a merger?" is EVERYONE.

Time To Talk?

Why is it so hard to talk about mergers and acquisitions in schools? Three reasons stand out.

First, the media often portrays merger and acquisition (M&A) activity as a rough-and-tumble battle between profit-seeking companies — the type of conflict that nonprofits are usually mindful to avoid.

While bootstrapping business growth and innovation internally is one option, a more common route to success in business is through merger and acquisition. Both parties — smaller companies and their investors as well as larger companies — see these opportunities as beneficial.

Second, for some reason, many schools also think a merger is a last-ditch option to save a struggling enterprise. In the for-profit world that's rarely the case. Combining two or more entities that complement each other or expand geographic reach is a business success strategy adopted by strong and growth-minded organizations. Nonprofits fully accept the need for other key elements of for-profit profit success, including contracts, budgeting and accounting. Nonprofit schools should likewise add M&A to their success toolbox.

While much of the due diligence in a nonprofit merger is similar to the for-profit variety, the core motivation is different. A nonprofit is driven by its mission to provide a public benefit. A focus on mission is crucial when a school begins exploring whether a merger might help it better achieve a public benefit.

Third, a conviction to set its own course with curriculum, methodology and mission is often the driving force behind the foundation of a school. It's been said that "you can always tell an independent school, but you can't tell 'em much." This strong independent streak can blind schools to the benefits of collaboration and mergers with other schools.

As part of a small group of parents that started The Wesley School in North Hollywood, California, I've lived in that crucible of specialness. This experience as a founding trustee was the catalyst for my leap from university administration and teaching into a career in independent kindergarten through grade 12 education. I've watched a culture of independent governance lead to both incredible accomplishments and also unforced errors, when volunteer boards and parents prioritize doing it "our way" over researched, professional management.

M&A processes and benefits may be familiar to some trustees who work in the corporate world, where these activities are common. Remember, however, that board members are part-time volunteers. The school's main agenda is driven by the administration, mostly full-time professional educators who rose up the ranks starting as classroom teachers, with no direct M&A experience. What little knowledge many administrators possess is derived from headlines and friends and family members' sad stories that often highlight downsizing and layoffs. Even most school heads lack more direct exposure. Usually the only administrator with more rounded M&A knowledge would be the business officer, and this is only the case if his or her previous career was in a for-profit sector.

A is for Affiliation

Once a business officer myself, I helped close a merger/acquisition that created one of the largest K–12 schools on the west coast, Viewpoint School. There was no textbook or roadmap for the process. Later, when consulting about enrollment and financial sustainability issues, I wanted to understand M&A in other sectors, so I enrolled in an intensive program and became a Certified Merger & Acquisition Advisor. What I discovered is that the world of nonprofit M&A is extremely different from for-profit M&A.

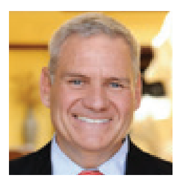
The drive of for-profit M&A is to increase profitability. The focus is on the careful valuation of each company, the calculus of determining their profitability together as a single combined entity, and the purchase price for the company being acquired.

While much of the due diligence in a nonprofit merger is similar, the core motivation is different. A nonprofit is driven by its mission to provide a public benefit, such as independent education. It is this mission that trustees hold in trust. The campus, budget and faculty are all tools to accomplish the mission to educate children. A focus on mission is crucial when a school begins exploring whether a merger might help it better achieve a public benefit.

For these reasons, I encourage you to forget the word "acquisition" in the nonprofit world. A merger, in theory, involves two relatively equal parties throwing in together to become one. An acquisition is more of a conquest, in which a larger, richer party takes over and dissolves a smaller, weaker party, completely absorbing it. The truth is that a merger of equals is a unicorn. It hardly ever happens. One school usually has a higher enrollment, larger endowment or better campus.

With nonprofit schools, however, there's no success in conquest. If you want to successfully bring together two faculties, two student cohorts, two alumni groups and two parent communities, all parties need to maintain a tone of mutual respect, openness and caring. The structural business transaction may clearly have one school in the driver's seat, but that school won't successfully combine learning communities if it approaches the process with the bravado of a conqueror. The only time that strategy works is when the lead school simply wants the real estate and neglects to think about everything that made the former school special or generated revenue and public benefit.

One wise attorney working in this space says that for nonprofits, the "A" in M&A should stand for affiliation, where the latter is something less that a full tie-up and more of a project-based cooperation. For my part, I like to think of myself as a Certified M&C Advisor — of mergers & collaboration. Schools and other learning communities can collaborate to enhance shared mission elements and/or reduce expenses in dozens of ways. Project-based collaboration is also an excellent way to test the waters and build trust for a potential merger somewhere down the road. N



Chad Tew is founder, CEO and chief disruption navigator at LearnCollab, where he helps school leaders consider co-programming, partnerships and mergers to achieve their mission and consults on financial sustainability, marketing and financial aid challenges.

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