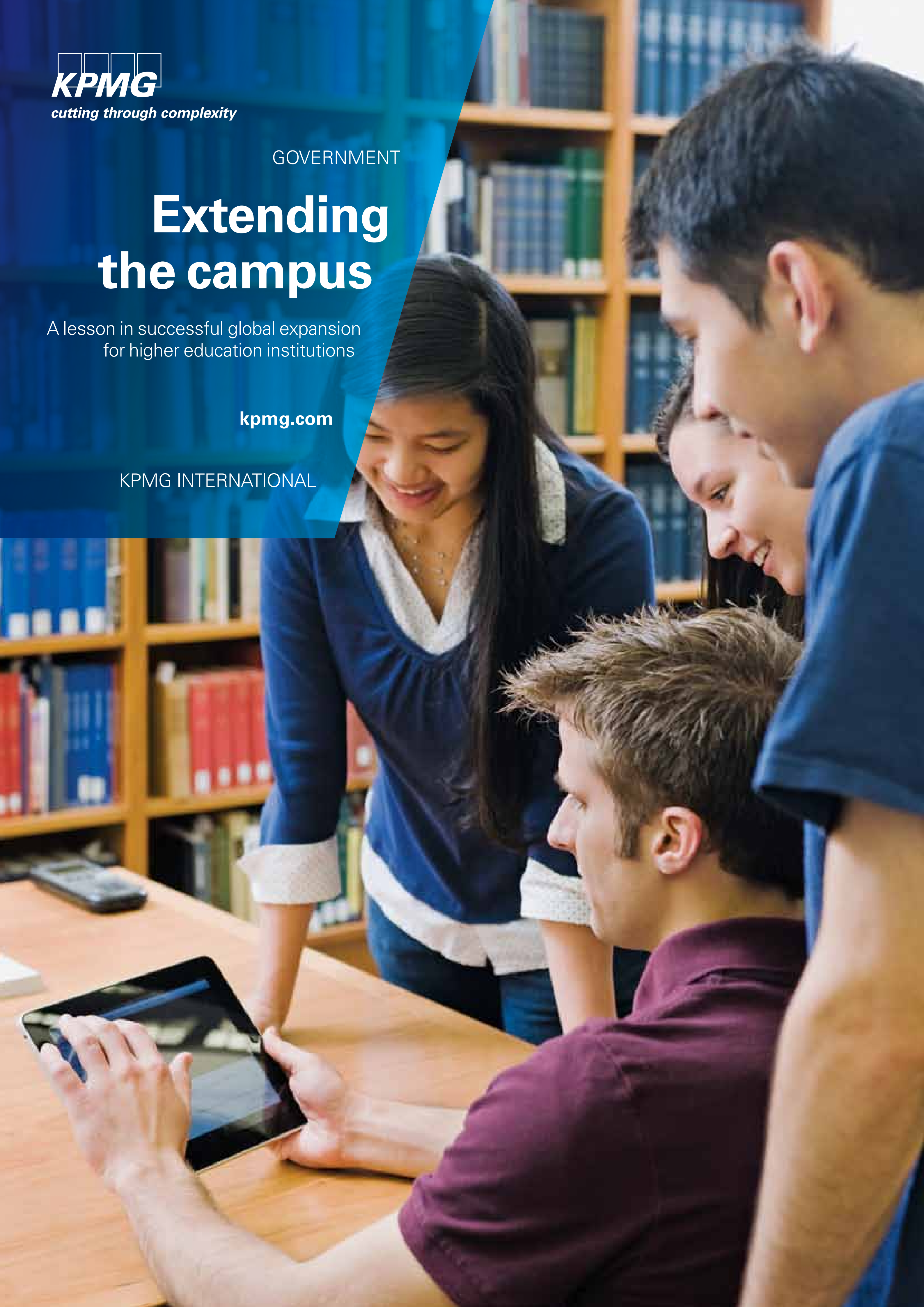

KPMG

cutting through complexity

GOVERNMENT

Extending the campus

A lesson in successful global expansion for higher education institutions

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KPMG INTERNATIONAL

Foreword

All around the world, the higher education sector is facing both increased pressure and new opportunities. In part, this market shift is related to the influence of a number of external forces such as globalization, the financial crisis, the developing middle class and changing student expectations. Internal forces are also becoming stronger: technology is driving massive change, costs are increasing and greater focus is being placed on delivering operational efficiency.

As a result, many higher education institutions are looking to take advantage of growth opportunities outside their national borders in order to enhance their brands, scale and revenues. This is not a phenomenon unique to the developed world or isolated to top-ranked institutions. Those within emerging economies are successfully establishing a presence in the north and west, even while institutions in mature markets are moving south and east.

As trusted advisors to higher education institutions around the world, KPMG has been involved in some significant transnational expansions in the sector in both developed and emerging markets, including Canada, Australia, the US, the Netherlands, Austria, Singapore, Brazil, India, the United Arab Emirates (UAE), South Africa and the UK.

The following report outlines some of the lessons learned arising from both our work in this area and the experiences of a number of institutions which were kind enough to share details of specific international initiatives they have undertaken. We hope that by sharing these practical insights, we can help higher education institutions develop a clearer picture of the challenges and complexities that they face as they plan and implement their international strategies.

To discuss the findings of this report and the implications for your organization, please contact your local KPMG member firm or any of the contacts listed at the back of this publication.

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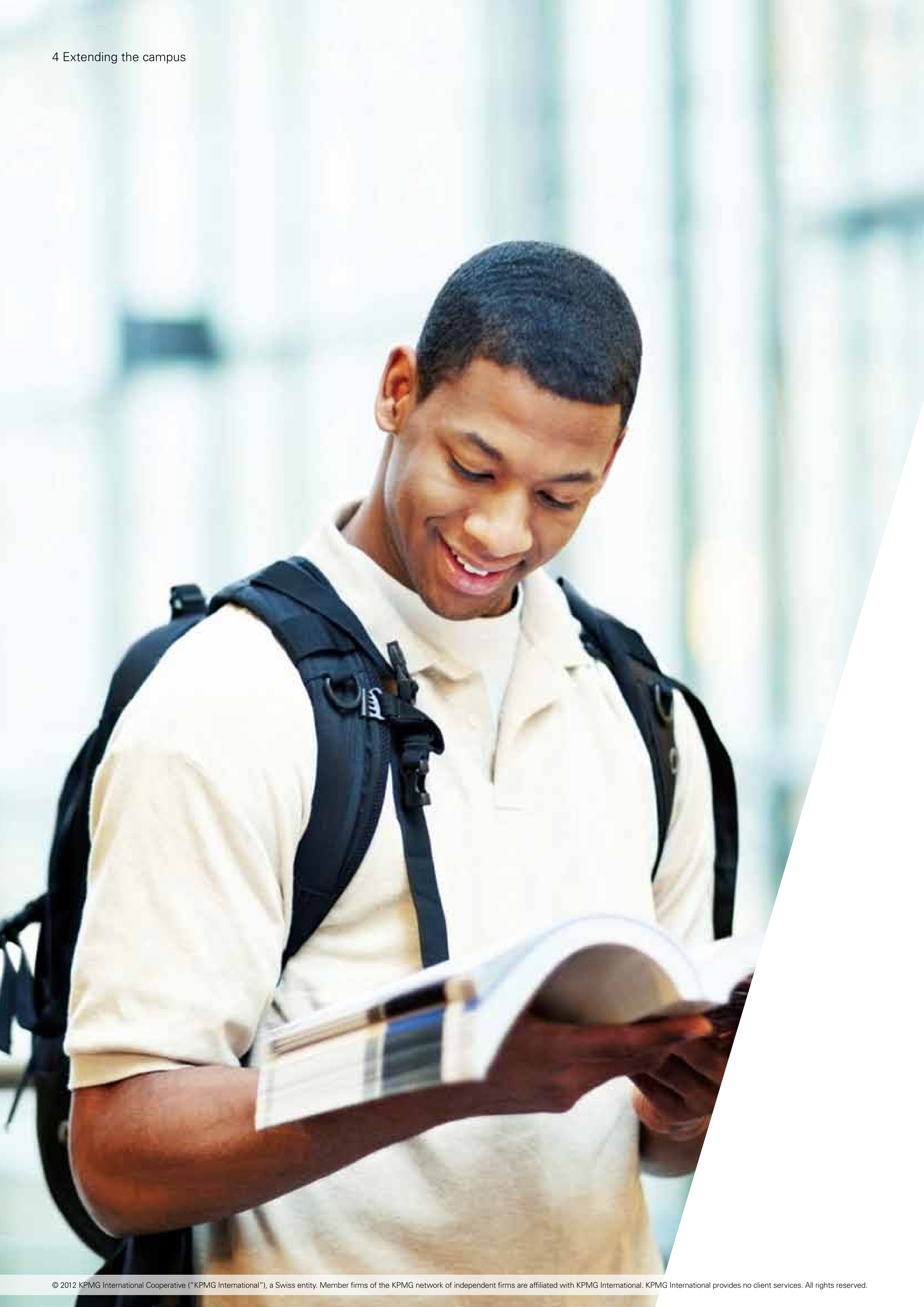

Executive summary

- The forces of globalization have accentuated the demand and value of transnational education, creating an increasingly competitive global marketplace for higher education institutions.
    - Increasing demand by employers for global skills has caused students to seek global experiences in order to improve their marketability.
    - In an effort to enhance their economic growth and national skill set, countries – particularly in the emerging markets – are striving to both attract foreign institutions and build up their own local education capabilities.
    - As enrollment in mature markets plateaus and institutions face greater competition from non-traditional sources such as online and distance education providers and the private sector, many institutions are looking overseas to raise both their enrollment and their revenues.
- Similarly, many institutions are increasingly collaborating on research activities outside their borders to attract and retain talent and to access new sources of funding.
- Higher education institutions are adopting a broad range of operating models to facilitate their entry into new markets: solo ventures, collaboration and/or partnership arrangements, and non-traditional delivery models such as online and distance education are some of the more common models but – across the board – the only constant is that the details of every arrangement are unique.

While there is no doubt that international expansion can be a very positive and rewarding experience for many institutions, it is a complex endeavor and not without risks that must be identified and managed to achieve success.

Guiding principles to deliver successful transnational initiatives:

- **Develop a framework for expansion:** Developing an overarching governance structure, engagement process, and monitoring arrangements to guide all overseas endeavors over their life cycle is critical to reducing risk and delivering the institution's international strategy.
- **Focus on communication:** It is vital to ensure that academic staff, administrators and researchers are aware of the established processes for partnership development and are updated on emerging risks in target markets.
- **Align clearly to academic and research strategies:** Securing early academic engagement and ensuring a strategic fit help ensure that proposed international ventures support the institution's overall business strategy.
- **Take an iterative approach:** Timelines and budgets involved in expansion initiatives are often longer and larger than anticipated, so it is important to frequently review progress and make adjustments.
- **Undertake due diligence:** By conducting the various due diligence processes in step with the project development plan, institutions can identify emerging issues to course correct, thus avoiding the need to 'unpick' arrangements after the event.
- **Build transparent partnerships:** No matter what model of expansion is adopted, institutions must remember that successful partnerships are built on open lines of communication, mutual benefits and transparency between the parties.
- **Plan appropriate exit strategies:** In many cases, exiting a partnership can be as – if not more – complex than initiating one, so institutions must ensure that this is considered up front.
- **Engage advisors early on:** Financial and legal advisors should be used throughout the planning process as an independent sounding board and to gain experience from their global reach.

The growth of transnational education

As the pace of globalization continues unabated, higher education institutions around the world are increasingly finding opportunities to broaden their scope, footprint and brand into new geographies.

For some institutions, the opportunity lies in the need to grow their revenues and enhance their reputations. For others, the demand by students for a more global educational experience is creating new approaches to education that transcend borders. No matter the reason, a growing number of higher education institutions are taking advantage of these global trends to drive the growth of transnational education and research.

Demand for international higher education grew by 99% to 4.1 million students from 2000-2010. This represents an average annual growth rate of 7.1%.[1]

The globalization of society and education

The world is indeed getting smaller: businesses are becoming increasingly global; populations increasingly mobile; and ideas increasingly transportable. At the same time, the market for higher education has also become more global.

- **Global rankings:** Many of the leading university rankings now include comparisons of global higher education institutions, making the market more global and more competitive.
- **Business demands:** Globalized businesses are seeking employees with global skills and experiences, thus fueling demand for transnational educational opportunities.
- **Enhanced brand:** Transnational universities are experiencing reputational benefits and increased potential for revenue growth as a result of the growing premium placed on international institutions.
- **Transnational research:** As higher education research becomes increasingly global in nature, institutions are benefiting from the ability to draw funding and research capabilities from around the world.

1 OECD (2012), *Education at a Glance 2012: OECD Indicators*, OECD Publishing. doi: *http://dx.doi.org/10.1787/eag-2012-en*

Growing economies and markets

National governments in developed and developing economies are also recognizing the benefits of hosting transnational educational institutions. Indeed, many jurisdictions are now exploring the ways in which they can use tax benefits, educational grants and land concessions to attract foreign institutions to their countries.

- **Economic development:** Global education and academic capability lead to enhanced levels of human capital, which can often result in greater development opportunities for host countries.
- **Innovation:** As evidenced by the success of business clusters such as Silicon Valley in the US, many countries are seeking to capitalize on niche growth markets to drive innovation and commercialization.
- **Emerging markets:** The benefit of hosting transnational educational institutions has not been lost on the emerging markets, which are rapidly expanding their education sector both at home and overseas.
- **Growing middle class:** A growing middle class and the industrialization of emerging economies are increasing global demand for high quality education in Asia and the Middle East.

The institutional imperative

The need to expand into new geographies is even clearer for the institutions themselves. In the developed world, limited potential for organic growth has forced many institutions to look overseas, where increasingly affluent populations combine with growing youth segments to create valuable new markets.

- **Increased financial pressures:** As governments continue to focus on austerity, many institutions are experiencing reduced levels of funding, forcing them to supplement their revenues and augment their enrollment by looking outside their home country to attract students.
- **Added value:** Global reputations also draw a higher caliber of academics and researchers who bring new ideas (and often, lucrative research grants) that increase the value of the institution overall.
- **Foreign capital:** Particularly for institutions in markets where fees (and therefore revenues) are essentially capped by local regulation, expansion into foreign markets can offer a significant opportunity to secure much-needed foreign exchange.
- **Non-traditional delivery:** Budget cuts and the global financial crisis have forced institutions to seek alternatives to the traditional face-to-face model of education. Coupled with increased demand and expectation from students to use technology in education, the availability of online education has increased dramatically, either as a stand-alone offering or as part of a blended approach. This has increased the diversity of higher education providers with expansion by the private sector in certain jurisdictions.

Emerging markets are increasing their investment in domestic education. China, for example, has invested US$20 billion in education since the 1990s[2] and increased enrollment from five million post-secondary students in the mid-1990s to more than 34 million in 2010.[3]

2 OECD (2009), *Higher Education to 2030 (Vol. 2): Globalisation*, OECD Publishing.
3 National Bureau of Statistics of China. (2012). *Basic Statistics on Students by Level and Type of Education* [table]. Retrieved April 30, 2012 from http://www.stats.gov.cn/english/statisticaldata/yearlydata/.

Preparing the organization for expansion

The importance of developing a strong framework for expansion cannot be overstated. All too often, overseas ventures are formed organically, born of relationships or sudden opportunities. Without an overarching governance and oversight model in place at the institutional level, these initiatives can create unexpected risk and complication down the road.

By developing strong processes, procedures and governance frameworks up front to oversee the breadth of foreign projects, institutions can often identify opportunities to drive additional value by creating synergies between initiatives, developing or expanding partnerships and ventures, or taking advantage of new revenue-generating opportunities.

Given the large variety in size, scale and investment need of different types of overseas expansion (from bilateral academic transfer arrangements to the establishment of a foreign campus), it is critical to ensure that any governance model developed can be adapted or scaled up or down depending on the needs of each project.

However, a number of central principles should be incorporated, including:

- **Develop a clear approval process:** While some projects may require council or board approval, others may simply need the approval of department heads.
- **Formalize policies and procedures:** By developing appropriate controls and processes, the institution can lay out a clear road map that reduces risk and supports the program's overall objectives.
- **Educate and inform staff:** Given that many partnerships originate within the departments and faculty themselves, it is important that all staff know and recognize the key risks and pitfalls and understand central expectations, including the right policies and processes to adopt in considering new opportunities.
- **Embed monitoring and evaluation processes:** Tracking project success against stated goals is central to success, as is the ability to monitor the external environment for events and trends that can impact new and existing arrangements.
- **Enhance internal capabilities:** Managing international expansion requires a significant investment of time and, often, new skills and capabilities.
- **Do not underestimate the impact:** All foreign projects, regardless of scope or geography, can create challenges, risks and opportunities and must be brought under the governance framework, including online education ventures which are often overlooked owing to their technological attributes.

"A number of the assignments we undertake require us to 'unpick' arrangements that became problems because the institution did not establish adequate oversight or governance frameworks up front to support the various transnational projects at their inception or when operational," noted **Mike Rowley, Global Head, Education, KPMG in the UK.**

Creating the right model for delivering transnational expansion

Every transnational initiative is unique. As with any complex undertaking, the needs and requirements of several stakeholders (including partners, government, students and the academy) must be factored into the equation. While each engagement can be approached with a standard operating model in mind, the end result is invariably different, particularly if the strategy is developed using a careful and well-managed approach. All too often, institutions that follow a boilerplate strategy for transnational expansion end up 'unpicking' their arrangements shortly down the line.

While there are numerous ways in which to engage transnationally, the following outlines three common models:

Online and distance education

As technology matures, a growing number of educational institutions are starting to offer 'at home' degree programs in which students complete their course requirements online and/or through the mail. Despite potentially substantial up-front capital costs, these programs can be very cost-effective in the long run. Coupled with demand by students for increased use of technology in education and new approaches to teaching and education, online and distance education is fast becoming an attractive market for higher education institutions.

Key considerations include the development of an appropriate content strategy and a policy for its creation, storage, delivery and quality assurance; sufficient academic and administrative infrastructure to manage the incremental student population; and adequate safeguards to manage the increased risk of cheating. Institutions will also need to consider how the online and traditional on-campus experiences coexist, as well as potential tax issues in the country where the online education is delivered.

Strategic partnerships

To facilitate entry into a foreign market, institutions often partner with one or more organizations, whether local education providers, government bodies or the private sector. The purpose of partnership varies from drawing international students to the home campus; sending home-country students and faculty abroad; and/or attracting local students to a foreign campus. Multinational research collaborations and partnerships are becoming increasingly common as a means to address global challenges and as an effective way to optimize the impact of shared human capital and research infrastructure.

Agreements can range from the fairly simple and straightforward (e.g. memorandum of understanding) to the highly complex (e.g. joint venture or multi-party partnership program).

As they often require lower capital costs than the development of a separate campus, the partnership model is generally considered to be an attractive option for foreign market entry. However, it is not without risk and a number of key considerations must be addressed, the most important of which is ensuring compatibility with any selected partner.

Branch campus

Higher education institutions can establish an overseas branch campus, either alone or in partnership with a third party. The purposes of establishing branch campuses are broad and include aims such as: sending home-country students abroad to expand their experience; attracting local students to the foreign campus; and building global research and innovation opportunities.

When considering a branch campus, the home institution must consider its desired level of control over the foreign institution in terms of governance, administration, core business operations and quality and content of course curricula. An institution may also be subject to currency risk and local laws and regulations, depending on the nature of the expansion.

The delivery of a branch campus strategy can take significant time (five to 25-plus years), making it critical that institutions are clear regarding the strategic investment and return before entering into such arrangements.

"Online technologies are dramatically reshaping how students learn, and how lecturers teach – these developments will mostly be positive," **noted Chris Leptos AM, Partner, KPMG in Australia.** "But the value of the on-campus experience is still important, not only because of a romantic notion of the good old days, but because it's key to the development of essential interpersonal skills."

An approach to help deliver successful global expansion

"Developing a robust strategy for transnational expansion is not easy," said **Mike Rowley, KPMG's Global Head, Education**. "It requires leadership teams to gain a strong appreciation for not only their institution's internal capacity and risk appetite for expansion, but also the external factors and future trends that will influence the success of their strategy and the brand enhancement that will follow."

Transnational expansion can be a highly complex and potentially risky undertaking. To help mitigate some of the unforeseen challenges and protect the institution's brand, a phased and measured approach is strongly advised. Partnerships in particular benefit from building a relationship gradually over time, often through smaller projects. Expansions into better-understood markets allow institutions to build up international capabilities before venturing further from home.

Equally important is an understanding of the time frame involved in setting up and entering into each arrangement, an aspect that is often underestimated by institutions when developing their transnational strategies.

Below is a basic approach that outlines key steps that an institution can follow to deliver successful expansion initiatives. While each situation is unique, our experience suggests that undertaking a transactions-based approach to each project will help achieve an optimal outcome in terms of delivering the strategy, while also minimizing risk and maximizing return.

Source: KPMG International, 2012.

"Transnational expansion demands change in the ways of working for most educational institutions as new methods and approaches start to infuse the organization," added **Andrew Newman, Partner, KPMG in Canada.** "The cultural impact of any transnational collaboration needs to be factored into the business planning."

Step 1: Outline the business case for expansion

The institution must determine its specific needs and the objectives which it hopes to achieve through the transnational initiative. Building an outline business case is the critical first step upon which all future plans and evaluations will be based and will require institutional leaders to develop a clear vision of the initiative and its fit with the organization's transnational strategy.

Key areas to consider:

- **Goals:** Outline the goals of the international expansion and consider how it will fit with, and contribute to, the academic and/or research strategies of the institution, its brand and other core values.
- **Preliminary situational analysis:** Conduct a high-level risk, opportunity, financial and environmental analysis to identify any key deal-breakers and make the case to move to the next phase.
- **Project plan:** Develop a preliminary project plan including an achievable schedule and appropriate contingency plan.
- **Investment:** Identify the initial investment required to produce the detailed business plan and subsequent phases.
- **Internal resources:** Assess the internal capacity to support the venture (from academic through to back-office support staff) and, if necessary, secure sufficient project management resources to ensure that the 'day job' does not suffer as a result of the expansion.
- **Regulatory and governance approvals:** Ensure that the business case identifies and factors in the necessary regulatory and institutional approvals.

"Transnational educational institutions must create an appropriate governance model for their international operations to ensure proper accountability and oversight," added **Henk Berg, Partner, KPMG in the Netherlands**. "Institutions must also recognize that 'their way' of doing things at home may not be appropriate in a foreign market and must be willing to adapt to local custom."

Step 2: Develop the full business plan

Having an approved outline case, the project team will have secured the necessary project funding to develop a robust business plan to see the project through to implementation.

A more detailed analysis of the environment should be undertaken to determine what external forces will influence the expansion initiative. This analysis should include, but not be limited to, a review of:

- political climate and stability, including government educational and research policies and priorities
- legal and regulatory compliance requirements
- human resource (HR) matters, including labor laws and rights and immigration
- financial regulations, accounting practices and requirements, including tax
- local cultural educational norms.

Once the environmental analysis is complete, the institution can draft its detailed business plan, which should include, but not be limited to, the following:

- **Entry strategy:** Determine the best model to deliver transnational expansion based on the expansion objectives, success factors and situational analysis. Consider the optimal structure from tax, governance and legal perspectives and whether joining forces with a partner makes sense to share risk and costs and to facilitate market entry. In the case of a partnership, establish the type of agreement (such as a letter of memorandum or formal joint venture) up front and mutually agree on the goals and roles and responsibilities of each party.
- **Exit strategy:** Establish appropriate exit strategies, particularly for any venture in which multiple stakeholders are involved. Consider whether the arrangement should build in natural break points, as well as general termination arrangements should the venture not meet its stated objectives and to mitigate reputational risk where possible.

"Macroeconomic factors such as a sudden spurt in demand and reduced state support often create unique opportunities for educational institutions to leverage new technologies. These technologies help to reduce the effect of geographical distance and gain efficiencies now possible due to their increased scope of operations," added **Narayanan Ramaswamy, Partner, KPMG in India**. "We have seen transnational educational institutions start to take advantage of collaboration technology to effectively connect faculty, students and employees across national borders and facilitate innovative approaches to curriculum delivery and support, including for on-campus learners."

- **Governance model:** Determine how governance of the foreign venture will be structured and managed at both the project and institutional levels.
- **Student plan (curriculum):** Assess the learning expectations of the target market to determine the appropriate curriculum, including any practical certifications and degrees requiring specialized designations within the foreign jurisdiction. Determine whether core strengths such as specific degree programs or capabilities can be leveraged to enhance success in new markets.
- **Student plan (demand):** Assess overall student demand for education in the foreign market. Maintaining adequate enrollment levels can be a challenge, so a robust marketing strategy and additional investments may be required.
- **Research strategy:** Align overseas research activities and opportunities with the home institution's research strategy, including research objectives and the organization's capacity to support.
- **Financial plan:** Determine overall budgetary requirements of the venture and assess its financial viability. Consider additional complications such as repatriation of funds – whether revenues can be returned to the originating institution without triggering substantial withholding taxes – and potential currency risks as a result of fluctuating exchange rates, and then develop appropriate strategies to mitigate and manage these effects. It is also critical to understand the cost of doing business in a new location, including potential compliance costs to fulfill local requirements. Ensure that appropriate contingency is built into the plan and that it covers a time period consistent with delivering the strategic aims of the project.
- **Tax structure:** Assess foreign tax requirements such as potential tax liabilities, the impact of potential withholding taxes or transfer taxes and tax registration and governance requirements. Assess whether there are any ways of structuring the operations which could legitimately reduce or mitigate the tax costs. Investigate whether academic and administrative personnel are required to submit local tax returns and/or pay local taxes.
- **HR plan:** Assess in-house capabilities and capacity to manage the expansion and comply with any foreign requirements to determine the appropriate staffing plan, which may include a combination of transferring employees from the home office abroad and hiring locally. Develop plans to address conflicting cultures, integration issues and ineffective communications.
- **Infrastructure plan:** Identify any location, facility and operational requirements based on the model proposed for entry into the foreign market. The campus location – if applicable – is critically important and can provide many benefits and/or risks to the home institution. Understand associated capital costs for development, operations and maintenance and consider whether there are existing facilities that can be rented or leased in order to reduce expenses.
- **Technology plan:** Understand the impact of technology on the proposed operational model.

Choosing the right partner

Partnerships can be a very rewarding and beneficial form of market entry for higher education institutions that want to expand internationally. However, there are risks to be managed – including potential brand impacts – and it is critical that institutions take great care in selecting the right partner. Successful partnerships are based on strong relationships and mutual agreement regarding the goals, ambition and commitment to the project. This will take continued and focused effort by all partners, in addition to managing the day-to-day business.

Key questions to consider at the outset of the project include:

- How should the partnership be structured to maximize benefit and reduce risk?
- What is the scope of the relationship between the two organizations? Is the partnership based on a single or few relationships, and if so, how can this be mitigated?
- What are the roles and responsibilities of each party? Specifically, who will provide the infrastructure, academic content, quality oversight and administration?
- How will each party ensure a high quality experience for their students?
- If the partnership does not operate as intended, how will issues and disputes be resolved? If necessary, how will each party exit in order to minimize the impact on students, brand and cost?
- Does each party view the agreement over the same time frame in terms of benefits realization?
- What is the planned long-term exit strategy for each party?

Step 3: Conduct due diligence and negotiate the agreement

It is critical that the institution undertake robust due diligence to vet the plan and associated assumptions before negotiating with potential partners, if applicable. Note that this is not always a separate step and often occurs concurrently as the business plan is being developed and shaped.

Due diligence helps identify significant issues and risk areas early in the process in relation to corporate structure and business activities, financial performance assets and liabilities, commitments and contingencies. It covers all areas in the business plan, notably:

- commercial, including any potential partners
- environmental factors
- intellectual property (IP) and patent protection
- integration and separation
- operational and cultural
- legal and regulatory
- tax and pensions
- accounting and financial
- HR, information technology (IT) and other support services.

Due diligence confirms that the selected market for expansion is a strategic fit and financially viable, that potential partners are compatible and that the market entry plan is operationally sound. Ultimately, it helps ensure that the higher education institution's brand will be protected as it pursues its transnational expansion objectives.

Due diligence can be conducted internally or externally, depending on the institution's internal capabilities and the perceived risk of the venture. It is also often wise to partner with advisors who have a strong global reach. This provides the benefit of local project management complemented by global insight from teams who understand local transaction issues.

Once all checks and balances are complete, the institution can confidently enter into partner negotiations in order to finalize the agreement and move into the implementation phase.

Step 4: Approve and complete the agreement

Following iterative negotiations, the institution, having gone through the appropriate internal approval process, signs a binding contract and obtains any required regulatory approvals. It can now move ahead with its implementation plans.

Step 5: Implement the business plan

The implementation plan should cover all key stages, from entering into the agreement to launch and any subsequent stages to reach a steady operating state in which day-to-day governance and management arrangements take over. Depending on the complexity of the venture, the implementation stage can extend from a matter of months to several years and will require participation from all partners and staff at various levels within the organization.

Subject to complexity, the implementation stage and plan should include, but not be limited to, the following:

- appropriate governance and risk management oversight at both the project and institutional levels
- a detailed plan setting out key timelines and critical paths and supported by clear project management and reporting
- ongoing review of resourcing and skills and establishment of cross-partner working groups in key operational areas.

Step 6: Evaluate and review the project

From inception through to launch, and at regular intervals thereafter, it is important to reflect and evaluate the successes and lessons learned at each stage. While our experience shows that institutions rarely undertake such assessments in a systematic way, this approach ensures that key feedback on what worked and what needs improvement is factored into future phases of the project or new initiatives.

Once a stable operating state is achieved, regular monitoring and assessment of each venture in terms of its overall return on investment – financial, reputational and academic – is critical as the institution's understanding of environmental changes in each overseas jurisdiction will not be as detailed or current as that of the home country.

Case studies

Newcastle University in Singapore

UK

Building a global reputation through collaborative partnerships

While partnerships and alliances with foreign higher education institutions can offer a low-cost and straightforward opportunity to increase brand awareness and enhance enrollment, many institutions have found that the strategy is not without complexity and risk.

Newcastle University, a public research university located in northeast England, is one of the UK's top research-intensive institutions and has an enviable record for the quality of its teaching. As a result, the university has always successfully attracted international students, particularly from East Asia.

Facing fiercer competition for international students at home, Newcastle University was keen to bring some of its key academic programs to East Asia. In 2008, the school entered into a partnership with Singapore's Ngee Ann Polytechnic to establish a number of degree programs through a joint effort. Per the terms of the agreement, Ngee Ann Polytechnic provided the facilities, infrastructure and administration systems, and Newcastle University delivered the teaching, content and academic support for students.

Setting up the contractual agreement was fairly straightforward. However, leaders at Newcastle University quickly began to encounter a number of unexpected challenges right from the start of the process.

The university found that they now faced additional tax implications in Singapore, where withholding taxes were levied on the transfer of profits back to the UK. This required Newcastle's finance department to develop new projections for the venture that took into account the impact of withholding taxes on net profits. The need to factor these additional costs into their budget was a new experience for the university which had previously operated solely in the UK where tax relief is often available on income.

Another challenge emerged when, in a number of cases, visiting Newcastle management and teaching staff found it necessary to extend their stay in Singapore, either to take on a second term or to complete an ongoing project. This created complexities around work visas and immigration, as well as tax implications for both the institution and the individuals involved.

As a result, Newcastle University found itself with an operation that not only required significant time and effort to manage and sustain, its finance department had to develop new capabilities in tax that – as a public institution – it did not previously possess as a core competency.

LESSONS LEARNED:

- Due diligence is a critical step in establishing any transnational expansion and should be conducted in partnership with local service providers who understand the tax, regulatory and structural complexities of operating in the foreign jurisdiction.
- Withholding and/or transfer taxes may be applied on the transfer of profits back to the home institution and every effort should be made to minimize and plan for this potential tax exposure.
- Operating in a foreign jurisdiction may require institutions to develop new back-office capabilities and capacities to reflect foreign requirements such as accounting, tax and operational management.
- Relocating academic and administrative staff may trigger significant immigration and tax liabilities that must be identified and managed.
- Delivering the strategic objectives often takes longer than initially anticipated, so it is important that institutions properly estimate the management and governance capacity and time required to handle the expansion and inevitable changes.

"UK public universities are generally tax-exempt, so we did not have significant prior experience dealing with tax authorities on complex bilateral matters," added Andrea Tobin, Deputy Director Corporate Finance at Newcastle University. "Developing a new competency and adding capabilities in tax created complexity to our existing finance operations that we had not really considered going into the partnership."

Based on these early experiences, Newcastle quickly recognized the need to revise their original plans and develop a new structure for their venture in Singapore. Following a strategic review, a separate entity was registered inside the country which took responsibility for the administrative and teaching staff that had been seconded from the UK.

While this step helped finalize the university's operations in Singapore and removed a number of tax issues, it also introduced a new concept of transfer pricing which, in turn, led the university to conduct a robust review of their transfer pricing options to develop a clearer understanding of their potential tax position under the new structure.

Today, Newcastle University's Singapore campus is a clear success. The School of Marine Science and Technology graduated its third intake of students in Naval Architecture, Marine Engineering and Offshore Engineering in 2011 and is widely recognized as the top school of its kind in Asia. Following on this success, Newcastle has continued to explore additional partnerships, leading to the establishment of a medical campus in Malaysia. Moreover, Newcastle's activities and partnerships in Asia have greatly bolstered the university's brand in the region which has reinforced the UK campus' reputation as a top choice for international students.

Underpinning the success of these activities is a strong internal team and robust financial management processes which recognize that operating internationally presents a whole new set of challenges that must be appropriately managed.

Queen's University's Bader International Study Centre

Canada

Creating a successful satellite campus

Developing a successful satellite campus in a foreign jurisdiction can be a challenging endeavor. Aside from the priority of identifying and securing a location, many higher education institutions often discover that operating and maintaining a presence in a distant location can place significant strain on the faculty, administration and finances of both the foreign and home campuses.

For Queen's University in Canada, the journey towards creating a satellite campus started in 1993 when Dr. Alfred Bader, a successful alumnus, donated the Herstmonceux Castle in East Sussex, England to the university. "Right out of the gate, we had to decide how 'the castle' would fit into our existing international and partnership programs," noted Dr. John Dixon, former Vice-Provost (International) at Queen's University. "The opportunity to establish an International Study Centre (ISC) led us to re-conceptualize our international offerings and expand other opportunities such as bilateral exchanges. The ISC thus became a central piece – but not the only piece – of our international offerings. And, of course, turning a mid-15th-century estate home into a modern residential teaching facility and maintaining it would clearly be an enormous and costly task."

The Bader ISC was set up as a short-term study abroad campus at which students would attend for one or two semesters during their undergraduate programs. With capacity for 180 students per semester, the campus provides an intimate and supportive academic setting with small classes. Since the start, academic programs have also incorporated field study components that take full advantage of the historic and cultural resources readily accessible in London, the UK and on the continent.

There are currently three main programs:

- first-year program in which students spend the first year of their undergraduate program before returning to their home campus to complete their degree
- upper-year program in which students typically attend for one semester (fall, winter, spring or summer) during their undergraduate study
- spring semester international law program for LLB and JD law students.

Despite its many attractive attributes, recruiting students to the satellite campus was identified as a potential challenge. With Queen's full-time enrollment then standing at just over 13,000 students including 11,000 undergraduates, the university recognized that the ongoing viability of the satellite campus would strongly depend on their ability to draw students from universities around the world, including partner institutions, to achieve both the desired enrollment and a diverse student body.

"Recruiting students for this type of short-term program is very different from recruitment for full degree programs, and that has been an ongoing learning experience," said Dr. Dixon. "Recruitment for one- and two-semester programs at the satellite campus is much more labor-intensive than recruiting for four-year degree programs." To raise awareness of the ISC and to ensure that the campus met its enrollment targets, the university established the Canadian Universities Study Abroad Program (CUSAP) in partnership with five other Canadian universities, and also leveraged a number of its existing international partnerships to attract a more diverse mix of students.

The university also had to quickly build new capabilities critical to operating in a foreign jurisdiction. Understanding local employment, taxation and charitable status regulations, and managing regulatory compliance posed immediate and ongoing challenges. From the start, the school engaged local non-academic staff in

"Recruiting students for this type of short-term program is very different from recruitment for full degree programs, and that has been an ongoing learning experience," said Dr. John Dixon, former Vice-Provost (International) at Queen's University. "Recruitment for one- and two-semester programs at the satellite campus is much more labor-intensive than recruiting for four-year degree programs."

LESSONS LEARNED:

- Maintaining adequate enrollment levels can be a challenge and may require additional investments in marketing, collaborative partnerships with aligned institutions, and increased administrative capacity.
- Particularly for situations in which fees and costs are paid in different currencies, institutions must be aware of the potential currency risks that may result from exchange rate fluctuations.
- Understanding local employment, taxation and charitable status regulations often requires rigorous due diligence and a locally based service provider or administrative office.
- Location is critically important and can provide benefits (such as access to growth markets) or risks (such as high operating costs) for the institution.

administration and operations to reduce the burden of regulation and provide greater continuity in the campus management. While the satellite campus initially relied on a high proportion of faculty visiting from Canada and other countries, the increasingly restrictive regime for foreign workers in the UK made it much more difficult to appoint academics from Canada and other non-European Union countries to teach at the UK campus. As a result, the school progressively shifted the focus of academic hiring to the UK and EU.

Currency risk was also a significant consideration. "The program fees have been set and paid in Canadian dollars, but the campus expenses are incurred in British pounds so managing the exchange rate fluctuation has been a major challenge for our finance department," added Dr. Dixon. In response, the university adopted hedging strategies to offset the currency risk and set out to build up a local currency reserve fund to support the maintenance costs associated with operating a 500-year-old facility.

Today, the Bader ISC is a central element of the Queen's University international programming. The facility hosts more than 400 Queen's students each year, as well as a large number from other universities around the world. It is also widely recognized as an excellent venue for international academic conferences, which has helped to enhance the university's reputation globally.

The Bader International Study Centre allows Queen's to offer opportunities for 'global rotation' between the two campuses and a setting for innovative and enriched teaching experiences within a unique living and learning academic community. "The Bader ISC is just one part of our international offering, which last year saw more than 2,100 students from Queen's go abroad for one purpose or another," said Dr. Dixon. "Having a global footprint doesn't just offer the university a way to enhance the overall student experience, it also raises our profile overseas and leads to opportunities to develop new partnerships with other schools who want to work with a world-class institution."

Manipal Global Education's Medical School

Establishing a network of foreign campuses

Facing restricted growth at home – either as a result of declining student populations or regulatory hurdles – many higher education institutions have started to look overseas for new development opportunities. However, setting up a new school in a foreign jurisdiction requires significant planning, time and financial investment to ensure success.

Manipal University, a part of Manipal Education and Medical Group, is a leading university in India. Its medical school, Kasturba Medical College, with two campuses in Manipal and Mangalore, has been one of the leading medical schools in India for decades now. Despite its success, the university started to encounter a number of challenges that restricted its growth at home. For example, medical schools in India are often subject to regulations which stipulate high patient bed ratios, the restricted number of enrolled students (even if clinical beds and facilities are available), and the fees that can be charged. Adding to these challenges is the common practice of not allowing public hospital beds for clinical training.

As a result of these restrictions, any further growth within their national market would come at a high cost and with diminishing returns. Foreign expansion seemed to be the clear path forward for Manipal to grow both its revenues and its reputation.

Recognizing that they could reduce the complexity of expansion by focusing on familiar markets within geographical reach, Manipal Education and Medical Group, through its education-focused entity, Manipal Global Education (MaGE), entered into discussions with a number of neighboring countries and, in 1994, established its first foreign campus in affiliation with Kathmandu University in Nepal. Three years later, Manipal created Melaka-Manipal Medical College in Malaysia, the first Indo-Malaysian joint venture in private medical education.

Leveraging their experience, the university began to look for new opportunities outside their immediate geographic area through which they could increase revenues, enhance foreign capital and raise overall enrollment. Encouraged by an attractive tax regime and supportive government policy, MaGE expanded with a university campus at Dubai International Academic City in the UAE in 2000.

Set on breaking into the North American market, in 2004 Manipal initially invested in, and later in 2008 fully acquired, the American University of Antigua (AUA) College of Medicine. In 2006, the New York State Education Department gave the university approval to allow their students to conduct clinical clerkships and residency training in the state, thereby enabling Manipal to offer students an opportunity to practice medicine in the United States. Similar approval was granted by the State of California in 2011.

By leveraging their leadership in medical education and their growing experience in the establishment of distinct foreign campuses, Manipal University is not only the largest private university in India – offering more than 300 courses spanning 14 different professional streams – but through MaGE, it now has campuses in Nepal, Malaysia, Dubai and Antigua, with more in the pipeline.

Manipal's medical school boasts more than 4,000 practicing doctors in the US and more than one in six doctors in Malaysia is an alumnus. Its programs are widely recognized by medical authorities around the world, including the Malaysian Medical Council, the Medical Councils of Nepal, Sri Lanka, Bangladesh and Mauritius, as well as the US Medical Association.

LESSONS LEARNED:

- Near-shore transnational expansions often offer the potential to build up international capabilities within a fairly well-understood market. They can also reduce some of the costs that stem from geographical and cultural differences, as well as enable institutions to attract a much wider range of high quality students.
- By focusing on core strengths such as specific degree programs or capabilities, higher education institutions can leverage their reputations to enhance success in new markets.
- The ability to deliver practical certifications and degrees is critical to attracting students and may require institutions to apply for specialized designations within the foreign jurisdiction. However, the regulatory environments can often be complex and time-consuming to navigate through in order to gain the necessary designations and/or accreditations.

Wageningen UR (University and Research centre)

The Netherlands

Building an international campus through partnership

With a core focus on improving the quality of human life through scientific research, Wageningen UR has developed strong and fruitful partnerships with dozens of academic organizations around the world. As a result, the school now welcomes more than 11,000 students from more than 125 countries to study alongside 6,500 academics and research staff.

Consisting of three separate but related institutions, Wageningen UR provides a broad range of educational experiences for students and staff. The Wageningen University includes students across a variety of B.Sc., M.Sc. and PhD programs; the Van Hall Larenstein School of Applied Sciences offers applied research programs within the fields of food science and agriculture; and the eight contract research institutes, a special foundation and the biggest part of Wageningen UR, conduct applied and demand-driven research under the commission of governments, businesses and not-for-profit organizations.

"One of our key differentiators is that we are basically a 'one-stop shop', having combined our three groups – educational programs, fundamental research and applied contract research – to deliver real and valuable results," said Dr. Aalt Dijkhuizen, President and Chairman of the Executive Board at Wageningen UR. "We have found that international students are very interested in us because we offer a broad scope of in-house capabilities on a very specific domain in collaboration with government and private industry."

Wageningen UR not only welcomes students from outside the Netherlands, they also send many of their academics and applied sciences students abroad to work with partner organizations around the world. In fact, at least 80 percent of students study abroad for at least some time, while academics are encouraged to take rotations with aligned institutions within Europe and overseas. "The Netherlands is the second-largest exporter of food in the world, so our programs and research are often internationally focused," noted Dr. Dijkhuizen.

With more than 50 partner institutions spread across more than 23 countries in Asia, Africa, Europe, Latin America and North America, Wageningen UR has developed a proven approach to building partnerships. "We always start by building up a relationship while working together on projects before we move into forming a more meaningful relationship," added Dr. Dijkhuizen. "In the past, we've tried developing more extensive programs here and there, but in those cases where we had not first built a strong working relationship, we often did not succeed."

A large majority of these relationships begin with individuals who collaborate with counterparts at other institutions to advance specific projects or research. "We encourage these relationships and – at a certain stage – you start to see that the relationship has grown to include many contacts and multiple projects and that is when we start to discuss the potential for formal collaboration with that particular institution," explained Dr. Dijkhuizen. "We recognize that individuals are very important catalysts in the development and growth of these collaborations."

When building partnerships, Wageningen UR also spends some time gauging the ambition of the potential partner organization to ensure that both parties are pulling in the same direction with equal enthusiasm. "We need to know that this will work not just on paper, but also in practice, so we tend to start with a small project or student exchange to make sure that the relationship is collaborative and that there are shared goals and aspirations," said Dr. Dijkhuizen.

Private enterprise also plays a significant role in developing Wageningen UR's international partnerships. Dr. Dijkhuizen notes the 'golden triangle' that exists between knowledge institutes, the government and private industry: the public sector contributes basic funding, initial risk funding and recognition, whereas the private sector brings the long-term commitment necessary to complete multi-year research and innovation projects. "We don't explore extensive collaboration opportunities without the involvement of the private industry," said Dr. Dijkhuizen. "They not only bring greater stability and long-term commitment, they also understand the commercial opportunities, so if they are not willing to invest, we are hesitant to start a more extensive partnership abroad."

Ultimately, Wageningen UR focuses their partnership development activities on creating incremental value for their school, students and national markets. "For us, it's not the length of the contact list that matters, but rather the intensity of the list and the relationships that lead us to progress our international collaborations."

"We don't explore extensive collaboration opportunities without the involvement of the private industry," said **Dr. Aalt Dijkhuizen, President and Chairman of the Executive Board at Wageningen UR.** "They not only bring greater stability and long-term commitment, they also understand the commercial opportunities, so if they are not willing to invest, we are hesitant to start a more extensive partnership abroad."

LESSONS LEARNED:

- Successful partnerships are based on strong relationships and clear communication between parties at the outset to ensure that each understands their partner's goals, ambition and commitment to the project. It can often be sensible to develop partnerships through a string of smaller projects in order to fully develop trust and build confidence.
- Transnational expansion initiatives can often be enhanced with the support of government and private enterprise.
- There is a broad range of partnerships that can be established between two or more institutions and each level of partnership must be carefully considered to understand the related benefits and risks.

How KPMG can help

With a Global Education practice and network of member firms operating in over 150 countries around the world, KPMG supports the full life cycle of transnational expansion by combining global industry best practices with hands-on local experience to support our higher education clients.

KPMG professionals understand the unique challenges of international expansion in the education sector. From identifying expansion opportunities and potential partners to executing the strategy and evaluating existing initiatives, our experts in the Global Education practice work with local member firms to deliver tailored solutions that help our clients make the most of their transnational strategies. From tax, audit, due diligence and advisory services through to organizational infrastructure development, change management and IT integration, our global network delivers practical and insightful advice for every stage of international expansion.

We have supported the transnational expansion of institutions in both the developed and the developing worlds by applying our multidisciplinary expertise to our clients' challenges to deliver trusted and independent results. With an unparalleled understanding of the local regulatory, legal and political factors influencing educational institutions in more than 40 countries, KPMG is frequently the first point of call for institutions seeking to achieve their expansion objectives quickly and effectively.

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KPMG's Global Education practice is made up of a network of experienced professionals based in member firms around the world.

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