FEASIBILITY STUDY OF A PROPOSED MERGER BETWEEN THE EVANGELICAL SEMINARY OF SOUTHERN AFRICA AND THE UNION BIBLE INSTITUTE

BY

MICHAEL JOHN BISHOP

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Supervisor: Prof D Vigar-Ellis

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EXECUTIVE SUMMARY

The educational reforms implemented by the Department of Education during the last decade have resulted in a number of high profile public university mergers taking place in South Africa. The private higher education sector has simultaneously been significantly restructured by new educational legislation, to such an extent that a numerous private providers have been forced to cease operations due to the onerous requirements of the new laws.

In this context, private higher education institutions are increasingly being compelled to consider alternative strategic options in order to continue to operate as viable entities. This study examined two private theological higher education institutions operating in Pietermaritzburg, South Africa, and considered whether a merger of the two organisations would be advantageous in light of the pressures being faced by the institutions. The objectives of the study were to assess first, whether a merger of the two institutions would be feasible and second, whether it would be desirable.

The study reviewed the literature relating to various forms of organisational co-operation, focusing particularly on mergers. The benefits associated with mergers were highlighted as well as the major causes of the extraordinarily high merger failure rate experienced in practice. The tendency of leaders of merging entities to overlook cultural and people issues when planning and implementing a merger was noted. Attention was given to the managerial approaches necessary to reduce the risk of merger failure. Factors specific to mergers within the non-profit and educational sectors were considered, focusing on structural options for multi-campus educational institutions in particular.

The methodology used to address the research objectives called for the conducting of structured interviews with a sample of employees and Board or Council members from both institutions, as well as an examination of various institutional records. Employees of both institutions completed a simple questionnaire designed to provide data for an analysis of the respective organisational cultures of the two institutions.

The findings of the study suggested that a merger between the institutions would be feasible, but that employees of the two organisations are not generally of the view that a merger would be desirable in the short term.

There was however more support in principle for a merger in the medium to long term and the

study consequently recommends that a joint task team be established to prepare a roadmap for the ultimate merger of the two institutions. In the short term it is recommended that a joint venture or strategic alliance be entered into by the two organisations primarily in order to test the compatibility of the two organisational cultures.

Further recommendations cover issues such as the ideal structure for the merged entity and the process necessary to successfully manage the integration of two separate organisational cultures.

DECLARATION

I, Michael John Bishop, hereby declare that the contents of this dissertation are my own work, and that all sources utilised have been accurately reported and acknowledged. This dissertation has not, nor will be submitted for any other degree / examination at any university.

Signed: MBishop Date: 26 September 2006

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To my wife, Kym, thank you for your encouragement, for lightening my load and loving me in such practical ways these last few months – now for the slower day!

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1. INTRODUCTION

1.1. Background

South Africa has witnessed a spate of public tertiary education mergers in the first part of the twenty-first century. The South African government has justified these hugely disruptive organisational restructuring efforts on the basis of the need to rationalise the provision of tertiary education, thereby better utilising public resources. The Department of Education's third white paper observes that:

> Many [public] institutions either require consolidation or retooling for new missions and goals. Narrow self-interest cannot be allowed to preclude planning which may lead to institutional mergers and closures (1997:19)

At the same time, the dramatic increase in government intervention in private higher education, particularly as embodied in the provisions of the Higher Education Act 101 of 1997, has increased pressures on independent institutions and forced the closure of a number of private providers (Council on Higher Education, 2003:50).

Given the scarcity of resources for non-profit entities and in light of the increasing complexity of operating within the new legislative framework, it seems clear that strategy-makers in such institutions need to give serious consideration to some form of co-operation with other similar organisations in order to reap comparable benefits to those being pursued by the public tertiary institutions.

This study considers two private theological institutions both located in Pietermaritzburg, South Africa. While the history of the two entities has overlapped from time to time, the Union Bible Institute (UBI) and the Evangelical Seminary of Southern Africa (ESSA) have not co-operated to any significant degree with one another during the years of their existence. This study examines various forms of organisational co-operation that may be available to the two institutions, concentrating specifically on the feasibility and desirability of a full merger.

Both institutions have welcomed the study, and its timing is fortuitous, with preliminary discussions already having taken place between the senior leadership teams around the topic of a potential merger. On 22 May 2006, a meeting attended by Principals and Board and Council members from UBI and ESSA and an interested third party, the Durban Bible College (DBC), recognised the need for increased co-operation between the institutions and stated the meeting's preference for a full merger. At present, no formal decisions have been taken, but a commitment has been made to continue investigating the merits of such a merger.

The interest of DBC in this process has been noted and certainly calls for further investigation. The scope of this study however only extends to the feasibility and desirability of a merger between UBI and ESSA.

1.2. Objectives

The objective of this study was to consider the feasibility and desirability of a merger between ESSA and UBI. The feasibility of such a merger was assessed in terms of the following factors:

- Financial feasibility;
- Currricular compatibility;
- Human Resources and organisational culture issues;
- Student body factors;
- Strategic fit and target market compatibility;
- Stakeholder compatibility;
- Operations issues;
- Legal implications;

In order to address the question of merger feasibility, a range of records and constitutional documentation from both institutions were examined (as well as relevant legal documents from external sources) and a sample of twenty individuals interviewed from among the staff and governing board or council of each institution. Twenty four staff members also completed a questionnaire designed to assess the cultural compatibility of the two institutions.

The desirability of a merger between ESSA and UBI was assessed through structured interviews conducted with the same sample of twenty staff and board members.

1.3. Outline of the study

The study begins with an examination of other forms of inter-organisational co-operation which stop short of a full merger, namely strategic alliances and joint ventures. More focused attention is then given to the literature relating to mergers, dealing in particular with the general rationale for considering a merger. The high failure rate of mergers in practice is acknowledged and factors to which this can be attributed are considered.

Given the risks of merger failure, consideration is then given to how these risks can be managed by organisational leaders and in particular how the often-neglected personnel and corporate culture issues can be effectively handled in the course of a merger.

The specific context of the proposed merger is thereafter considered, with attention given to the non-profit, higher education sector within South Africa, as well as a closer examination of the immediate contexts (both historical and current) within which the two institutions have operated.

The methodology chapter of the study examines the research objectives in more detail and outlines and justifies the methodology chosen to address the research problem. The instrument designed to assess cultural compatibility is described at this point. The results of the data collection process are then set out in the findings chapter, with the information organised around the broad themes of merger feasibility and desirability.

A separate chapter analyses the findings of the data collection process in the light of the theory which has been discussed in the earlier chapters of the study. Ultimately a finding is made on the feasibility and desirability of a merger. A potential merger process is then considered and forms part of the recommendations to the respective management teams.

2. MERGER THEORY

This chapter briefly considers various forms of co-operation that may be adopted between organisations. Of the three alternatives considered, particular attention is given in this study to the theory relating to mergers. The chapter addresses the incentives for implementing a merger and highlights the most common causes of merger failure. Attention is given to how the risks of merger failure can be managed by organisational leaders, with particular focus on people and culture-related issues in a merger.

2.1. Organisational co-operation short of full amalgamation

A full merger between two entities involves considerable risk, as is evidenced by the extremely high merger failure rate observed in practice (See 2.2.2 below). Organisations pursuing the potential benefits (See 2.2.1 below) offered by co-operating with another entity, but which are averse to the risks of a full amalgamation, should consider other forms of co-operation. Two such alternatives, which involve significant co-operation between entities, but which stop well short of a full merger, are joint ventures and strategic alliances.

2.1.1 Joint ventures

A joint venture may be described as the co-operation of two or more entities, which share certain assets with a view to achieving a specific business objective (Gaughan, 2005:319). While a merger consists of a complete amalgamation between two entities, a joint venture is limited in the sense that it only involves a defined portion of the resources of each participating entity, and usually will only exist for a fixed period of time. Gaughan observes that typically a joint venture will involve the establishment of a new entity, separate from either of the Principals, and will be governed by a formal agreement between the two companies.

Gaughan notes that a joint venture may be the ideal means of assessing the potential for a merger between two organisations. A limited project may uncover issues of cultural incompatibility in particular (See Cartwright and Cooper, 1996:100 for a discussion of the complexities of cross-border co-operation and the attendant cultural challenges) and may consequently provide a significantly less costly means of testing the relationship than a failed merger (Gaughan, 2005:320).

Gaughan however notes that joint ventures are not "a cure for all the ills of Mergers and Acquisitions" as they bring with them their own problems. Specifically, clashes of corporate culture, an unwillingness to share valuable intellectual property and a lack of commitment to the venture are all potential sources of a failure of this type of arrangement (Gaughan, 2005:326).

2.1.2 Strategic alliances

By comparison with joint ventures, strategic alliances tend to be more informal, generally not involving the creation of a new entity (Gaughan, 2005:326). Strategic alliances are usually motivated by factors such as the desire to access new markets, utilise new technology or share risk (Elmuti and Kathawala, 2001:206).

Hackett (1996:8) observes that strategic alliances are more likely to be used in environments where there is a great deal of diversity and turbulence and a correspondingly high lack of specialist skills in particular areas within both alliance partners. By contrast, joint ventures will also tend to take place in volatile environments, but generally where there are not significant skills shortages in the two parties.

Gaughan identifies a much greater potential for conflict between parties to a joint venture or strategic alliance than is the case in a merger. He argues that this is due in the main to the independence of the two entities and their separate respective corporate strategies. He acknowledges that conflict will also exist within a merger, but that in such a case, it will be internal and capable of resolution within the parameters of a single corporate strategy. One suggestion offered by Gaughan as 'conflict insurance' is the purchase of shares in the other entity or entities by each of the participants in the strategic alliance or joint venture (Gaughan, 2005:332).

2.2. Mergers

The central focus of this study is a potential merger and the theory relating to full mergers will therefore be dealt with in considerably more detail than that of joint ventures or strategic alliances.

Gaughan defines a merger as "a combination of two corporations in which only one corporation survives" (2005:3). He notes that typically this takes place where a larger corporation acquires a smaller, *target* entity, but that it is also possible for similar sized companies to merge and form an entirely new entity[1].

Shraeder and Self (2003:511) distinguish between an acquisition, where one firm is consumed by the other, and a merger, which involves the creation of a new consolidated entity from the original two organisations.

Three broad types of mergers are generally recognized in the literature:

1. A **vertical** merger takes place when two or more entities from consecutive supply chain stages within the same industry come together to form a single organisation. Gaughan observes that this type of merger occurs whenever companies with a buyer-seller relationship merge (2005:5), while Cartwright and Cooper (1996:3) describe such a union as "the combination of two organizations from successive processes within the same industry".

2. A **horizontal** merger takes place between two competitors – organisations competing in the same industry and at the same level in the supply chain (Gaughan, 2005:4).

3. An organisation acquiring another company which operates in different industry, whether or not at the same level (i.e. manufacturer, wholesaler, retailer) is engaging in a **conglomerate** merger (Gaughan, 2005:6).

   3.(a) A special case of conglomerate merger is termed a **congeneric** merger by Botha (2001:275) where the two companies operate in the same general industry, but are not direct competitors and are not in a buyer-seller relationship with each other.

   3.(b) A further special type of conglomerate merger referred to as a **concentric** merger involves two organisations in different industries, where the two industries are related in some way. Botha (2001:275) defines a concentric merger as one taking place between two entities sharing similar production or distribution technologies.

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1 He cites the example of the merger between Burroughs and Sperry in 1986 to form UNISYS.

Cartwright and Cooper (1996:3) and Botha (2001:275) classify the concentric category as a fourth merger type and Botha classifies the congeneric type as a fifth category.

The classification of merger types is useful for more than the theoretical framework that it establishes. Porter (1987:41) has shown that the different types of mergers carry correspondingly different levels of risk of merger failure (See 2.2.2.1.1 below).

Having dealt with the general definition and classification of mergers, the rationale for embarking on a corporate merger is now considered. The sections which follow deal with the benefits and risks of organisational mergers.

2.2.1 Reasons for considering a merger

This study has already alluded to the risks involved in pursuing a merger. In light of this, the potential gains which entice organisations to assume these risks are worthy of careful examination.

There are a number of benefits to be had from the merger of two entities, which can be classified as either financial (with a view to increasing shareholder wealth) or strategic (for example, to increase market share). Botha (2001:275) refers to the 'traditional' distinction between financial and strategic mergers, noting that in addition, a more recent motive for merging is the "joining of diverse organisational cultures". He then proceeds to cite several *strategic* reasons for diversification being desirable (such as the penetration of new markets or the introduction of new products). For this reason the 'traditional distinction' between financial and strategic mergers is preferred in this study (see also Cartwright and Cooper, 1996:20).

Essentially, the advantages of a merger can all be described as synergistic – where the results of the merger in a specific area exceed the sum of the individual efforts of each constituent organisation, whether in the area of costs, revenue, skills or market share (Gaughan, 2005:56). De Camara and Renjen (2004:10) assert that "successful mergers start with a clear understanding of the synergies they hope to capture". Therefore, if two organisations exploring the possibility of merging are not able to identify synergies likely to result from the merger, it is probable that there are not sufficient grounds for proceeding with the union.

The various benefits or advantages of merging two entities are dealt with separately as follows:

2.2.1.1 Operating economies

The merger of two organisations may result in a reduction of the unit costs of manufacture or equivalent scale cost benefits in a service industry. This is particularly true in the case of horizontal mergers (Correia *et al*, 2005:17.2) and may be brought about in the merged entity by:

- its increased production output;
- its greater buying power;
- a reduction in the number of retail or service outlets necessary;
- tax advantages;
- the consolidation of its administrative and other support functions.

All other things being equal, the effect of operating economies resulting from a merger will be an increase in shareholder wealth (Correia *et al*, 2005:17.3).

2.2.1.2 Growth

De Camara and Renjen (2004:10) note that, although cost savings will typically be a key benefit of a successful merger, usually the motivation for a merger is the greater ability to generate revenue and seize market share.

Gaughan (2005:42) cautions that embarking on a merger for the sake of growth *per se* is not always appropriate. He observes that although production may increase in a merged entity, it is possible that the new organisation may be less profitable at the increased level of output, with the result that shareholders suffer. Gaughan however does recognise that the use of mergers to grow an organisation is an appropriate strategy first, where shareholders benefit from the transaction and second, in slow-growth industries, where the riskier growth-by-acquisition strategy may be preferable to the slower organic growth alternative. In addition, there is a place for organisational size being a valid strategic end in itself, particularly where it affords a dominant company in an industry a competitive advantage over its rivals merely by virtue of its size (Gaughan 2005:51).

While Gaughan describes situations where the pursuit of a growth strategy is appropriate, Cartwright and Cooper (1996:21) warn that there is the potential for senior management to pursue growth strategies for reasons other than the best interests of the shareholders as there is often a correlation between organisational size and executive compensation.

2.2.1.3 Improved management

Large companies possessing sufficient skilled management resources are able to add significant value to smaller, target entities which lack specialised skilled personnel (Damodaran, 2001:841). In the case of two small entities merging, the consolidation of human resources may give rise to the opportunity for skilled staff to be allowed to specialise to a greater extent than previously possible in a smaller organisation (Correia *et al*, 2005:17.3).

2.2.1.4 Greater market power

The effect of a merger between competitors could result in a weakening of competitive forces, which in turn may allow the new entity to increase its prices without adversely affecting its market share or profitability (Correia *et al*, 2005:17.3). Thompson and Strickland observe that "as a rule, the stronger the collective impact of competitive forces, the lower the combined profitability of participant firms" (2003:92). Conversely, it can be concluded that where a merger results in a weakening of competitive forces, firms may anticipate the possibility of increased profitability.

Thompson and Strickland in their discussion of strategies within a maturing industry note that as competitive forces increase, "stiffening competition induces a number of mergers and acquisitions among former competitors, drives the weakest firms out of the industry, and produces industry consolidation in general" (2003:266). The combination of the pressures of industry competitive forces and the lure of the potential benefits of a merger appear to make an appealing case for organisations considering a merger.

2.2.2 Causes of merger failure

While a compelling argument can be made for the implementation of a merger (particularly in a mature or maturing market, where competitive forces are strong) there are a number of factors which suggest that organisations should approach this decision very cautiously. The major disincentive to pursue a merger is the extraordinarily high rate of failure recorded in practice. Many writers have noted that the overwhelming majority of corporate mergers undertaken tend to fail (Nguyen and Kleiner, 2003:447, Correia *et al*, 2005:17.6, Cartwright and Cooper, 1996:5, KPMG, 1999), however

> curiously, widespread merger failure is at odds with the public and media perceptions that mergers are grand things that are almost sure to create enormous business synergies that are good for employees, stockholders, and consumers. (Weber and Camerer, 2003:400)

To illustrate their point, Weber and Camerer consider among others, the case of DaimlerChrysler where the two companies performed considerably better prior to their merger, the failure in that instance being attributed largely to a clash of corporate cultures.

Nguyen and Kleiner (2003:447) identify poor planning and poor implementation as the two major categories of factors leading to merger failures. Their broad classification will be used in examining the various factors to which merger failure can be attributed.

2.2.2.1 Poor planning

The success of the merger between Compaq and Hullett-Packard is, in part, attributable to the excellence of its planning. Managers working on the merger (in a small, dedicated "clean team" comprising senior staff from both entities) produced a detailed roadmap covering issues such as the organisational structure, product line, key management appointments, business processes and IT systems of the new organisation. This roadmap was produced long before the details of the merger deal had even been finalised (de Camara and Renjen 2004:11).

However, critical as detailed planning of the implementation of the merger may be, there is the potential for poor decision-making in the very earliest stages of merger discussions to wreck the entire venture, particularly the following two basic decisions (Bijlsma-Frankema, 2001:197 and Damodaran, 2001:837):

2.2.2.1.1. Choice of the right merger partner

Managers considering a merger need to be mindful of the extent to which their choice of merger partner (or target entity as the case may be) is influenced by the potential for genuine benefit arising out of the merger (as discussed in 2.2.1 above) such as:

- genuine opportunities for synergy (see 2.2 above, De Camara and Renjen, 2004:10);
- the possibility of enhancing performance through improved management (see 2.2.1.3 above, Damodaran, 2001:841);
- the strategic benefit of growth by acquisition (see 2.2.1.2 above, Gaughan, 2005:42);

  or

- hubris (unfounded optimism) or management pride or self-interest (see 2.2.1.2 above, Cartwright and Cooper, 1996:21).

The possibility of poorly motivated management decisions is explored by Richard Roll's 'hubris hypothesis'. He argues that "managers engage in [mergers and acquisitions] for their own personal reasons and that this is their primary motive, and the economic gains of the company ... are secondary to this personal motive" and supports his theory with an impressive body of research (Gaughan, 2005:77).

In addition to the motivation for the choice of a partner or target, it is critical that attention be given to the type of merger (see 2.2 above) which would result from the amalgamation. Porter (1987:41) in his research, demonstrates a relationship between the extent to which the acquired company is in a related industry and the percentage of acquisitions subsequently divested by conglomerate companies. Porter found that the more tenuous the link between the industries in which two merging companies operate, the more likely that the merger will fail. This principle can be restated by observing that mergers within the same industry are more likely to succeed than those in unrelated industries (i.e. horizontal or vertical mergers are a lower risk option than conglomerate mergers).

Bijlsma-Frankema (2001:197) stresses the importance of choosing the right merger partner from a corporate culture perspective. She advocates thorough 'partner analysis', paying particular attention to the goals and aspirations of each organisation as a helpful indicator of the respective cultures of each entity. Cartwright and Cooper affirm the importance of this type of investigative planning, noting that "cultural fit is as necessary ... as strategic fit" (1995:39).

2.2.2.1.2. The purchase price of the target entity

Damodaran (2001:837) notes that the winners in any acquisition are invariably the shareholders of the target entity due to the fact that share prices are typically raised above their real value by the prospect of a merger (see also Correia, 2005:17.6, Gaughan, 2005:77). Acquiring companies also need to be wary of being caught in a bidder's war and eventually paying far too much for the target entity – what Gaughan (2005:79) refers to as the 'winner's curse'.

The choice of a merger partner and (in the case of an acquisition) the purchase price of the target entity are both potentially make-or-break decisions in the early stages of merger planning. Once the initial decisions have been made, and even after the process has been planned, however, the risk of failure still remains high as the process enters the critical implementation stage (Nguyen and Kleiner, 2003:447).

2.2.2.2 Poor implementation

Nguyen and Kleiner maintain that the point at which merger failure is most likely to take place is during the integration process, due to "improper managing and strategy, culture differences, delays in communication, and [a] lack of clear vision" (2003:447). In addressing the potential for mergers to fail due to poor implementation, the material will be considered in three sections: the impact of the failure of senior management to provide leadership, the consequences of a slow implementation process and the results of attempting to join incompatible cultures.

2.2.2.2.1. Leadership failure by top management

There is a risk of merger failure where top management is guilty of leaving the task of implementation to middle managers once the details of the merger have been settled, when senior leadership should instead be focused on "the relentless identification and capture of value" (Nguyen and Kleiner, 2003:448). By contrast, and by way of illustration, the HP - Compaq merger received ongoing support from both CEO's and full-time attention from the CFO of Compaq and HP's Head of Sales and Marketing (de Camara and Renjen, 2004:12). Nguyen and Kleiner insist that directors need to "get out of the boardroom" (2003:450) and they cannot simply delegate the critical task of merger implementation to middle managers who may not have sufficient ability or authority to successfully carry out their appointed task.

Nguyen and Kleiner describe a merger or acquisition as "probably the biggest challenge [an] organisation faces" (2003:448). If this is the case for a multinational giant acquiring another company, the merger of two small entities is likely to have a far greater impact on the future of the two organisations, making the ongoing involvement of senior management in such circumstances absolutely vital.

2.2.2.2.2. Speed of implementation

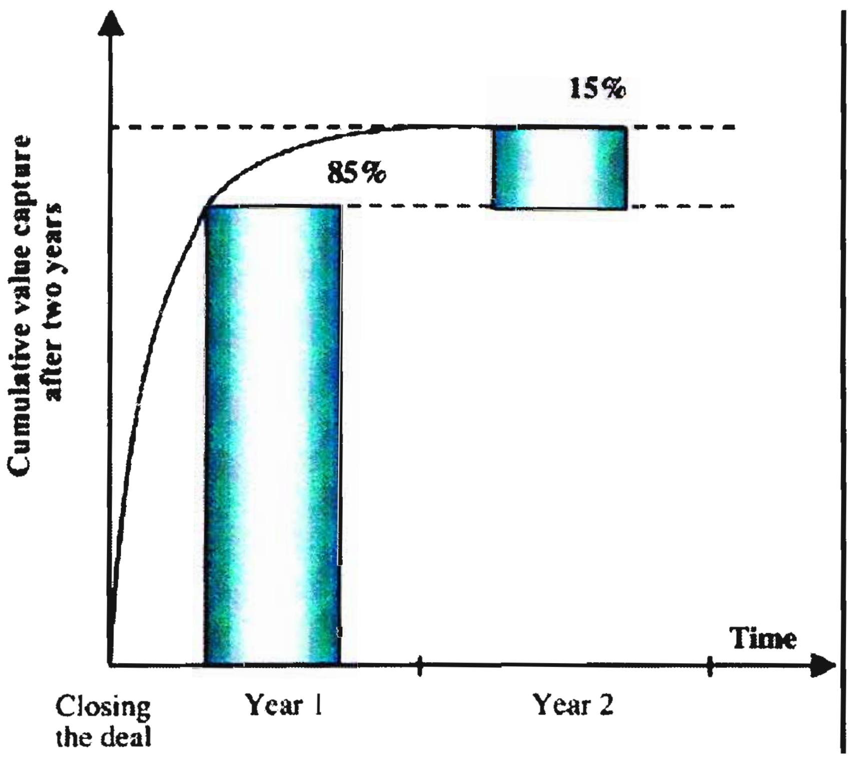
Merger practitioners de Camara and Renjen (2004:11) stress the importance of ensuring that the implementation of the merger takes place quickly. They acknowledge the critical nature of a thorough and well-executed implementation, but insist that speed in itself is equally vital. The authors cite the case of the successful HP-Compaq merger, where speedy implementation was illustrated by the use of an "adopt-and-go" philosophy whereby the merger team would compare the approaches of the two companies to any particular task, decide which method was superior, and then adopt it for the new company, rather than attempting the time-consuming challenge of producing a hybrid method from the two previous approaches.

Bert *et al* argue that the implementation of a merger deal must be finalized within two years if it is likely to succeed. They cite studies by A.T. Kearney which suggest that

> after year two, the window of opportunity for forging merger synergies has all but closed. ... When integration takes longer than two years, there is a distinct, quantifiable loss (Bert *et al* 2003:42-43).

Figure 2-1 below demonstrates that of the gains to be made from a merger 85% of them are reaped within the first year after the merger, with 15% in the second year and no further value added after two years.

Figure 2-1 Value capture following a merger



Source: Bert *et al*, 2003:43

2.2.2.3 The challenge of merging two corporate cultures

Cartwright and Cooper (1995:33) note that most mergers in the 1960's (predominantly in the USA) were of the conglomerate type, however the recent wave of mergers have typically been horizontal in nature. The effect of this is that, where previously the acquired company was generally left relatively unaltered, modern mergers are requiring much higher levels of integration between merger participants. Consequently, while conglomerate mergers tend to generally only have a major impact at the level of senior management, horizontal mergers require an integration of people, systems, policies and organisational cultures.

Weber and Camerer (2003:402) define corporate culture as "a general shared social understanding, resulting in commonly held assumptions and views of the world among organizational members", while Cartwright and Cooper (1996:61) describe it as "the way in which things get done within an organisation". Nguyen and Kleiner (2003:449) suggest that the potential clash of corporate cultures may be "the *most* dangerous factor when two companies decide to combine" (emphasis added).

Weber and Camerer conducted a series of experiments to assess the impact of cultural conflict issues on productivity in a post-merger company. They concluded (2003:412) first, that cultural conflict does impact productivity and the likelihood of a successful merger and second, that the influence of this factor is generally under-estimated by merger managers.

Bijlsma-Frankema (2001:192) identifies the critical impact of the clash of two corporate cultures on the success or failure of a merger (see also Schraeder and Self, 2003:511). She recognises the strong probability of some form of cultural clash within a merged organisation:

> Since cultural adaptations mostly lag behind structural changes, there is a high chance that a change in structure will bring about (temporary) frictions between the (sub) cultures and the structure in the new organisation, that foster unproductive behavioural reactions of organisational members and groups, bringing about productivity losses. (2001:193)

Notwithstanding the seriousness of this task, Cartwright and Cooper (1995:35) report that the general tendency of companies acquiring a target entity is to do a thorough financial and legal assessment of the other company, but pay little or no attention to the personnel and cultural implications of the merger. Cartwright and Cooper go on to suggest that the prioritisation of 'hard' (financial and legal) over 'soft' (culture and people) issues contributes towards the typically high staff turnover rate in the years immediately following a merger.

In view of the critical role of organisational culture in mergers, this issue is dealt with in more detail below (2.2.3.2, page 17 below), focusing particularly on the kinds of interventions that can be made by management in order to ensure that the clash of two distinct organisational cultures does not derail a merger.

2.2.3 Managing the risk of merger failure

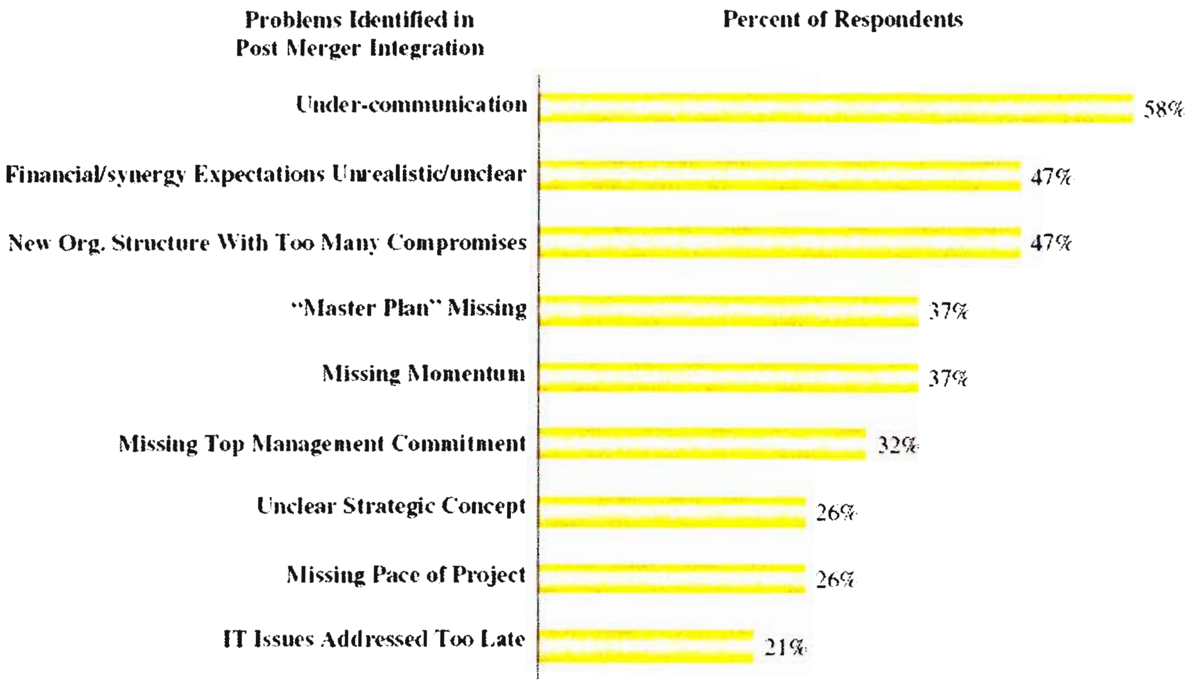
Although the possible benefits to be had from a merger are certainly attractive, organisational leaders committing to an amalgamation must be able to manage the major problem areas which typically arise if the risk of embarking on a merger is to be justified. This section considers the type of approach that is called for from senior managers to reduce the risk of merger failure.

A number of authors (see Covin *et al*, 1997:22; Cartwright and Cooper, 1995:35) have commented on the predilection of prospective merger partners to focus on the 'hard' issues of financial, legal and logistical viability and neglect the critically important questions relating to people and culture. The first part of this section addresses general issues, both 'hard' and 'soft', while the remaining two sub-sections focus exclusively on the 'soft' questions.

2.2.3.1 Identifying and targeting critical areas

Bert *et al*, drawing on a global survey conducted by A.T. Kearney, illustrate the major causes of merger failure in Figure 2-2 below:

Figure 2-2 Most common problems identified in post-merger integration



Source: Bert *et al*, 2003:45

While it is clearly unlikely that a collection of key problem areas as illustrated in Figure 2-2 above will be normative for all mergers, the value of this type of data is that it provides the basis for a list of priorities to be drawn up for the purposes of ongoing monitoring and intervention from senior management during a merger process.

In addition to focusing on potential causes of failure, Bert *et al* (2003:44) and KPMG (1999) list specific key steps or rules for successful mergers (See also Kerr, 1995:7 where the critical importance of top management involvement and excellent communication were considered responsible in the main for a successful merger between three British banks). The two lists have much in common and are compared in Table 2-1 below:

Table 2-1 Similarities between Bert *et al* and KPMG's merger success factors

BERT *et al*	KPMG
Select leadership quickly	
Establish clear goals and manage expectations	Set direction for the new business
Build a strong integration structure	Provide clarity around roles and decision lines
Establish open, frequent and timely communications	Focus on communication
Actively address cultural issues	Understand the emotional, political and rational issues
Focus on customers explicitly	Continue to focus on customers
Rigorously manage risks	
	Directors must get out of the boardroom
	Maximise involvement
	Be flexible.

Source: Bert *et al* (2003:44) and KPMG (1999)

Figure 2-2 and Table 2-1 therefore provide the basis for establishing a list of management priorities during the planning and implementation of a merger and facilitate a proactive risk-reducing approach from organisational leaders.

2.2.3.2 Managing the clash of organisational cultures

A merger will invariably involve, to a greater or lesser extent, a clash of two corporate cultures which, as has already been noted, may be one of the major causes of merger failure (Nguyen and Kleiner, 2003:449). It is however curious that Bert *et al* do not specifically cite the clash of corporate cultures as a major cause of merger failure in Figure 2-2 above. Nevertheless, if managers are able to understand the cultural dynamics involved, the process can be carefully managed and the risk of culture-related failure reduced.

The two sub-sections which follow address firstly, the identification of different cultural types and the likelihood of successful integration between various culture types (drawing on Cooper and Cartwright's model) and secondly, the actual process of managing cultural integration (relying on Bijlsma-Frankema's work).

2.2.3.2.1. Cartwright and Cooper's model

This section draws heavily on the work of Sue Cartwright and Cary Cooper of Manchester University who have developed a model which claims a measure of predictive power for assessing the likelihood of merger success in the light of the types of cultures being merged in a given merger and the nature of the 'organisational marriage'.

Cartwright and Cooper (1996:59) suggest that any given organisation has a distinct over-arching culture of one particular type, notwithstanding the probability that there may be several sub-cultures within that organisation. The existence of these multiple sub-cultures is more likely in larger companies and not surprisingly, according to the authors, will tend to complicate the merger of two organisational cultures.

Drawing on research published by Harrison in 1972, Cartwright and Cooper identify four culture types, which they suggest (1996:65) "are easily recognised, have high face validity and are considered meaningful by both managers and their employees":

1. **Power cultures** are common in small companies where a centralised power structure is in place, comprising either an individual or a small group which exercises control of the major decision-making processes within the organisation. Such cultures can further be classified as either *patriarchal* (where the exercise of power is perceived by employees to be for their benefit) or *autocratic* (where leaders are not perceived as being concerned for the organisation or its employees). Because of the centralised decision-making structure, change can be effected quickly within such an organisation.

2. **Role cultures** are described as classically bureaucratic, with their organisations focused on efficiency and viewing their employees in terms of their specific, predefined roles as opposed to their individual human personalities. Power is therefore related to an employee's role and their place in the organisational hierarchy. Such organisations are often perceived as being impersonal and, compared to companies with power cultures they tend to exhibit slower, more unwieldy decision-making structures.

3. **Task / achievement cultures** are more common as sub-cultures within larger organisations than as a dominant culture. Their central characteristic is their focus on their key task, with the result that the outcome is more important in this culture than any method or process. Workers are generally more autonomous and the exercise of control over employees may be problematic due to the lack of formal authority structures.

4. **The person / support culture** focuses on the nurture and development of its members, with a relative disregard for structure and a strong concern for

egalitarianism. Decision-making within such organisations is generally collective. This type of culture is found almost exclusively in non-profit organisations.

Schraeder and Self (2003:513) observe that although a high degree of similarity between the corporate cultures of prospective merger partners may intuitively seem to be ideal, "there is an argument suggesting that some degree of disagreement on objectives can actually have a positive effect on success expectations". Cartwright and Cooper (1996:76) note that the 'intuitive' model referred to by Self and Schraeder has no empirical backing and Bijlsma-Frankema (2001:197) goes so far as to argue that

> too much [cultural] fit can reduce the synergetic effects to be expected from the melting process. It may not be worth the trouble merging with a firm that, in the face of common problems, can add no substantial solutions to the ones already available.

In any event, Cartwright and Cooper contend that mergers between cultures of different types are likely to be more common than mergers between similar cultures as "in practice, financial and strategic considerations are always likely to outweigh any selection criteria based on cultural similarity" (1996:76).

In addition to the four types of corporate cultures described by Cartwright and Cooper, three categories of 'organisational marriages' are identified (1995:40), each distinguished on the basis of how the dominant or acquiring partner chooses to deal with the other entity's culture:

1. **Enforce the dominant culture:** In this instance the similarity of the two cultures is not particularly relevant. It should be noted however that if the culture of the acquired company is a power or role culture, the process of changing the culture of the acquired organisation will tend to take place more quickly, due to the more centralised, top-down approach of such entities.

2. **Integrate the two cultures:** Where this approach is taken, the more similar the cultures the better (provided the merger is not between two power cultures, in which case Cartwright and Cooper suggest that the likelihood of successful integration is much lower). In this type of organisational marriage, while it may be straightforward to recognise that, for example, two role cultures are similar to each other, it is necessary to establish some basis for identifying similarities between different culture types. Cartwright and Cooper use the levels of constraint placed upon individuals within a culture to locate that culture on a continuum (See Figure 2-3 below).

Depending on the distance between two prospective merger partners on the continuum, the authors are able to describe the similarity of their two cultures for the purposes of assessing the likelihood of a successful integration of the two corporate cultures in question.

Figure 2-3 Relationship between culture types and individual constraint levels

Increased constraint ⟷ Increasing autonomy

High individual constraints	Power	Role	Task	Person / support	Low or no individual constraints

Source: Cartwright and Cooper, 1996:80

3. **Retain separate cultures:** This is the least common of the three types, which involves no cultural integration whatsoever, but allows the two distinct cultures to continue to co-exist within the merged entity.

Cartwright and Cooper's model represents a helpful tool which managers may use to analyse corporate culture and identify potential incompatibility problems well in advance of embarking upon a merger.

2.2.3.2.2. The integration stage

The question of how managers should practically facilitate the integration process has been addressed in Katinka Bijlsma-Frankema's work on managing cultural integration. This section is based predominantly on her material.

Bijlsma-Frankema (2001:195) suggests that the first critical area to be addressed is unity within the senior leadership team of the merged entity: "To what degree cultures are integrated into a productive internal organisation is strongly dependent on integration within the top management team". In order to successfully reproduce the same level of integration throughout the new entity as that modeled by its leaders, Bijlsma-Frankema cites a number of studies which suggest that the focus should be on developing trust between groups and individuals. She suggests that trust is increased by (Bijlsma-Frankema, 2001:200):

1. **Developing shared norms**: This effectively reduces the risk of unnecessary conflict through miscommunication by establishing clear, shared expectations within the organisation. Closely related to this is the importance of facilitating regular dialogue between groups and individuals.

2. **Setting shared goals**: Levels of trust will tend to increase as people are obliged to depend on one another to achieve shared goals that they are not able to meet individually or within their own group.

3. **Monitoring and intervening**: Managers need to closely observe progress in the development of trust and intervention may be called for in the form of deliberate conflict resolution particularly in situations where expectations are misunderstood due to cultural differences.

4. **Creating 'psychological safety'**: Bijlsma-Frankema recognises that for many employees the effect of a merger will be to create an insecure environment which may result in fear-induced paralysis among some employees. She suggests that management need to allow employees the freedom to fail in the early stages of integration and ensure that constructive feedback is given throughout the process.

In summary, Bijlsma-Frankema maintains that if two corporate cultures are to be integrated within a new entity, this is more likely to succeed first, if senior managers are able to model the unity being pursued and second, if deliberate action is taken throughout the organisation to increase levels of trust between groups and individuals by pursuing the four areas outlined above.

The significant challenge of dealing with the clash of cultures can therefore be responsibly addressed by understanding the two cultures, considering their compatibility and then carefully managing the actual integration process.

2.2.3.3 The Human Resources challenge

Cartwright and Cooper (1995:35) report that mergers typically play havoc with the human resource function, citing studies which show executive staff turnover at up to 75% in the first three years after a merger and more junior staff turnover levels at 30% during the same period. An increase in incidences of counter-productive staff behaviour such as absenteeism, petty theft, stress, job dissatisfaction and lowered morale was also widely recorded during the post-merger period. The authors conclude that "it is with justification that people have come to be labelled the 'forgotten or hidden' factor in merger success" (1995:35).

Acknowledging that human resources issues are closely related to questions of corporate culture, this section nevertheless attempts to isolate some of the key areas requiring management attention if the statistics cited above are not to be repeated in a given merger.

2.2.3.3.1. Staff motivation

Kerr (1995:7), reviewing the successful takeover in the United Kingdom of Midlands Bank by HSBC Holdings plc outlines some of the interventions made by management to ensure that staff motivation was not adversely affected by the merger:

- A great deal of attention was given to **communication**. All staff members received written notification of all organisational and operational decisions and particularly information relating to changes to their own responsibilities. Kerr notes that other communication lessons learned through the process were the need for a 'clearing-house' for all staff communication to ensure that all staff are receiving the same message, and second, the necessity of producing a staff version of every public press statement released (1995:7).

- An ongoing commitment to **staff training and development** was demonstrated and key staff members who occupied critical roles within the organisation were identified and given particular attention (1995:7).

- **Senior executives** were called upon to 'walk-the-job' more than usual, meeting with more junior staff than they typically would. One of their responsibilities was to keep in the forefront of the minds of employees that the change taking place within the organisation related not only to the effect of the merger, but also to the ongoing need to change in accordance with customer needs and the dynamic environment within which the company operated (1995:7).

Covin *et al* (1997:22) emphasise the impact of the individual manager on the attitudes of employees within a recently merged entity. They cite studies identifying individual managers and their handling of the implications of the merger as "the major focal point for most employees during a merger". Other studies cited by Covin *et al* stress the need for excellent communication, transparency and deliberate attempts to increase employee participation in the process.

Panchal and Cartwright (2001:424) report a predictable increase in employee stress levels following a merger, but the researchers were surprised to find that this was noticeably more apparent among staff formerly employed by the dominant acquiring company. Their study examined the effects of stress in three broad areas:

1. work attitudes (job satisfaction, organisational commitment)

2. psychological well-being (state of mind, resilience, confidence)

3. physical well-being (physical symptoms, energy levels)

The authors hypothesised that the 'subordinate' company's employees would experience a greater increase in stress levels due to being required to make more adjustments than those required of employees of the dominant partner. However, the results showed a more significant decline in job satisfaction and organisational commitment on the part of the former employees of the dominant company. The authors attributed this surprising finding in part to the nature of the two organisational cultures involved. Using Harrison's typology (See Cartwright and Cooper, 1996:65), the authors classified the dominant company as a role culture, while the subordinate company displayed a support culture which provided sufficient flexibility and more relational support which enabled these employees to better weather the impact of the merger.

2.2.3.3.2. Staff remuneration – reconciling remuneration through job evaluation

Inevitably the amalgamation of two distinct organisations will require a process of reconciling the differences between remuneration packages of the respective employees. This process may be achieved by conducting organisational job evaluations, which Hunter (2002:116) describes as

> the process of analysing and assessing the content of jobs in order to place them in an acceptable order or hierarchy which can then be used as a basis for employee compensation.

While the process does not specifically contemplate the harmonising of terms of employee remuneration following a merger, it does attempt to establish a fair basis for compensating employees where limited or no rational basis for differentials were previously maintained and in that sense appears to be helpful for reconciling post-merger employee compensation discrepancies.

Hunter (2002:119) outlines the steps necessary in order to establish a job evaluation system as follows:

1. Choose a job evaluation system (such as Paterson or Peromnes).

2. Prepare job descriptions, based on detailed job analyses.

3. Establish a job evaluation committee, comprising a range of stakeholders with good knowledge of the organisation. Provide training for the members.

4. Evaluate jobs according to the chosen system.

5. Establish minimum and maximum pay rates for each grade of job. This is typically done by a combination of comparing the existing rates with data gathered from industry.

6. Set a policy to deal with anomalies (salaries that fall outside the range for a particular grade). A typical policy may correct anomalies by increasing salaries, promoting or demoting an employee, providing training to ensure an employee is able to work at the required grade, or freezing a salary until the maximum pay rate for that position catches up.

7. Decide which additional benefits to apply to each pay level.

The use of a job evaluation system therefore provides the means of dealing with remuneration differences and ensuring that all employees in a merged entity are dealt with in terms of a unified, transparent system.

2.2.3.3.3. Key appointments

In her description of the Midlands Bank acquisition by HSBC, Kerr (1995:8) describes a centralised recruitment process that took place within the holding company. This afforded all potential applicants within the various divisions of the merged entity the opportunity to apply for key posts within the organisation. Applicants would be short-listed and selected according to usual corporate recruitment policies. Critical to the success of this process was its transparency and the deliberate efforts made to ensure that all qualified applicants received notification of available posts being filled.

2.3. Conclusion

This chapter has examined the various incentives for pursuing a merger and described the synergies that may be available to merging organisations. Notwithstanding the general optimism with regard to mergers however, it has been noted that the majority of mergers fail and the most common reasons for this have been highlighted.

Clearly, if managers are to embark on the process of a merger, sufficient safeguards must be put in place to ensure that the risk of failure is managed. The chapter concludes with several approaches to dealing with the prospect of merger failure in general and people and cultural issues in particular.

While this chapter has fairly universal application, the study focuses on a potential merger between two South African non-profit higher education institutions. The next section of this study therefore addresses issues relating to the particular context within which this merger would take place.

3. CONTEXT OF THE PROPOSED MERGER

While the previous chapter considered the literature relating to mergers in a broader sense, this chapter narrows the focus to concentrate on the context within which the proposed merger being considered in this study would take place. Attention is given to factors particular to organisations that operate in the area of higher education in South Africa, specifically the non-profit portion of that sector. In addition, the immediate contexts of each institution are addressed.

3.1. Factors particular to non-profit organisations

La Piana and Hayes (2005:11) observe that there is an increase in the number of mergers taking place in the non-profit world, which they attribute first, to the potential for greater efficiency in merged organisations and second, to the ongoing financial pressures faced by such institutions. While they concede that experience of mergers in the corporate world will be of use to non-profit leaders contemplating a merger, the authors insist that the following key differences must be borne in mind when considering the amalgamation of two non-profit entities:

- The missions of the two organisations drive the process. The individual missions must be similar or compatible.
- The merger parties are treated as equals. It is more appropriate to speak of a partnership than the acquirer-target language of the for-profit sector.
- The merger process is collaborative rather than adversarial. Negotiations are typically handled through a jointly-hired consultant and legal advisers only appear once the deal has been settled, in contrast to the aggressive role attorneys may play in a commercial merger.
- The interests of stakeholders are critical. Throughout the merger talks, stakeholders must be kept well informed and, unlike in the for-profit sector, any adversarial actions by either party will typically be frowned upon by stakeholders.
- Resources are extremely scarce – much more so than in the for-profit sector.

3.2. Mergers in Higher Education

Just as non-profit organisations operate in a distinctly different environment to profit-making entities, so too are educational mergers noticeably different from other corporate amalgamations. This section explores some of the distinct issues pertinent to higher education mergers in general, addressing the 'soft' issues of people and culture in an educational setting, as well as some of the logistical complications peculiar to a higher education environment. Finally, the South African higher education scene is considered, particularly dealing with the impact of legislation enacted in the post-1994 era.

3.2.1 Cultural integration in Higher Education mergers

Harman (2002:94), reflecting on the surfeit of mergers in Higher Education in Australia during the late 1980's and 1990's cautions that although two given educational organisations may appear on the surface to be highly compatible with one another and likely to achieve significant synergies by amalgamating, this impression may be upset by underlying cultural differences. Moreover she contends that the very nature of a higher education institution is likely to create complications when it comes to cultural integration. Harman goes on to suggest that management analysts who assume that culture can be developed and manipulated for the benefit of an organisation have underestimated the entrenched nature of culture within universities,

> which are probably unsurpassed as homes for contested views, contradictions, debate and intellectual conflict. Indeed, universities do not merely house these conflicts, but generate them. (2002:97)

It must be noted however that Harman's study focuses particularly on educational mergers which she describes as being the joining of "unequal partners" (2002:93), where a university is merged with a training college.

3.2.2 Managing the human resource in Higher Education mergers

In a study of employees in a South African university during the initial phases of a merger, Arnolds and Boshoff (2004:10) found that employees generally exhibited low levels of commitment to top management and unhappiness regarding working conditions and benefits. The study unsurprisingly demonstrated a direct relationship between commitment and performance levels. The variable which impacted organisational commitment the most was the commitment of individual employees to top management, leading the authors to stress the importance of the active participation of top managers in the merger implementation process and the critical nature of open communications.

Hay *et al* in their study of University of the Free State's staff perceptions of the value and necessity of merging three Colleges of education, found that the majority of respondents saw the necessity for the merger, but 97.2% of all staff members surveyed indicated experiencing some measure of personal insecurity at the prospect of the merger. The authors concluded that the management of staff fears should be a key concern for university leadership, and that concerted efforts should be made to ensure that regular, accurate communication with staff members was maintained throughout the process (2001:107).

Of interest in the Hay study were the perceptions of staff members regarding the gains to be had from a merger – employees identified the scale benefits from better utilisation of human and physical resources as the top two reasons to merge. The top three priorities which staff felt were necessary for a successful merger were first, the commitment of top leadership to the process, second, clear mission and goal formation, and third, effective communication within and between the three institutions (2001:106).

3.2.3 Multi-campus factors and structural options

This section considers models proposed by two South African authors who have addressed the question of multi-campus institutions. At the time that their articles were published, Nicolson and Botha were employed by public universities both of which were significantly impacted by the Department of Education's merger plans in South Africa (the University of Natal and Vista University respectively).

3.2.3.1 Nicolson's models

Nicolson (2004:346) notes that 80% of higher education students in the USA are registered with multi-campus institutions and that such institutions are becoming increasingly common in countries such as Australia, Canada and Great Britain. He suggests that in South Africa, while there are compelling state policy reasons for the mergers of various government universities implemented by the Minister of Education, if left to their own devices these institutions would not have freely chosen to merge into multi-campus entities.

According to Nicolson (2004:350), the typical implications of adopting a multi-campus system include:

- Greater complexity of the management task;
- The need to create a common sense of purpose between two campuses, notwithstanding their completely separate histories;
- Logistical issues and the impossibility of face-to-face meetings to the same extent as previously;
- Computer, library and financial systems capable of handling the distance challenge;
- Consistent human resources policies over the entire entity;
- Consistency of academic curricula.

Nicolson recognises that a multi-campus system may take several forms, depending particularly on the level of autonomy retained by each campus. He identifies four models for multi-campus higher education systems (2004:351):

1. **"Shark and pilot fish"**: This model involves a central, dominant campus at which all of the institution's main programmes are offered. Small campuses which offer only very specialised programmes constitute the pilot fish in the model.
2. **"Flagship and satellite(s)"**: In this instance, the satellite is controlled by the larger flagship and offers only limited (usually undergraduate) programmes.
3. **"Partnership of equals"**: In terms of this model, both campuses offer a full range of programmes and neither dominates the other in terms of governance.
4. **"Partnership of differences"**: This model involves two campuses offering different and complementary programmes.

Nicolson (2004:352) observes that the first two models are considerably easier to administer, as in both instances one campus dominates and governs the other. The third and fourth models invariably complicate the administration of the institution and require leadership to choose a point on a continuum between a centralised administration system (institution-wide faculties, human resources administration, etc.) and a decentralised system where resources are allocated on a per-campus basis. The first extreme on the continuum is efficient from a resource use perspective, but unlike its opposite, does not give due consideration to the individual character of each campus.

Nicolson identifies one critical concern with multi-campus systems, namely that students and staff tend to give their primary loyalty to their home campus, rather than the combined institution. He warns that

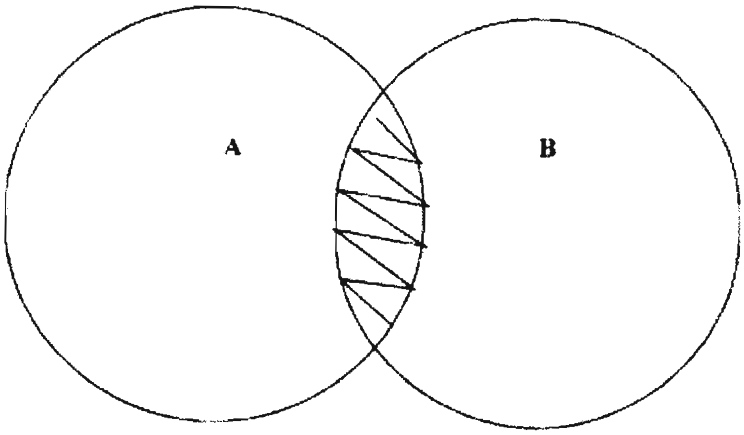
> if we destroy the ethos of the local campus in order to create a monolithic uniformity we will often destroy the goose that lays the golden egg, the place where students and alumni place their loyalty and pay their money. (2004:353)

3.2.3.2 Botha's models

Botha (2001:277) offers an alternative approach to that of Nicolson, using three potential structures for merger or co-operation between two higher educational institutions.

Figure 3-1 below illustrates a "Confederal structure" where two entities continue to maintain their autonomy, but collaborate on areas of mutual interest or need. This is essentially a strategic alliance or joint venture, which allows for some cost-saving benefits but with minimal impact on staff and corporate culture.

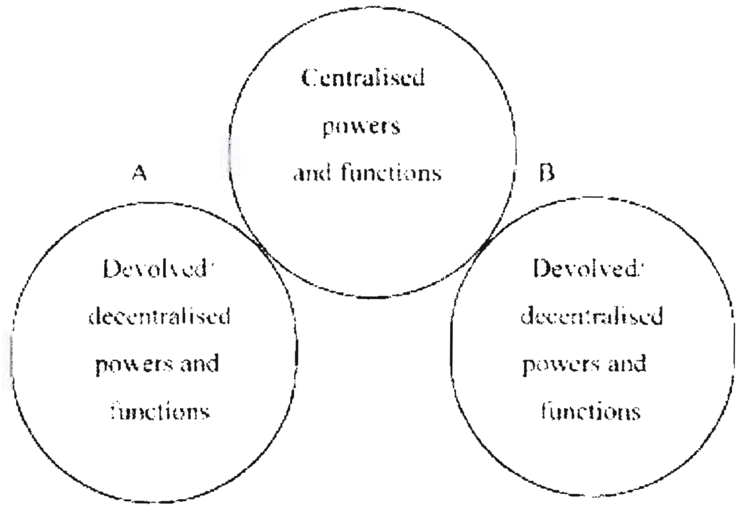
Figure 3-1 Confederal structure



Source: Botha, 2001:277

Figure 3-2 below shows Botha's federal structure, where certain functions are delegated to separate campuses, with a central administrative headquarters retaining all other necessary powers and functions. This structure necessarily has implications for corporate culture, but potentially will deliver greater scale benefits and other efficiencies.

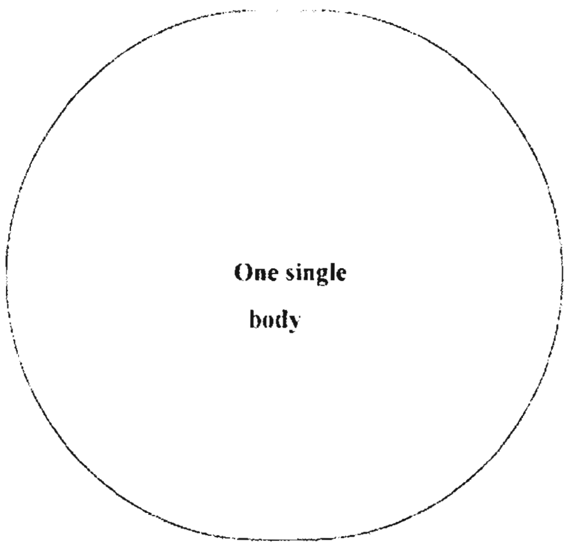
Figure 3-2 Federal structure



Source: Botha, 2001:277

The third model considered by Botha (2001:277) is a full merger into a single entity– the unitary structure (illustrated in Figure 3-3 below), which offers the greatest scale benefits, but at the price of major disruption to staff and significant logistical challenges.

Figure 3-3 Unitary structure



Source: Botha, 2001:277

While Nicolson in particular is mindful of the growth in the number of multi-campus institutions on a global scale (2004:346), the value for the purposes of this study of both Nicolson and Botha's work is that they have written from within the South African context.

More specifically, Nicolson and Botha have written from within two South African institutions which have been forced to give very careful consideration to the complexities of multi-campus organisational management due to the decisions of public education policy-makers in South Africa. This context is the focus of the following section.

3.2.4 Private higher education institutions in post-1994 South Africa

The higher education landscape has been dramatically altered in the years following the coming to power of South Africa's first democratically elected government. This has been most noticeable amongst the public institutions, where a major consolidation exercise has resulted in a series of mergers of tertiary institutions (Arnolds and Boshoff, 2004:2).

While government has confined its restructuring exercise to public institutions, its educational reforms have certainly impacted private organisations. The enactment of the Higher Education Act 101 of 1997, has had a number of implications for private higher education institutions:

- All private tertiary institutions are now required to be registered in order to continue to operate (section 51). Failure to comply with this section constitutes an offence, which if followed by a conviction may, in terms of section 66, result in a fine or prison term for either the statutory crime or for fraud.

- Registration as a Private Higher Education Institution is subject in terms of section 53, to an assessment of institutional financial and infrastructural viability (conducted by the Department of Education) as well as academic accreditation by the South African Qualifications Authority (established by the South African Qualifications Authority Act 58 of 1995). In practice, the accreditation and quality assurance function is controlled by the Council on Higher Education (CHE), with the South African Qualifications Authority (SAQA) retaining a fairly limited role in this process (restricted to administering the National Qualifications Framework).

- Institutions may no longer operate as trusts or associations, but are required to register as companies or close corporations (section 51). For non-profit organisations, this effectively requires registration as a section 21 (not for profit) company, which the Companies Act 61 of 1973 defines as a public company. This in turn has resulted in a host of regulatory implications for organisations that previously functioned as small voluntary associations.

- Although registration as a company or close corporation necessarily means that an annual external financial audit is mandatory, the Higher Education Act nevertheless also spells this requirement out in section 57(2).

The Department of Education's third white paper gives some insight into government's attitude to private higher education and the thinking behind the provisions of the Higher Education Act:

> The Ministry recognises that private provision plays an important role in expanding access to higher education, in particular, in niche areas, through responding to labour market opportunities and student demand. The key challenge in expanding the role of private institutions is to create an environment which neither suffocates educationally sound and sustainable private institutions with state over-regulation, nor allows a plethora of poor quality, unsustainable 'fly by night' operators into the higher education market (1997:21).

The Department of Education's efforts to remove 'fly-by-night operators' have resulted in a significant decrease in the number of private institutions operating in South Africa, of which a healthy proportion are theological institutions. In a 2003 report on the state of private higher education in South Africa, the CHE reported (2003:10) that of the programme accreditation applications received in 2002, religious educational bodies were second in number only to private business colleges, as illustrated in Table 3-1 below.

Table 3-1 Programmes submitted to the CHE by discipline 2002

DISCIPLINE	NUMBER	%
Business administration	55	25.3
Religion	32	14.7
Information technology	30	13.8
Marketing and public relations	27	12.4
Communications and media	20	9.2
Education and training	16	7.3
Graphic and fashion design	14	6.4
Aromatherapy and others	9	4.1
Tourism and hospitality	8	3.6
Architecture and manufacturing	6	2.7
Total	**217**	**100**

Source: Council on Higher Education, 2003:10

Table 3-2 below reveals that of the 58 institutions applying for accreditation in the same period, only 24% received full accreditation and nearly one in five institutions were denied registration (effectively forcing their closure). In the area of programme accreditation, the institutions perform even worse, with 18% being accredited and just under a quarter being refused accreditation.

Table 3-2 Re-accreditation outcomes of institutions and programmes 2002

	INSTITUTIONS	%	PROGRAMMES	%
Full accreditation	14	24.1	40	18.4
Conditional accreditation	30	51.7	120	55.2
De-accreditation	10	17.2	51	23.5
No decision	2	3.4	6	0.9
Total	**58**	**100**	**217**	**100**

Source: Council on Higher Education, 2003:41

Table 3-3 below contains information from the CHE's 2003/4 and 2004/5 annual reports illustrating the success rate of accredited private institutions applying for programme accreditation in 2003 and 2004.

Table 3-3 Programme accreditation success rate 2003-2004

	2003-2004	2004-2005
Programme accreditation	45%	62%

Source: Council on Higher Education, 2004:36 and Council on Higher Education, 2005:40

In summary, notwithstanding the gains to be had on a macro level in terms of potential quality improvements in national private higher education, smaller institutions are now obliged by law to operate out of unwieldy corporate structures, deal with three new educational bodies, file several additional annual reports and incur the additional expenditure related to audit and government application fees. In addition, institutions that fail to meet the CHE's standards run the risk of closure. These factors clearly make the option of co-operation with another institution particularly attractive to small institutions which struggle to meet the new demands of the current legislative environment.

The Higher Education Act governs tertiary institutions, while secondary level institutions are required to comply with the provisions of the Further Education and Training Act 98 of 1998. This act to a large extent mirrors the provisions of the Higher Education with regard to the requirements for institutional registration and programme accreditation, save that it applies to 'further education and training programmes', which are defined in section 1 as

> all learning and training programmes leading to qualifications from levels 2 to 4 of the National Qualifications Framework as contemplated in the South African Qualifications Authority Act, 1995 (Act No. 58 of 1995), which levels are above general education but below higher education;

3.2.5 The Pietermaritzburg context

The geographic context of this study is Pietermaritzburg, which appears to be one of, if not the strongest theological studies centre in South Africa. The city is home to the University of Kwa-Zulu Natal's (UKZN) School of Religion and Theology, which has in recent years drawn considerable support (in the form of students and funded academic staff members) from mainline church denominations, with the Lutheran Church, the United Congregation Church of Southern Africa, the Anglican Church (CPSA) and more recently the Methodist Church of Southern Africa all strengthening their ties with the school. In addition, St Joseph's Catholic Theological Institution is based in Cedara, just outside Pietermaritzburg, and draws Catholic students from all over the continent.

These two institutions, together with ESSA, form the Pietermaritzburg Cluster of Theological Institutions – an unusual association spanning a range of theological positions, but benefiting members through combined library holdings, regular staff and student interaction and the facility for students to register for courses in the other two institutions.

Although the strengthening of theological education in Pietermaritzburg is bound to positively impact upon ESSA and UBI through exposure to a range of other scholars and proven methods, one implication of the increasing number of denominations pledging their support to UKZN is the insistence of those church groups that their students study together in that institution, which is likely to result in a reduction in student numbers for ESSA and UBI.

3.3. Institutional backgrounds

This chapter concludes with a brief description of the history and current status of ESSA and UBI.

3.3.1 The Union Bible Institute

UBI was founded in 1942, after initial planning meetings commenced just prior to the outbreak of World War II in 1939. These early meetings drew together missionary leaders from four different mission agencies with a view to establishing a joint Bible institute. Three acres of land in Sweetwaters, just outside of Pietermaritzburg, were donated to the school for use as its campus by the Swedish Holiness Union Mission in 1940 (Johanson, 1971:6).

Wetmore reflecting on his experiences as a staff member at UBI, describes UBI's 'niche' as secondary level Bible training for Zulu students (2005:14). Johanson, founding Vice-principal of UBI clearly placed the emphasis on practical education:

> The standard of education also varies considerably. But we have not attached any great importance to this. The purpose of the UBI is not so much to be a training school with the emphasis on training, as a Bible School with the emphasis on the Bible. We do not minimise the value of education, but if we had insisted on an entrance qualification measured in terms of years spent at school, we would have missed the privilege of having among our graduates many men who have become highly respected leaders in their churches. (1971:44)

Missionary support in particular of UBI during the years of its existence has enabled the institution to develop an impressive campus with the potential for ongoing development of the land (See Appendix E). Although the majority of the founding mission agencies are no longer connected to UBI, two agencies which continue to support UBI are SIM (Serving in Mission) and TEAM (The Evangelical Alliance Mission), both of which provide funded staff to UBI as well as limited financial contributions to assist with operating expenses.

UBI has for many years offered a three year Diploma in Biblical Studies. In 2000, UBI entered into an agreement with the University of Zululand in terms whereof, UBI graduates were enabled to upgrade their diploma to a Bachelor of Theology by completing a further year of studies at UBI. While the arrangement was initially advantageous to UBI in that it allowed the institution to control the academic content of the degree and furthermore to receive a portion of the government subsidy allocated to the university, it now seems likely that by the end of 2008, the relationship will be terminated. This appears to be due to government unhappiness regarding the university's inability to adequately administer and control quality in its remote campuses. With this in mind, UBI has begun the process of seeking CHE accreditation in its own name for its degree programme.

UBI's diploma is offered in two streams – English and Zulu medium. In addition to its residential programme, UBI operates a Zulu medium extension school in Madadeni.

UBI operates out of a Section 21 company, which is governed by a board of directors. This structure was put in place in order to comply with the requirements of the Higher Education Act as discussed in 3.2.4 above. The previous governing body (the UBI Council) still exists, but it functions only as an advisory group made up largely of representatives of organisational stakeholders. The Council meets annually, whereas the Board meets six times each year and is directly involved in the management of the institution.

3.3.2 The Evangelical Seminary of Southern Africa

Wetmore observes how the need for an institution like ESSA was first identified by leadership at UBI. The vision for ESSA grew out of the recognition of the need for a tertiary level multi-denominational theological institution to be established to serve a market that lay beyond the parameters of UBI's own constituency. In his unpublished manuscript on the story of ESSA, Wetmore recalls that the UBI Council agreed at a meeting held in 1974 "that UBI had a vital niche in the market for secondary level Bible training, but that it should investigate the creation of a new tertiary level training institution for black evangelical ministers" (2005:14).

Further meetings held in 1975 expanded the initial vision to define the demographic and geographic target group of the new seminary as being people of all races from the Southern African states who had received the equivalent of a matric certificate (Wetmore 2005:15).

The campus was deliberately sited in the heart of Pietermaritzburg – a commitment which continues to be reflected in ESSA's mission statement today – and the first students began classes in February 1980. Today the ESSA campus occupies an entire city block (see Appendix E) and permission has been sought from the Pietermaritzburg Municipality to purchase a portion of Pine Street and enclose the campus.

ESSA offers a Bachelor of Theology (in Mission and Ministry or Church and Development), which is provisionally accredited by the Council for Higher Education. An unaccredited three year diploma will fall away from 2007 to make way for a new one year certificate, which will provide access to the BTh for students without matric exemptions, or serve as a stand-alone qualification. At present ESSA also offers a one year certificate which is not accredited by the CHE, which will be replaced by the new certificate in 2007.

ESSA teaches an honours level programme in Evangelical Theology on behalf of the University of KwaZulu Natal. The agreement with the University essentially entitles ESSA to charge fees for this programme, with the government subsidy earned in respect of the students accruing to the University.

ESSA has been incorporated as a Section 21 company, although the structure of the organisation differs from that of UBI. The directors of the company are employees of ESSA, namely the management team of the seminary, comprising the Principal and the Directors of Finance, Academics, Student Affairs and Fundraising and Communications. The Chairperson of the Council is also a director of the company. The role of the ESSA Council is akin to that of shareholders in that the Council appoints the directors. In addition, the ESSA Council approves the annual financial statements and operating budget of the company.

3.4. Conclusion

This chapter has concentrated on the specific context within which this merger would take place – namely that of a non-profit, higher education environment in Pietermaritzburg, South Africa. Throughout the chapter the focus has been progressively narrowed, concluding with a brief background of both of the institutions.

From this point in the report, the focus moves away from the theoretical framework and begins to address the question of this specific merger, beginning in the next chapter with a discussion of the research methodology employed in this study.

4. RESEARCH METHODOLOGY

The preceding chapters outlined the theoretical framework and the specific context within which this merger would take place. This chapter proceeds to consider the methodological approach which was adopted in this study in order to address the research problem.

4.1. Research objectives

This study considered two theological institutions in Pietermaritzburg, both of which have been in existence for many years (UBI for 64 years and ESSA for 26 years), but which were both increasingly experiencing a great deal of pressure from a range of external forces in their respective contexts. It was the effect of these pressures in particular that compelled managers in both institutions to consider new strategic options for the two organisations.

One proposal which had been mooted was a merger of the two organisations. Whether or not such a strategy would be advantageous to both institutions was by no means a foregone conclusion. The primary objective of this research was therefore to assess:

> The feasibility and desirability of a merger between the Evangelical Seminary of Southern Africa and the Union Bible Institute.

The study aimed to provide recommendations to assist the leadership of both institutions in making a decision regarding the wisdom of pursuing a merger. In addition, a suggested merger process was outlined in the event that at some stage in the future the decision is ultimately taken to proceed with the merger.

4.2. Research design

The two major questions being addressed in this study were the feasibility and desirability of a merger between ESSA and UBI. Although the issues were clearly related, each called for a different methodological approach and they are therefore dealt with separately under this section.

4.2.1 Merger feasibility

For the purposes of assessing the feasibility of a merger, the question was subdivided into a number of smaller, more focused units, so that the report ultimately reflects on the feasibility question from the perspective of:

- **Financial** factors affecting merger feasibility and the likelihood of the ongoing sustainability of the combined entity.

- **Currricular compatibility** – the likelihood of being able to harmonise existing academic programmes.

- **Human Resources** issues dealing with questions of employment conditions, redundancies, redeployment and the cultural compatibility of the two staff teams.

- **Student body factors** – the likelihood of being able to create a united student body and address the different cultural and logistical issues pertinent to this.

- **Strategic Fit** – the compatibility of the missions and strategic approaches of the two organisations. Questions relating to the compatibility of the target markets of the two institutions are covered here.

- **Stakeholders** – the extent to which the stakeholders in the two entities will be capable of co-existing and working towards a common purpose.

- **Operations** – particularly related to the challenge of operating a multi-campus institution. Library and information technology related questions are covered here.

- **Legal implications** – questions relating to the legal structure of the merged entity and the requirements of the various statutory bodies which the individual organisations are accountable to at the time of the merger.

In gathering data to address the question of merger feasibility in all its constituent parts, three major sources were utilised, namely: existing documents, records and policies from within each institution and including external legislation; interviews with staff and Board or Council members; and a questionnaire designed to address the issue of cultural compatibility.

4.2.1.1 Records and policies

The following institutional records, policies, legislation and other documentation were examined with a view to assessing whether a merger would be feasible:

- Financial statements of both institutions for the previous three financial years (See Appendix C)

- Staff handbooks and standard conditions of employment.
- Academic policies and institutional prospectuses.
- Constitutional documentation.
- Government legislation.

Information gathered from these listed sources either complemented data collected from the interviews and the questionnaire, or when dealing with questions such as the legal implications of a merger, provided all of the information outlined in the appropriate section of the findings chapter of this study.

4.2.1.2 Interviews with staff and board members

Appendix B provides details of the twenty interviews conducted with staff and Board or Council members of both institutions. Interviews were conducted during the period 17 August 2006 to 1 September 2006. They were held on the ESSA and UBI campuses, at the workplaces of several Board and Council members and in one case a UBI staff member on furlough in the USA gave input via email, using the interview guide as a basis for organising his perspectives on the question of merger feasibility. The typical length of each interview was between 30 and 45 minutes although several interviews lasted in excess of an hour.

Appendix D contains the guided interview outline used for the interviews listed in Appendix B. The outline followed the basic distinction made in this chapter between merger feasibility and desirability. When being interviewed on the question of merger feasibility, interviewees were asked to comment generally on their perceptions of the likelihood of a merger succeeding whereafter they were questioned specifically on concerns or challenges related to their own area of specialisation. A further general question was raised relating to the likely challenges of operating in a multi-campus system and specific suggestions were canvassed as to how this may be achieved in practice.

The group of individuals interviewed was chosen on the following bases:

- The entire management teams of both institutions were interviewed. This ensured that the perspectives of the respective Principals and heads of departments were reflected in the findings.

- Selected key employees from both institutions were also interviewed, focusing especially on the feasibility of a merger with reference to their particular area of expertise (two examples of such key employees were the respective librarians and information technology officers). Although the two staff teams are not large, only selected members were identified, based on whether or not, in the opinion of the researcher, they were likely to be able to contribute material pertinent to the various subsections of the broad feasibility question.

- The Chairpersons of the UBI Board and the ESSA Council were interviewed. One additional member of each of these bodies was also interviewed. The two additional members were chosen on the basis of convenience and ease of access. Both Principals were also *ex officio* members of the respective institutional governing bodies and were also able therefore to make a contribution from this perspective.

- One additional person was interviewed who is neither a Board or Council member nor an employee of either institution, but who previously served on the board of UBI for many years, was a founder Council member of ESSA and a member of staff at UBI. His views were sought particularly with reference to the founding vision for ESSA and a perspective on the respective missions of the two organisations.

Wherever interviews are referred to in the body of this report, individuals are deliberately not identified where this is possible. These were the terms on which informed consent was given by each participant in the study (See Appendix G) and in order to ensure that interviewees felt free to be candid when offering subjective opinions, anonymity was guaranteed. At the same time, many of the interviewees were colleagues of each other (or potential colleagues if a merger takes place) and the preservation of positive working relationships has been borne in mind in the way that data is presented.

4.2.1.3 Questionnaire

A questionnaire was distributed amongst the staff of both institutions. The instrument was designed to address one question – the nature of the organisational culture of each organisation. This was completed only by employees of the respective institutions on the grounds that other stakeholders, such as Council or Board members were not considered sufficiently immersed in the respective organisational cultures as expressed in the day-to-day operations of the two institutions to be qualified to describe them.

The questionnaire was drawn in its entirety from Cooper and Cartwright (1996:72), who in turn based the instrument design on work done by Harrison and Stokes in 1990. The authors stress that because of the abridged nature of the questionnaire, it is not intended to be "diagnostic", but rather to give a general impression of the culture of each organisation. It is therefore acknowledged that the questionnaire was not able to provide a definitive description of organisational culture, but rather to add to other evidence gathered in reaching a reasoned conclusion under the findings section of this study.

The instrument consisted of eight multiple choice questions (see Appendix A), with each question offering a choice of four alternatives (a, b, c or d) of which only one could be selected. Subject to Cooper and Cartwright's disclaimer, a majority of:

- 'a' answers suggests a 'task/achievement' culture
- 'b' answers suggests a 'person/support' culture
- 'c' answers suggests a 'power' culture
- 'd' answers suggests a 'role' culture.

These four culture types correspond with Cooper and Cartwright's classification as discussed in 2.2.3.2.1 above.

4.2.1.4 Instrument validity and reliability

Cartwright and Cooper (1996:72) state very clearly that this instrument is not intended to provide a precise diagnostic tool but rather to give a general impression of the culture of an organisation. They cite the abbreviated nature of the questionnaire in particular as the ground for avoiding any claims of validity as a diagnostic tool. Notwithstanding this shortcoming, the instrument was nevertheless used on account of its having been designed by the authors whose classification of culture types is used in this study. Due to the limitation of the instrument, any findings based on the results it produces cannot be regarded as conclusive, but merely persuasive.

The instrument was only used once in the course of this study and no participants in the survey were asked to complete the questionnaire on more than one occasion in order to assess its reliability.

Consideration was given to using an additional questionnaire to assess perceptions of merger feasibility in other areas, but initial interviews suggested that employees from both institutions knew so little about the specific workings of the other organisation that any surveying of perceptions relating to the feasibility of specific aspects of a merger would in all likelihood be highly speculative. For that reason, focused interviews with selected individuals dealing with specific sections of feasibility within their areas of expertise were preferred to a second questionnaire.

4.2.2 Merger desirability

This section of the research was less concerned with the practical feasibility of a merger and focused more particularly on the perceptions of key members of the two communities. The collection of this data took place exclusively by way of interviews with selected staff and board members.

The sample used to gather this data was the same group of selected individuals which provided material for the feasibility question. It would have been ideal to survey the entire staff and Board or Council bodies regarding their views of the desirability of a merger. Nevertheless the sample group appeared to represent a sufficient range of stakeholders within the two institutions to give a helpful impression of the views of the two communities.

The first of the two major sections in the Interview guide set out in Appendix D dealt with the question of merger desirability. Interviewees were asked generally whether in their view a merger was desirable for their institution and thereafter questioned about their perceptions of the other institution and specifically whether they had any concerns or fears regarding the possibility of being merged with that particular institution. In light of the fact that it was not possible to survey all stakeholders in each institution and further in view of the fact that many of the organisational stakeholders were represented by individuals among the group interviewed, each interviewee was asked to comment on their perception of particular stakeholder reactions to the proposed merger.

4.3. Research limitations

The scope of the research undertaken was limited by the time period and the financial resources available with which to conduct the study. In addition, although the researcher had an intimate knowledge of ESSA, having been an employee of the institution since 2001, information relating to UBI was sourced entirely from interviews conducted during 2006.

It must also be noted that students were not included in this process, although they certainly are important stakeholders. In addition, other institutional stakeholders were not contacted directly for their perspective on the desirability of a merger, although attempts to gauge their respective views were made where possible when individual staff or Board or Council members connected to particular stakeholders were interviewed. The decision to preclude student involvement and to restrict direct access to institutional stakeholders was taken by the leadership of the two institutions in order to limit the speculation and potential harm that may have resulted from a widely publicised study, given that no decision had been taken to merge and the need for sensitive management of potential stakeholder concerns.

5. FINDINGS

Having outlined the methodological approach adopted in this study, this chapter proceeds to set out the findings which emerge from the questionnaire, interviews and various documentary sources examined. Where necessary, clarifications or observations have been made, but the implications of any particular finding are only considered in the following chapter, where findings are analysed in the light of the literature and the contexts of the two institutions.

The structure of this chapter follows that of the methodology chapter, with the findings organised around the two broad questions relating to merger feasibility (in its constituent parts) and desirability.

5.1. Merger feasibility

5.1.1 Financial

5.1.1.1 Sample profile

This section relies on the financial statements of the institutions (for the past three financial years) and interviews with an independent chartered accountant (who has been contracted by both institutions in recent years to assist with the preparation of annual financial statements) and the respective finance officers within each organisation. The financial statements were prepared by the respective independent auditing firms of the two institutions (with the exception of UBI's June 2003 accounts which predate UBI's employment of external auditors). General observations regarding financial stability and fundraising ability are included from interviews with other senior members of the two staff teams.

5.1.1.2 Key financial ratios

Table 5-1 below illustrates several ratios relating to liquidity, profitability, the source of each institutions' income and the impact of the salaries on total expenditure (Income Statements and Balance Sheets for both institutions covering the last three financial years are set out in Appendix C).

Table 5-1 Selected financial ratios for the past three financial years

	UBI			ESSA		
Year end	**30.06.2005**	**30.06.2004**	**30.06.2003**	**31.12.2005**	**31.12.2004**	**31.12.2003**
Debtors / Income from students	119543 / 704053 **0.17**	53326 / 563883 **0.09**	43455 / 466285 **0.09**	197572 / 910192** **0.22**	149590 / 743993** **0.2**	150536 / 611297** **0.25**
Salaries / Total expenses	663332 / 1440931* **0.46**	625736 / 1226459* **0.51**	478112 / 1025368 **0.47**	1092481 / 1668371 **0.66**	1168171 / 1776190 **0.66**	1031030 / 1506371 **0.68**
Current ratio (Current assets / current liabilities)	374205 / 291547 **1.28**	368227 / 304839 **1.2**	619327 / 367416 **1.69**	521004 / 862378 **0.6**	158204 / 465078 **0.34**	186302 / 402019 **0.46**
Income from students / Total income	704053 / 1443456 **0.49**	563883 / 953027 **0.59**	466285 / 1080062 **0.43**	910192** / 1834156 **0.5**	743993** / 1718993 **0.43**	611297** / 1342251 **0.45**
Net profit / Total income	51084 / 1443456 **0.04**	(214354) / 953027 **-0.22**	40502 / 1080062 **0.03**	23350 / 1834156 **0.01**	(57198) / 1718993 **-0.03**	37718 / 1342251 **0.03**

* Adjusted to remove the effect of timing of receipts of staff salary support.
** Total income from students is the sum of student fees and student rental income.

Where necessary, the data set out in Table 5-1 is commented upon in the sub-sections which follow.

5.1.1.3 Controls and infrastructure

The generally held view among senior staff of both institutions (as well as one independent observer) is that ESSA's controls and administrative infrastructure are better developed than those of UBI. By way of example, the view of one independent observer was that ESSA's phased operating budget and budgetary controls are significantly more sophisticated than the measures in place at UBI. As a result, much of the management of departmental budgets at ESSA is delegated to departmental heads, while the approval of expenditure at UBI has been centrally controlled by a single financial administrator.

Notwithstanding this, ESSA has had a much poorer track record than UBI in the management of student debt. Table 5-1 notes that in the last three financial years debtors have made up between 20% and 25% of ESSA's total student income at year end, compared to between 9% and 17% at UBI. In addition, the data suggests that UBI employs a less risky cash management strategy (current ratios for UBI range between 1.2 and 1.69, while ESSA's corresponding figures are much lower – between 0.34 and 0.6).

5.1.1.4 Sources of funds

Several UBI staff members expressed the perception that ESSA has been significantly more successful than UBI in raising funding for capital projects. A number of UBI staff members identified UBI's failure to develop donor relationships as a significant weakness. UBI has received assistance from abroad for campus development projects, but aside from the funding of a number of its staff members, receives very little assistance with general running costs.

ESSA employs a Director of Fundraising and Communications who is a member of the ESSA management team. His department oversees donor relations and handles the preparation of all funding proposals. ESSA has had a great deal of success during the past decade raising funds for capital projects and student bursaries. Much less success has been experienced with attempts at fundraising for operating costs, save for one British trust which contributes in the region of 20% of ESSA's total expenditure per year. While the contribution of this trust is critical to ESSA's ongoing viability, it does mean that the institution is very vulnerable should the trust at any stage take a decision to terminate this arrangement.

Both organisations rely heavily on donor support – Table 5-1 indicates that between 41% and 57% of UBI's income during the past three financial years has been derived from non-student sources, while the corresponding figure for ESSA during the same period is between 50% and 57%.

5.1.1.5 Student numbers trends

Table 5-2 below illustrates a trend of falling student numbers in both institutions over the past three years. Declining numbers at UBI are partly due to the suspension of the University of Zululand Bachelor of Theology, which at present is only available to pipeline students and will end in 2008. ESSA has maintained the size of its BTh Honours class, but has seen a major reduction in undergraduate numbers during 2005 and 2006. This is partly attributable to the decision of the United Congregational Church of Southern Africa to send all of its students to the University of KwaZulu Natal (including several students who had already commenced their studies at ESSA). The decline in numbers has prompted the establishment of an ESSA task team to improve communication with organisational clients and actively recruit students.

Table 5-2 Student numbers 2004-2006

	UBI Dip (English)	**UBI Dip (Zulu)**	**UBI BTh**	**Total**	**ESSA BTh**	**ESSA Dip**	**ESSA Cert**	**ESSA BTh Hon**	**Total**
2004	54	44	5	**103**	33	28	5	**9**	**75**
2005	49	29	9	**87**	27	23	5	**10**	**65**
2006	42	27	7	**76**	15	15	11	**10**	**51**

Although UBI has consistently recorded significantly higher student number than ESSA over the last three years, ESSA generates more income from its student body than UBI does on account of UBI's tuition fees being much lower than ESSA's as is reflected in Table 5-3 below.

Table 5-3 Student tuition fees: Comparative costs.

Qualification	UBI	ESSA	Qualification
Diploma in Biblical Studies	R5400	R11900	Bachelor of Theology
Residence and catering	R4500	R4300	Self-catering residence

5.1.2 Academic programmes

5.1.2.1 Sample profile

This section relies on documents published by both institutions (prospectuses and degree and course outlines) as well as interviews with the respective academic deans and seven other academic staff from both institutions (two from ESSA and five from UBI).

5.1.2.2 Curricular compatibility

On the face of it, ESSA and UBI's degree level curricula do have much in common. Appendix F lists the courses comprising the two qualifications and there clearly is much overlap. The differences in curriculum emphases are:

- The UBI curriculum is deliberately very bibliocentric, with a greater number of courses dealing with individual biblical books, while ESSA's approach has generally been to deal with each type of biblical genre without attempting to exhaustively cover all the scriptural material.
- Staff members from both institutions identified ESSA's greater focus on contextualised theology and development studies issues.
- UBI appears to give greater attention to Homiletics (preaching) and the training of expository preachers was identified by UBI academic staff as one of the critical outcomes pursued throughout the degree programme.

The entrance requirements for the two qualifications differ significantly, with the ESSA degree requiring a matric exemption, while the UBI diploma grants admission on the strength of a grade 10 pass. This allows for the possibility that a student may enter the UBI diploma without a matric exemption and yet emerge with a degree from the University of Zululand by completing the additional credits required for the Bachelor of Theology upgrade.

The role of UBI's Zulu stream diploma was raised by a number of staff members from both institutions, with a minority being of the view that it addressed a niche in the market that is not being catered for elsewhere and therefore constituted a valuable part of UBI's present offerings. Most interviewees, while recognising the value of secondary level Zulu medium tuition, were of the view that it should not be extended to the tertiary level if graduates are to be equipped to engage effectively with scholars from elsewhere in Africa and the world.

5.1.3 Human Resources

5.1.3.1 Sample profile

This section draws on the respective institutional staff handbooks, interviews with the Principals, the two staff members responsible for human resources at UBI and, regarding ESSA, the researcher's own knowledge of ESSA's staffing policies.

5.1.3.2 Staff profile comparisons

Table 5-4 below categorises the staff members at each institution by function.

Table 5-4 Comparison of staff profiles

	UBI	ESSA
Academic	10	6
Support	7	6.5
Grounds	2	4
Library	1	1.5
Catering	3	0
Total	22	18

The following observations emerge from the interviews and documentation, read with Table 5-4:

- Both Principals have administrative roles, but are considered part of the teaching staff team. A significant disparity in the size of the respective academic staff teams is apparent, with UBI having the benefit of ten to ESSA's six academic employees. As a consequence, ESSA makes much greater of external guest lecturers than UBI does. Of UBI's ten academic staff members two hold doctorates, three have masters degrees, one holds an honours degree and four hold bachelor's degrees. Two of the six ESSA academic staff members hold doctorates, with the remaining four all holding masters degrees.

- In addition to the Principals performing dual functions, employees of both institutions are frequently called upon to cover portfolios outside the scope of their primary functions. By way of example, both institutions draw on the time and energy of academic staff for the supervision of maintenance work on the respective campuses.

- ESSA's student accommodation is self-catering. A member of the ESSA support staff arranges catering for functions or guests, but no staff members are employed exclusively for catering purposes, unlike UBI which employs three staff members for this purpose.

- In maintaining its grounds and facilities, UBI draws to a great extent on its student body. ESSA does have student 'action groups', but their role is limited by comparison. This is reflected in ESSA's need to employ four grounds staff members compared to UBI's two, notwithstanding the size of UBI's campus.

- Both institutions have a management team, which works alongside the Principal, with each member being allocated a particular portfolio or portfolios.

5.1.3.3 Staff employment conditions

Salaries

Although the researcher had unhindered access to the salary details of ESSA staff members, complete access to the equivalent UBI records was considered inappropriate, and consequently a limited comparison of salary levels was all that was possible. For the purposes of this comparison, the average salary paid to a lecturer at UBI was compared with the corresponding figure at ESSA, with the UBI salary being approximately 79% of the ESSA salary equivalent. Both institutions fall well short of market related salaries.

Benefits

Both institutions contribute to a pension scheme on behalf of employees (with a corresponding contribution being made by the employee). ESSA covers half of the monthly cost of medical aid membership and also operates a small internal medical savings fund, where staff contributions are matched. UBI does not offer any medical aid support to its staff, but the majority of staff members are given free accommodation as part of their remuneration.

5.1.3.4 Externally funded staff

Ten of the twenty-two UBI staff members are externally funded. The entire ESSA staff body is funded from operations (although a number of ESSA employees have succeeded in securing regular donations to the seminary in order to offset a part of the costs of their salaries).

UBI's expatriate missionary staff members do not disclose their income to the institution, with the result that there is no means of ensuring income parity among externally funded employees. The benefit of having staff paid for from abroad is also offset by the fact that such employees are ultimately answerable first to their mission agency, who may recall / redeploy them on their own terms. This clearly impacts on UBI's ability to exercise control over its employees and also hinders effective succession planning.

5.1.3.5 Job descriptions and evaluation

A number of UBI staff members stressed the need for job descriptions to be regularised and for greater accountability to be maintained in the form of regular employee performance appraisals. Neither institution effectively links its employee remuneration with performance appraisals at present and, although ESSA does have job descriptions in place, these are in need of review.

Historically, ESSA has made use of the Peromnes job evaluation system. This means that the various posts are graded on the Peromnes scale, but the system has not been reviewed on a regular basis and is in need of an overhaul. UBI does not make use of any job evaluation system.

5.1.3.6 The role of Principal in a merged institution

Both Principals were specifically questioned on their attitude to the selection of the Principal of a merged institution. They reported that this question had been raised in their discussions with each other and that both leaders were willing to relinquish the senior post in favour of the other or a third party if need be in order that the combined entity might best fulfil its mission. The two Principals suggested that it would be helpful to seek advice from an external independent observer if or when this decision is due to be made.

5.1.4 Student communities

5.1.4.1 Sample profile

This section relies particularly on interviews with the Student Dean of UBI and the Director of Student Affairs at ESSA. Additional material from interviews with other senior staff members is also incorporated.

5.1.4.2 Ethnic diversity

A number of ESSA staff members expressed their appreciation for the multicultural and multinational student body, which is perceived by them as being a particular feature or strength of the ESSA community life. The Department of Education requires that statistics be kept classifying all students by country of origin and race group. Table 5-5 below illustrates the multinational and multicultural nature of the ESSA student body during the period 2004 to 2006, with between 24% and 31% of students being non-South Africans, who were originally from ten or eleven different (mostly African) countries. The majority of students at ESSA are Black, but significant numbers of other race groups are also represented.

One staff member, while expressing appreciation for the multicultural nature of ESSA's student body, recalled how there had been a number of struggles over the years arising out of clashes between cultures that necessitated intervention from the seminary leadership.

Table 5-5 Classification of ESSA students by country of origin and race group

	Total students	South African	Number of other countries represented	Black	White	Indian	Coloured
2004	75	76%	11	68%	20%	9%	3%
2005	70	70%	11	71%	16%	11%	1%
2006	51	69%	10	65%	18%	15%	2%

UBI does not maintain the type of statistics set out in Table 5-5, but one UBI staff member confirmed that the student body was made up almost entirely of Zulu-speaking Black South African students during the period 2004-2006. This homogeneity is perceived by some UBI staff members as a strength of the institution. One UBI staff member raised the perception that ESSA is not as concerned with investing in the Zulu people of KwaZulu-Natal. The same staff member expressed pride in the manner in which UBI has deliberately concentrated on working with Zulu students. When this perception was put to a senior ESSA staff member, the response was that ESSA was established as a regional institution, for the express purpose of serving the entire southern African region.

5.1.4.3 Student attitudes

One UBI staff member when asked about relations between ESSA and UBI students reported that UBI students have perceived a sense of superiority among ESSA students, which has resulted in defensiveness on the part of UBI students. Some ESSA staff members confirmed having seen such attitudes being displayed by some ESSA students.

5.1.4.4 Community life

Although the majority of ESSA's students do live on campus, the fact that UBI's students are fed together on campus, while ESSA's accommodation is self-catering, led interviewees from both institutions to comment on the likelihood that there is a stronger sense of cohesiveness within the UBI student community.

This perspective appears to be strengthened by the fact that students appear to spend more time together in additional chapel services and other meetings on the UBI campus, than at ESSA. A number of interviewees from both institutions perceive the devotional and spiritual component of life on the UBI campus to be stronger than that of the ESSA community.

5.1.5 Strategic Fit

5.1.5.1 Sample profile

This section draws on the founding documents of both institutions as well as interviews with two ESSA Council members, two UBI Board members, four ESSA management team members, four UBI management team members and one former ESSA Council member and UBI staff member.

5.1.5.2 Constitutional documents

ESSA's memorandum of association commits it specifically to provide tertiary level theological education. The organisational objectives set out in the memorandum are:

- to provide excellent practical Christian theological education at a tertiary level for both lay people and clergy.

- to work in partnership with the local church and parachurch organisations.

- to support, advance and promote the growth of the Christian faith.
- to play an active role in the community in the areas of social development and upliftment and in particular, HIV/AIDS education and care.

ESSA's mission statement is "to train dedicated Christian leaders, in an urban setting, for the church-in-mission by providing quality tertiary education that is evangelical, holistic and contextual.

UBI's corporate objectives are broader and are not subdivided in the manner that ESSA's are as listed above. The organisation's memorandum of association commits UBI to:

> Develop Christ-like servant-leaders who are committed to Christ and His great commission.

The UBI founding documents contain no specific constraints concerning the level at which training is to be provided, although as noted earlier in this study, Wetmore records a statement of the UBI Council at a meeting held in 1974 to the effect that "UBI had a vital niche in the market for secondary level Bible training" (2005:14).

One member of the UBI staff team expressed a perception that UBI's vision is practical as opposed to the more academic goals apparently pursued by ESSA. The same staff member stressed their concern that UBI's vision not be lost in the course of any merger process, noting that: "UBI's emphasis is practical, spiritual preparation for ministry, whereas ESSA seems to place more emphasis on academics and preparation for further study".

5.1.5.3 Target markets

Neither the ESSA organisational objectives, nor its mission statement explicitly spell out the geographic area of ESSA's operations, but as indicated by the name of the institution, the ESSA staff members interviewed understand this to be the southern African region and consequently describe the organisation's target market as being tertiary level students from this region who hold to an Evangelical (as opposed to a liberal or Catholic) theological position. Contrary to perceptions held by some UBI staff members, ESSA does not, according to interviewees, aim to produce academics but rather deliberately targets students who intend to complete advanced studies for the purposes of ultimately working as practitioners within the Church or parachurch organisations.

While not clearly spelled out in its founding documents, UBI's interviewees understand the institution's target market to be Evangelical students possessing at least a grade 10 certificate, pursuing practical training with a view to employing their skills within the Church or other Christian organisations. UBI does accept students at secondary level, but is clearly also targeting tertiary level students. The bulk of UBI's students are Zulu speakers drawn from the KwaZulu Natal region and one interviewee expressed the view that this is UBI's primary target market. Although UBI does draw students from elsewhere in the country, it does not target students outside the country to the extent that ESSA does.

5.1.6 Stakeholders

5.1.6.1 Sample profile

This section relies on interviews with the ESSA Council and UBI Board Chairpersons, the two Principals and two other UBI staff members who were able to shed light on the attitude of two of UBI's institutional stakeholders.

5.1.6.2 Stakeholder compatibility

The ESSA Council may, in terms of its articles of association allow institutional members to join the Council under certain prescribed conditions. At present only two institutional members are active on the ESSA Council, namely the Free Methodist Church of Southern Africa and the SIM mission agency. Both of these organisations are also active within the UBI community

In addition to SIM, UBI's two other major institutional stakeholders are the Holiness Union Church (an independent Southern African denomination) and the TEAM mission agency. While the official structures of TEAM, SIM and the Holiness Union Church have not formally considered the question of a merger, senior leaders and missionaries based at UBI and who are connected to these stakeholders have all expressed enthusiasm or at least openness in principle to the proposed merger. Based on the comments of leaders within the three organisations, there appear to be no factors which would render a merger between UBI and ESSA impossible by virtue of stakeholder incompatibility.

5.1.7 Logistics

5.1.7.1 Sample profile

This section includes data collected from interviews with the two librarians and the respective administration and information technology officers.

5.1.7.2 Information Technology

UBI has eighteen computer terminals available for student use. Some of these share a printer, but no network is established on the campus. Most staff members have computers in their offices, but these terminals are not networked.

ESSA has ten terminals set aside for student use, all of which are connected to the campus Local Area Network, with the result that students have shared printing facilities as well as email addresses and internet access. All ESSA employees except for the grounds staff and the housekeeper have computers in their offices. ESSA has established a well developed intranet, with user authenticated access to student records, library holdings, staff records and a range of policies and other documentation.

Given that UBI does not operate a LAN at present, a merger of the two IT systems would appear to be relatively straightforward by means of a virtual private network if the physical network infrastructure were to be established on the UBI campus.

5.1.7.3 Libraries

ESSA's library presently holds 17992 books, with 102 journal subscriptions. UBI holdings total 9500 books, including a large collection of Zulu books, but only a very limited journal collection. The holdings of both libraries are electronically catalogued. Both librarians were of the view that the option of combining the two collections in one physical location should not be given serious consideration. In the event of a merger, and assuming that the two campuses were to be retained, the prospect of operating two libraries, each designed with a particular academic programme in mind was considered feasible by both librarians. Students would be able to borrow material from either library and material could be requested electronically and shuttled daily between the two institutions.

5.1.7.4 Campus integration

Several staff members from both organisations raised the concern that unless the merged institution operates out of a single campus, the amalgamation of student and staff bodies will never become a reality. One UBI staff member expressed the view that ESSA's campus would be easier to sell given its central location and the proceeds of that sale could be reinvested in the present UBI campus. While the idea merits consideration, two factors to be considered are the R3 000 000 purpose built library presently being constructed on the ESSA campus and the founding commitment of ESSA to be located in an urban setting.

Aerial photographs of the two campuses are included in Appendix E. Both properties have a number of buildings set aside for residences, the difference between the two campuses being the large number of staff residences on the UBI property and the different nature of the accommodation – the ESSA accommodation being self-catering. There are very limited expansion options on the ESSA campus while in the view of one UBI employee, the UBI campus has sufficient room for major expansion of the existing buildings.

5.1.8 Legal implications

5.1.8.1 Sample profile

Data relating to the legal implications of a merger between ESSA and UBI is drawn from government regulations promulgated under the Higher Education Act 101 of 1997.

5.1.8.2 Institutional and programme accreditation

Regulations published in terms of the Higher Education Act 101 of 1997 stipulate that "all learning sites where registered programmes are delivered must be accredited" (Republic of South Africa 2002:13). This implies that even if ESSA and UBI were to merge and UBI offered ESSA's BTh from its campus, it would be necessary for the UBI site to be accredited in its own right by the Department of Education.

5.1.9 Cultural compatibility

The results of the cultural compatibility questionnaire completed by staff members of both institutions are summarised in Table 5-7 below:

5.1.9.1 Sample profile

The staff members who completed the organisational culture survey are profiled in Table 5-6 below. Grounds and catering staff were not included in the survey.

Table 5-6 Profile of staff who completed questionnaires

	UBI	ESSA
Academic	8	6
Support	2	6
Library		2
Grounds		
Catering		
Totals	**10**	**14**

The survey was completed by all of the eligible ESSA staff members.

The researcher attended a UBI staff meeting and was given an opportunity to explain the nature and purpose of the instrument, but although 80% of the UBI academic staff completed the questionnaire, only two out of seven support staff returned completed surveys. The UBI librarian had very recently been employed by UBI and did not feel qualified to comment on the institution's organisational culture. The failure of further staff members to participate in the survey appears to have been simply as result of employee apathy, although the possibility of resistance to the idea of a merger cannot be conclusively ruled out. Ultimately ten UBI staff members out of a possible sixteen employees (the librarian having been excluded) completed the survey. The results of the survey are set out in Table 5-7 below.

Table 5-7 Results of organisational culture survey

Question	UBI (10 respondents)					ESSA (14 respondents)				
	A	B	C	D	0	A	B	C	D	0
1	6	1	1	1	1	9	2		3	
2	6.5	2.5	1			8	4		1	1
3	9		1			10	4			
4	5.5	3.5		1		12	2			
5	7.5	1.5		1		9	5			
6	6	4				5	4	5		
7	8	2				11	2		1	
8	4	4		2		7	7			
Totals	52.5	18.5	3	5	1	71	30	5	5	1
%	65.6	23.1	3.8	6.2	1.3	63.4	26.8	4.5	4.5	0.8

The authors of the questionnaire caution that the simplicity and abbreviated nature of the instrument preclude it from producing precise diagnostic claims (Cooper and Cartwright, 1996:72) however the data collected strongly suggests that the dominant organisational culture (as per Cooper and Cartwright's model) identified by 65.6% and 63.4% of employees of UBI and ESSA respectively is that of a "Task/Achievement" culture, followed by a secondary "Person/Support" culture, identified by 23.1% and 26.8% of the employees respectively.

5.2. Merger desirability

5.2.1 Board perspective

5.2.1.1 Sample profile

This section relies on interviews conducted with the Chairpersons and one other member each of both the ESSA Council and the UBI Board as well as the Principals of both institutions.

5.2.1.2 Interview responses

Interviewees were asked whether from their perspective a merger would be beneficial to the organisation they represented. Most of the Board and Council members interviewed expressed their support for a merger, citing as their reasons the importance of being unified in pursuing one mission rather than the two institutions being in competition with each other, as well as the benefits to be gained from avoiding duplication of efforts. CHE accreditation was highlighted as a critical issue for UBI and a major incentive for merging from UBI's perspective.

One person interviewed queried whether there were actually any significant savings to be exploited from a merger. The concern was expressed that the two main academic programmes offered by ESSA and UBI respectively appear to be pitched at very different academic levels with the result that in order to maintain the two programmes, very little gain would be experienced in terms of freeing up academic staff.

5.2.2 Staff perspectives

5.2.2.1 Sample profile

The interviews conducted with nine UBI employees (six academic staff members, two members of the support staff team and the librarian) and five ESSA staff members (four management team members and the ESSA librarian) provide the data for this section.

5.2.2.2 Interview responses

A widely held perception among ESSA staff was that UBI staff would be very cautious about a merger with ESSA, due to ESSA's being perceived as too liberal by virtue of ESSA's relationship with the School of Religion and Theology at UKZN. This does not appear to be an accurate perception, based on interviews with UBI staff members. Some UBI employees acknowledged that this had been a concern in the past, but no UBI employees interviewed implied that this would be an obstacle to a merger.

Most staff members from both institutions appeared unconvinced that a merger was desirable and were cautious about the potential gains to be had from a merger in the short term. They tended to be open in principle to the concept of an amalgamation, but were reluctant to commit enthusiastically to the idea until tangible benefits or advantages could be spelled out. In such cases, the need for greater co-operation between the two institutions was generally acknowledged, but a more cautious approach, involving something falling short of a full merger was typically proposed.

A number of staff members acknowledged their concerns relating to remuneration and job security.

5.3. Conclusion

This chapter has presented the findings based on the interviews, questionnaire and other documentary sources, without commenting particularly on their significance. The next chapter recalls the theoretical and contextual framework considered earlier in the study and draws some conclusions based on the findings set out in this chapter.

6. ANALYSIS OF FINDINGS

The previous chapter set out the findings based on the interviews, questionnaires and various documentary sources examined in the course of this study. This chapter considers the implications of these findings, in the light of the theoretical and contextual framework considered in the early chapters of this report. Once again, the chapter is structured around the two major issues of merger feasibility and merger desirability.

6.1. Merger Feasibility

In assessing the feasibility of the proposed merger, this section begins by addressing three preliminary questions which arise out of the general merger theory considered in chapter two, namely:

1. the type of merger being contemplated and the effect of this on the merger's feasibility;

2. the likely gains to be had from such a merger which, when weighed against the costs or risks of the merger will suggest a finding vis-à-vis merger feasibility;

3. the typical risks or potential obstacles to a merger and their effect on the likely feasibility of the amalgamation;

Following the discussion around these preliminary issues, the specific sub-sections of the feasibility inquiry as set out in the methodology chapter are addressed in turn.

6.1.1 The impact of the nature of the proposed merger on its feasibility

Gaughan (2005:4) describes a horizontal merger as one which takes place between competitors. ESSA and UBI compete for tertiary level students and for this reason a merger between the two institutions may be considered a horizontal merger.

However, UBI's academic programmes clearly also caters for students at the secondary level (as is evident from the grade ten entrance requirement for admission into the UBI Diploma in Biblical Studies). Cartwright and Cooper (1996:3) note that where two organisations "from successive processes within the same industry" merge, this constitutes a vertical merger. To the extent that the UBI Diploma is a secondary qualification which articulates with or gives access to degree level studies, it may be argued that a vertical merger would actually be taking place.

While the proposed merger may well incorporate both vertical and horizontal elements and its precise nature may be the subject of some debate, what is clear is that the merger would take place within one industry – namely the theological education industry. Porter's research (1987:41) demonstrates that such a merger (whether horizontal or vertical) is less likely to fail than if it were a conglomerate merger (undertaken between two entities in unrelated industries). The nature of the proposed merger between ESSA and UBI therefore improves the likelihood of its succeeding.

6.1.2 Likely benefits of an ESSA / UBI merger

De Camara and Renjen (2004:10) stress that potential merger partners must be able to identify synergies that will result from a proposed merger. Such synergies may include operating economies (Correia *et al*, 2005:17.2), organisational growth (De Camara and Renjen, 2004:10), improved management (Damodaran, 2001:841) or greater market power (Thompson and Strickland, 2003:92) brought about through the weakening of competitive forces.

Although several of the UBI and ESSA employees and respective Council and Board members interviewed questioned the real benefits to be had from a merger, most were of the view that some gain could be had from 'reducing duplication'. This reduction of duplication relates to the operating economies discussed by Correia *et al* (2005:17.2) in terms whereof a merged institution may, for example, be able to increase class sizes (thereby better utilising lecturer resources) or reduce administrative overheads by consolidating support functions such as human resources or finance and administration.

What is apparent from the findings however is that should it transpire that the proposed merger is essentially more vertical in nature than horizontal (ie if the UBI Diploma is classified as a secondary qualification which articulates with rather than overlaps ESSA's Bachelor of Theology), the merged institution will not be in a position to benefit significantly from increased class sizes and the consequent improved utilisation of lecturing staff. There will nevertheless be some opportunities for academic staff specialisation if lecturing staff operate within their subject field but teach in both a tertiary and secondary programme (Correia *et al* 17.3). In addition, following Correia *et al*'s reasoning, increased specialisation will be possible within other non-academic departments of the merged institution.

Although operating economies within the academic function may only generate limited cost savings within the organisation, there remains the possibility of a merged entity experiencing significant operating economies in the area of various support functions, as these represent a 'horizontal' element of the merger. Correia *et al* (2005:17.2) cite the consolidation of administrative and support functions as a typical scale benefit of merging and it should therefore be possible following the proposed merger to employ for example, just one bookkeeper or one Academic Registrar, with the result that an additional staff member currently employed in that capacity would be released to be redeployed elsewhere within the organisation.

In addition, where academic staff, for example, are involved in administrative or other functions over and above their teaching responsibilities (such as supervising maintenance projects as is the case in both institutions), the consolidation of the two maintenance departments in this instance will result in indirect gains within the academic department of the merged institution and better utilisation of the primary skills of the academic staff members concerned.

The amalgamation of ESSA and UBI would, all other things being equal, result in a weakening of competitive forces within the industry (Thompson and Strickland, 2003:92). Students determined to study at an Evangelical institution in Pietermaritzburg, now faced with less alternative choices, will tend to be more tolerant of increases in student fees than would previously have been the case. This represents a strengthening of the institution's market power as contemplated by Thompson and Strickland.

In summary, it appears from the findings that a number of potential benefits typically accruing to a merged institution would be enjoyed by a combined entity in this instance, however it is likely that minimal scale benefits would be seen within the academic department in the event that UBI's Diploma in Biblical Studies is offered at a secondary level in the merged institution.

6.1.3 Potential obstacles to a successful ESSA / UBI merger

Nguyen and Kleiner (2003:447) suggest that the major causes of merger failure can all be categorised as either being due to poor planning or to poor implementation. Damodaran (2001:837) stresses the importance during the planning stage of ensuring that a decision to merge is based on genuine identifiable merger synergies and not merely management self-interest or hubris (Gaughan, 2005:77). The attitude of the two Principals to their own positions within the merged entity would seem to indicate a lack of self-interest on the part of senior management.

Bert *et al* (2003:42-43) insist that a merger should be implemented quickly and that the speed of implementation is as important as the quality of implementation planning. The authors maintain that a merger should be fully implemented within two years of commencing if the full benefit of merger synergies is to be enjoyed. When examining the findings in this study, two opposing pressures are evident concerning the question of the speed of implementation:

1. Staff members from both institutions expressed the need for caution and supported that view that increased co-operation between the two institutions would be preferable to immediately pursuing a full merger. This view accords with Gaughan's observation (2005:320) that a joint venture (or for that matter, a strategic alliance) may provide the ideal (and relatively inexpensive) means of testing a potential merger.

2. UBI Board members in particular stressed the need for the rapid implementation of the merger, particularly in view of the pressure being exerted by government on UBI to secure accreditation for its programmes

While the perspective of the UBI Board is straightforward to understand, any merger undertaken will rely largely on the support and effort of the respective staff teams. If a merger is to be pursued without first attempting some intermediate form of co-operation, staff will need to be convinced of the clear necessity and tangible benefits of such a merger.

6.1.4 Cultural compatibility

The questionnaires completed by staff members returned a strikingly similar set of results, with employees from both institutions identifying most clearly with a 'task/achievement' culture (UBI 65.6%, ESSA 63.4%), followed by a 'person/support' culture (UBI 23.1%, ESSA 26.8%). According to Bijlsma-Frankema work (2001:197), the similarity of ESSA and UBI's organisational goals would be a further indicator of cultural similarity.

While Carter and Cooper (1996:80) are careful to stress that this simple instrument is not suitable for full diagnostic purposes, the results returned give a clear indication of the similarity of the organisational cultures within the two institutions. Cartwright and Cooper's model, as illustrated in Figure 2-3 above suggests that there should therefore be no compelling reasons why a merger of two task/achievement cultures should in and of itself be cause for concern. The model predicts that where two cultures are significantly dissimilar (as measured by the levels of autonomy enjoyed by employees) cultural incompatibility problems may be experienced.

Cartwright and Cooper (1996:65) describe a task/achievement culture as exhibiting high levels of individual autonomy, a focus on outcomes over processes and being resistant to formal structures. If the merger were to take place, the increase in the size of the institution would require more formal structures and processes, particularly if practices were to be harmonised across two campuses. Based on Cartwright and Cooper's model, some resistance to these changes can therefore be anticipated from the staff on both campuses. The indications of a secondary 'person/support' culture bodes well however for the ability of employees to cope with change within a supportive work environment (as was the case in the study conducted by Panchal and Cartwright, 2001:424).

6.1.5 Curricular compatibility

Although the curricula of programmes offered by ESSA and UBI have differing emphases, the major factors which separate them are not particularly content related, but rather the level at which they are offered and the medium of instruction. Academic staff interviewed were generally supportive of the Zulu stream offered at a secondary level but opinions differed regarding how appropriate a tertiary level Zulu theological qualification would be. A minority were of the view that this would address a need not presently being met in the tertiary theological education market, while most interviewees maintained that tertiary level instruction should take place in the 'universal' language of English if students are to be able to make use of materials and engage with scholars from other parts of Africa and the world.

The academic staff interviewed were all of the view that a combined institution should continue to serve the two markets catered for by UBI and ESSA, with the result that a merged organisation would be called upon to offer academic programmes at both secondary and tertiary levels.

6.1.6 Strategic fit

The findings raise questions relating to the compatibility of UBI's present strategy to strengthen its position in the tertiary education market and its broad mission to train Christian leaders regardless of whether they are at secondary or tertiary level. A merger with ESSA would allow for the former to take place within a new institution without abandoning the latter.

The question of academic levels aside, the two organisations have very similar missions – both are concerned with working in partnership with the local church and with providing practical theological education from an Evangelical perspective in order to equip ministry practitioners. La Piana and Hayes (2005:11) stress that in non-profit mergers the compatibility of organisational missions is of the utmost importance.

Given the similarity of organisational missions, a further significant advantage of a merger is the intangible benefit of joining two Christian organisations around a common mission in a display of unity rather than remaining in competition with each other. This expression of unity in pursuing a shared vision was repeatedly raised by interviewees and although not easily quantifiable is clearly of great importance to the stakeholders in the two institutions.

Both institutions deliver their product through residential training. UBI's experience in extension campus work may provide an opportunity for the merged institution to offer tertiary level extension classes – something which ESSA to date has not had sufficient resources to pursue.

ESSA and UBI target distinctly different markets. UBI's market is Zulu speakers with at least a grade ten certificate, drawn predominantly from the KwaZulu Natal area. ESSA targets English speaking matriculants from all over Southern Africa. The two markets are not however incompatible and, provided secondary level graduates have sufficient proficiency in English to continue at tertiary level in English medium studies, these students have the potential to increase the numerical strength of the tertiary programme.

6.1.7 Legal issues

Interviewees who advocated taking rapid steps to implement a merger in the short term were generally very mindful of UBI's need for accreditation. The 2002 Regulations to the Higher Education Act 101 of 1997 however suggest that even if a merger were to take place in the short term, accreditation for the UBI campus would still need to be sought by the new entity.

That being the case, it would seem to be appropriate to prioritise the securing of accreditation for UBI's existing programmes rather than rushing into a merger, what Nguyen and Kleiner describe as "probably the biggest challenge [an] organisation faces" (2003:448), on account of the need for accreditation. Whether the accreditation to be sought on UBI's behalf would be in terms of the Higher Education Act of the Further Education and Training Act is the critical strategic issue that requires clarity and urgent resolution.

6.1.8 Financial viability

The purpose of examining the financial records of both institutions was to establish whether or not the individual organisations are presently viable. Both UBI and ESSA have very strong balance sheets, with significant fixed assets and no long-term debt. Both however have been barely breaking even in operating terms (net profit ratios of under 5% have been recorded in their last three years of respective operations with both institutions recording losses in the 2004 financial year). In light of this, any savings arising out of the increased efficiency of a merged entity will be critical in order to contribute to the stability of the new institution.

An area requiring ongoing attention in both institutions is that of cash management and ESSA in particular appears to have adopted a high risk cash management strategy, reflected in the very low liquidity levels seen in Table 5-1 above (current ratios of 0.34 and 0.60 fall well short of the corresponding figures during the same period at UBI of between 1.2 and 1.69).

Both institutions remain heavily dependant on external donors, with student fees only accounting for between 43% and 59% at UBI and 43% and 50% at ESSA of total income. For both organisations the major expense item in their respective income statements is that of staff salaries (particularly in ESSA's case where two thirds of all costs are staff related).

Notwithstanding these potential risk areas, the administrative systems presently employed at ESSA coupled with the sound cash and debt management practices at UBI would strengthen a combined institution. Similarly, the well-developed fundraising department at ESSA would stand a merged institution in good stead and the additional connections reflected in UBI's large body of graduates and good relations with local churches would represent an opportunity to develop the donor base of a merged institution.

6.1.9 Human Resources

Both organisations would benefit from a strengthening of their human resources systems. ESSA has much of the necessary framework in place (job appraisals, job descriptions and job grading) although the existing systems are in need of review. A benefit of a merger would be the opportunity to redeploy an existing administrative employee in the area of human resource management.

A merger would necessitate a full job evaluation process in the new entity, which would also go some way towards strengthening existing employee accountability by clarifying expectations and responsibilities. The process outlined by Hunter (2002:116) aims to provide an objective transparent means of assessing fair remuneration levels. In the course of this process a policy would need to be established to deal with remuneration packages, which fall outside of the parameters of the system.

Based on the superficial salary comparison exercise carried out in 5.1.3.3 above, indications are that there should not be major discrepancies between existing compensation packages offered by ESSA and UBI. The results of the comparative exercise suggested that UBI salaries were approximately 21% lower than that of their counterparts at ESSA. This did not however take the provision of free housing into account which would have the effect of reducing the apparent disparity in compensation levels.

6.1.10 Campus cultures

Nicolson's (2004:352) warning regarding the difficulty of merging campus cultures is helpful. Several staff members commented on the likelihood of distinct staff and student communities remaining separate, and in particular the challenges of bringing a multi-cultural student community together with a mono-cultural group. These will be issues requiring careful management by leadership of a merged institution.

6.1.11 Operations issues

Nicolson observes that multi-campus systems generally involve a more complex managerial task, a struggle to integrate and unite two distinct campus cultures and a range of logistic challenges such as technology, library and finance systems and scheduling challenges (2004:350). The general consensus of interviewees in this study was that the two existing campuses should be retained (although a number of staff members in particular echoed

Nicolson's remarks about the difficulty of creating a sense of common purpose and shared values across two campuses).

The decision to sell one of the campuses should not be dismissed out of hand, but in the short to medium term in any event, it would seem to be prudent to operate out of the existing two campuses, particularly as any plans to integrate the campuses would in all likelihood involve significant construction work over an extended period of time.

ESSA's existing information technology infrastructure is well established. UBI already possesses much of the computer hardware necessary to take advantage of this infrastructure and the establishment of a virtual private network whereby staff and students have access to central information from both campuses does not represent an insurmountable challenge.

The two libraries have been developed with distinctly different programmes and needs in mind (for example, the UBI library contains an impressive collection of Zulu works, while ESSA's library subscribes to a large range of journals which provide material appropriate for tertiary level studies).

6.1.12 Stakeholder compatibility

La Piana and Hayes (2005:11) highlight the key role of stakeholders in a non-profit merger and the importance of keeping them informed. The findings chapter indicates that the involvement of the Free Methodist Church of Southern Africa and SIM in both institutions as well as the openness to a merger expressed by local TEAM and Holiness Union Church leaders suggest that there are no grounds for concern in the area stakeholder incompatibility.

6.2. Merger Desirability

With some exceptions, most staff members when interviewed were cautiously optimistic about the prospect of a merger, but hesitant given the likely effort required and the probable disruption and impact on personal security. Unsurprisingly, Board and Council members tended to be more enthusiastic about the prospect of a merger, given the fact that they are not likely to be impacted by an amalgamation to the same extent as the employees of the two institutions.

Staff members within both organisations are working under significant pressure and managing a range of portfolios beyond that for which they were directly employed. It is to be expected therefore that any moves to begin merger planning may well be met by apathy or even open resistance. Staff interviewees nevertheless were generally supportive of the idea of a merger, although not if it meant that the process would take place in the near future. Other forms of organisational co-operation were suggested by staff as alternative plans for immediate implementation.

The two Principals and the ESSA Council and UBI Board Chairpersons are all very much in favour of a merger. Their leadership will be critical if the full staff teams are to buy into the vision and support its implementation.

6.3. Conclusion

Based on the findings set out in this chapter, it can be concluded that a merger between ESSA and UBI appears to be feasible. Regarding the desirability of the merger, organisational stakeholders are generally positive about the prospect of amalgamation. Interviewees identified some clear benefits of merging and were generally supportive of the principle of being united around a common vision. Staff members tended to be more conservative than any other group, opting for some other form of co-operation between the two organisations in the short term.

The senior leadership of both institutions are very supportive of this initiative and their role in providing their colleagues with an incentive to commit to this vision will be decisive.

7. CONCLUSION

A merger between ESSA and UBI is feasible. As far as the desirability of a merger is concerned, there are some clear benefits to be had from embarking on a merger, but whether they are sufficient to justify the high risk of failure remains to be seen. What is apparent is that the staff bodies of both institutions are ambivalent about the gains to be had from a merger, particularly if the implementation of that decision were to take place in the near future. If a decision is taken to pursue amalgamation, the role of both institutional leaders in selling and implementing the vision will be critical.

An approach which would be sensitive to staff concerns would be to implement a joint venture or strategic alliance of some form while continuing to investigate and plan for a merger in the longer term.

Should the merger be pursued, management attention will need to be given to the quality of merger planning and implementation and particularly the challenge of integrating two distinct (although ostensibly similar) cultures. The recommendations set out in the following chapter outline the process that should be pursued by leaders of the two institutions.

8. RECOMMENDATIONS

In light of the feasibility of the proposed merger, the following recommendations are made to the respective leadership teams of ESSA and UBI, focusing particularly on the appropriate processes that should be employed if a merger is to be successfully implemented in the middle to long term:

8.1. Joint task team

De Camara and Renjen (2004:11) attribute the success of the HP-Compaq merger to the excellence of its planning. A dedicated task team was established to plan the details of the merger, before final approval had actually been given to the merger deal. This team, which comprised senior staff from both companies, produced a detailed roadmap to guide the merger process.

In the case of this proposed merger, although there does not appear at this stage to be a groundswell of support from the employees of ESSA and UBI for the immediate implementation of a merger, the establishment of such a task team would allow a group of senior employees and Council or Board members to plan a limited joint venture or strategic alliance (such as the joint offering of a certificate or extension programme), while continuing to develop a roadmap for a full merger at a future date.

8.2. Critical process issues

In the course of designing the merger roadmap, attention should be given to the following critical issues:

8.2.1 Addressing staff concerns

Hay *et al* (2001:107) report that 97.2% of employees in a South African university experienced some measure of personal insecurity at the prospect of being merged with another institution. Kerr's reflections on the successful HSBC Midlands Bank merger (1995:7) highlight the value of outstanding communication, ongoing investment in staff members and supportive management practices by senior leaders as being crucial for maintaining staff motivation.

8.2.2 Stakeholder consultation

La Piana and Hayes (2005:11) stress the importance of ongoing consultation with organisational stakeholders throughout the process. In the course of this study students and organisational stakeholders have not been directly consulted due to concerns that this would result in unhelpful speculation and publicity. The task team will have no such restrictions and must ensure that stakeholders are fully informed of the progress of the merger process.

8.2.3 Identifying risk and success factors

Bert *et al* (2003:45) list the major reasons for merger failure in Figure 2-2 above. The task team should take cognisance of their list, as well as the success factors listed in Table 2-1 above and produce a checklist of factors requiring ongoing monitoring. Such a list would need to stress the importance of ongoing senior management commitment to the process (Kerr, 1995:7) and an awareness of the potential problems arising out of cultural misunderstandings.

8.2.4 Speed of implementation

De Camara and Renjen (2004:11) maintain that a merger should be fully implemented within two years. In this instance, the recommendation is to initially pursue a joint venture of some form, while continuing to shape plans for a full merger in the medium to long term. This does not however mean that the sense of momentum of the process can afford to be lost (Bert *et al,* 2003:45). If the process is to energise employees, it is imperative that it be seen to be active and enthusiastically supported by top leadership (Covin *et al,* 1997:22).

8.3. Designing the roadmap

This section makes recommendations regarding decisions to be made by the joint task team. These suggestions clearly are not intended to unduly constrain the task team, but represent attempts to draw conclusions from the theoretical and contextual framework based on the findings set out in this study:

8.3.1 Organisational Structure

If the primary scale benefits to be had from a merger between UBI and ESSA are likely to be experienced in the area of the administrative functions, it may be concluded that the appropriate structure within which such a merged institution should operate corresponds to

Nicolson's 'partnership of differences' model (3.2.3.1 above) or Botha's federal structure (3.2.3.2 above).

Nicolson's model allows for the existence of complementary programmes on different campuses, without any suggestion that one campus dominates the other (as is implicit in his 'flagship and satellite' model). The use of this approach would ensure that the secondary level programme is recognised and valued for its unique contribution, rather than being perceived as a poor substitute for the tertiary level qualification.

Botha's federal structure envisages one central administrative body operating in conjunction with two or more distinct campuses. This type of arrangement is necessary if the scale benefits of combined administrative functions are to be enjoyed. Clearly this is an ideal as there will need to be some basic administrative functions taking place on both campuses. In addition, it may be pragmatic for the combined administrative function to be located in two venues (for example, finance on one campus and human resources on another).

8.3.2 Organisational mission

While ESSA's target market is clearly defined in terms of the level at which training is offered, some ambiguity exists regarding UBI's programmes. The Diploma in Biblical Studies must be offered as either a secondary or a tertiary qualification. This has implications for the accreditation of the qualification, with secondary level qualifications being governed by the Further Education and Training Act 98 of 1998 as opposed to the Higher Education 101 of 1997. It is recommended that the Diploma be offered at the secondary level, the effect of which is that the application submitted by UBI to the CHE need no longer be pursued.

Having made this critical decision, it will now be possible to develop an organisation vision and mission statement which is broad enough to encompass all of the programmes to be offered by the joint institution.

8.3.3 Organisational name

La Piana and Hayes (2005:11) note that in a non-profit merger it is not helpful to use the 'acquirer-target' language of the for-profit world. If the two institutions are to be treated as equal contributors, consideration should be given to choosing a new name for the institution. This process should involve participation from a wide range of organisational stakeholders.

8.3.4 Managing cultural integration

Once the merger implementation process commences, special care needs to be taken to ensure that the integration of the two corporate cultures is well managed. This is critical notwithstanding the apparent similarities in corporate culture between ESSA and UBI. Bijlsma-Frankema maintains that the focus of managers during a process of cultural integration should be on developing trust between groups and individuals (2001:200), which she suggests can be achieved through developing shared norms, setting shared goals, monitoring and intervening where conflict resolution is necessary and creating 'psychological safety' by allowing employees to fail in the early stages of integration and then giving constructive feedback.

Bijlsma-Frankema also reiterates the importance of senior management involvement, noting that cultural integration is assisted when senior leaders are able to model the unified culture (2001:195). For the purposes of this merger, it is imperative that this unity be modelled by the joint task team. Also, in order to facilitate deepening levels of trust between groups and individuals, employees, students and other stakeholders need to be given regular opportunities to be together both socially and in shared organisational events.

8.4. Conclusion

This chapter has outlined the recommended process to be followed by leaders of ESSA and UBI in order to pursue the implementation of a merger of the two institutions in the medium to long term. In the short term, a joint venture or strategic alliance of some form is proposed in order to allow stakeholders from both institutions to test the cultural fit of the merger parties and to draw other stakeholders into the merger process. The task team is also required to map out a plan for the full merger of the two entities, ensuring that stakeholders are consulted and that excellent communication is a feature of the process.

9. FUTURE RESEARCH

Apart from the constraints placed on this research by limited time and financial resources, this study has been limited in that it has been restricted to canvassing the opinions of selected staff and Board or Council members. Ideally, students and other stakeholders should also have been a part of this process.

In the course of ongoing merger discussions between ESSA and UBI leadership, it has become apparent that the Durban Bible College is also interested in the possibility of being incorporated into a merged theological institution. While there would clearly be greater logistical challenges involved in merging with a Durban-based entity, this proposal merits investigation and could be the subject of further research.

Finally, although a majority of staff members interviewed were uncertain of the value of a tertiary level theological qualification offered in Zulu, a study considering the demand for such a qualification would be valuable.

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APPENDIX A – ORGANISATIONAL CULTURE SURVEY

Source: Cartwright and Cooper, 1996:72

Consider the following items, and choose the *one* response which most applies to your organisation:

1. In this organisation, individuals are expected to give first priority to:

    a. Meeting the challenges of the individual task in which they are involved.

    b. Co-operating with and attending to the needs of their fellow workers.

    c. Following the instructions of their superiors.

    d. Acting within the parameters of their job description.

2. The organisation responds to members as if they were:

    a. Associates or colleagues.

    b. Family or friends.

    c. Hired help.

    d. Contracted employees.

3. In this organisation, people are motivated and influenced most by:

    a. Their own commitment to the task.

    b. The respect and commitment which they have for their co-workers.

    c. The prospect of rewards or fear of punishment.

    d. The company 'bible' or rule book.

4. A good employee is considered one who:

    a. Is self-motivated and willing to take risks and be innovative if the task demands it.

    b. Gets along well with others and is interested in their self-development.

    c. Always does what his/her boss tells him/her to do without question.

    d. Can be relied upon to stick to company rules.

5. Relationships between work units or inter-departmentally are generally:

    a. Cooperative.

    b. Friendly.

c. Competitive.

d. Indifferent.

6. In this organisation, decisions tend to be:

   a. Made by people on the spot who are close to the problem and have the appropriate task expertise.

   b. Made after considerable discussion and with the consensus of all those involved regardless of their position in the organisational hierarchy.

   c. Referred up the line to the person who has the most formal authority.

   d. Made by resorting to established precedents.

7. It is most important for a new member of this organisation to learn:

   a. To use his/her initiative to get the task completed.

   b. How to get on with his/her fellow workers.

   c. Who really counts in this organisation and be aware of political coalitions.

   d. The formal rules and regulations.

8. The dominant managerial style of this organisation is:

   a. Democratic and open.

   b. Supportive and responsive to individual needs and idiosyncrasies.

   c. Authoritarian.

   d. Impersonal and remote.

APPENDIX B – SCHEDULE OF INTERVIEWS

Name	Date	Institution	Role
M Rajuili	17 August 2006	UBI	Principal
M Patrick	17 August 2006	UBI	Vice-Principal
G Ford	20 August 2006	UBI / ESSA	Contracted Chartered Accountant
A Johnson	20 August 2006	UBI	Financial Administrator
V Murray	22 August 2006	UBI	Support staff - hospitality
R Shand	22 August 2006	UBI	Lecturer
C Mahlangu	30 August 2006	ESSA	Principal
H le Roux	24 August 2006	ESSA	Academic Director
E Binion	31 August 2006	UBI	Academic Dean
S Dladla	1 September 2006	ESSA	Student Director
T Mpanza	24 August 2006	UBI	Student Dean
A Mambi	1 September 2006	ESSA	Chairperson of Council
N Smith	30 August 2006	ESSA	Fundraising and Communications Director
S Nkosi	31 August 2006	UBI	Chairperson of Board
P Bruce	1 September 2006	ESSA	Council Member
C Smith	30 August 2006	UBI	Council Member
J Bolger	31 August 2006	UBI	Librarian
R Murray	31 August 2006	UBI	Lecturer / IT specialist
A le Roux	1 September 2006	ESSA	Librarian
H Wetmore	30 August 2006	ESSA / UBI	Former UBI staff member, founding member of ESSA Council

Note: The researcher is employed as ESSA's Director of Finance and Administration with responsibilities including financial and human resources management, as well as IT and institutional accreditation. Information relating to ESSA in these areas therefore is drawn from the researcher's own working knowledge.

APPENDIX C – FINANCIAL STATEMENTS

THE EVANGELICAL SEMINARY OF SOUTHERN AFRICA

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2003

		Note	2003 R	2002 R
INCOME				
Donations		7	849 819	763 138
Interest and Dividends Received			1 130	1 410
Library Income			11 297	28 373
Management Fee			30 248	21 370
Rental Income - Students			182 764	154 937
- Other			38 405	34 190
Student Fees			428 533	336 992
Sundry Income			1 893	1 841
TOTAL INCOME			1 544 089	1 342 251
EXPENDITURE			1 506 371	1 363 681
Accountancy Fee	- Current year		10 000	4 000
	- Unprovision prior year		7 000	
Actea			4 416	6 524
Advertising			426	2 372
Audit Fee - Current year provision			6 000	10 000
- Overprovision prior year			(4 984)	
Bank Charges			8 823	12 834
Bad Debts			1 341	-
Bad Debt Provision reversed			17 000	(12 000)
Chapel			560	962
Cleaning, Refreshments & Hospitality			13 401	8 908
Cluster			1 602	847
Computer Licences & Maintenance			931	629
Conferences			230	-
Council Expenses			708	697
Depreciation			56 858	49 246
Electricity and Water			57 243	45 028
Exchange Loss			9 732	19 327
Insurance			23 695	13 421
Interest paid			35 835	920
Lease Costs on Equipment			13 932	14 142
Lecture Costs			19 414	10 539
Levy Paid			-	33 845
Library Expenditure			21 336	9 948
Loss on Investments Realised			-	10 964
Postage			5 817	2 912
Printing, Stationery and Photocopies			18 077	13 235
Publicity			-	27 485
Rent Paid			-	7 500
Repairs and Maintenance		8	64 501	52 025
Salaries and Wages			1 031 030	962 673
Security			4 768	1 690
Student Expenses			21 020	-
Sundry Expenses			5 544	3 949
Telephone			48 733	48 329
Travel			1 382	730
SURPLUS/(SHORTFALL) FOR THE YEAR			37 718	(21 430)

THE EVANGELICAL SEMINARY OF SOUTHERN AFRICA

BALANCE SHEET AT 31 DECEMBER 2003

	Notes	2003 R	2002 R
ASSETS			
NON-CURRENT ASSETS		7 061 057	6 426 948
Property, plant and equipment	3	4 256 253	3 538 049
Investment of Funds	4	2 804 804	2 888 899
CURRENT ASSETS		186 302	161 391
Accounts Receivable		150 536	97 498
Free Methodist Foundation		35 720	63 488
Cash		46	405
TOTAL ASSETS		7 247 359	6 588 339
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES		4 050 536	3 343 840
Revaluation Reserve	2	1 241 518	1 241 518
Accumulated Funds		2 809 018	2 102 322
Designated Funds	5	2 804 804	2 888 899
CURRENT LIABILITIES		402 019	355 600
Accounts Payable		134 515	161 081
Bank Overdraft	6	267 504	194 519
TOTAL EQUITY AND LIABILITIES		7 257 359	6 588 339

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 R	2003 R
INCOME			
Donations	7	747 057	959 874
Interest and Dividends Received		5 487	1 130
Library Income		146 338	11 297
Management Fee		26 400	30 248
Rental Income - Students		208 724	182 764
- Other		36 308	38 405
Student Fees		535 269	428 533
Sundry Income		13 410	1 893
TOTAL INCOME		1 718 993	1 654 144
EXPENDITURE		1 776 190	1 626 426
Accountancy Fee - Current year		10 000	10 000
- Unprovision prior year		(800)	7 000
Actea		3 663	4 416
Advertising		-	426
Audit Fee - Current year provision		6 000	6 000
- Overprovision prior year		(2 894)	(4 984)
Bank Charges		11 610	8 823
Bad Debts		47 058	1 341
Bad Debt Provision reversed		-	27 000
Bursaries		23 467	
Chapel		-	560
Cleaning, Refreshments & Hospitality		10 410	13 401
Cluster		481	1 602
Computer Licences & Maintenance		-	931
Conferences		288	230
Council Expenses		-	708
Depreciation		59 282	56 858
Electricity and Water		61 890	57 243
Exchange Loss		(116)	9 732
Insurance		28 299	23 695
Interest paid		25 304	35 835
Lease Costs on Equipment		23 298	13 932
Lecture Costs		19 187	19 414
Library Expenditure		14 414	21 336
Postage		5 810	5 817
Printing, Stationery and Photocopies		15 917	18 077
Publicity and local Fundraiser		80 939	110 055
Repairs and Maintenance	8	69 700	64 501
Salaries and Wages		1 168 171	1 031 030
Security		3 966	4 768
Student Expenses		28 599	21 020
Sundry Expenses		9 711	5 544
Telephone		50 509	48 733
Travel		2 027	1 382
SURPLUS/(SHORTFALL) FOR THE YEAR		(57 198)	27 718

BALANCE SHEET AT 31 DECEMBER 2004

	Notes	2004 R	2003 R
ASSETS			
NON-CURRENT ASSETS		7 976 647	7 061 057
Property, plant and equipment	3	4 756 719	4 256 253
Investment of Funds	4	3 219 928	2 804 804
CURRENT ASSETS		158 204	186 302
Accounts Receivable		149 590	150 536
Free Methodist Foundation		8 601	35 720
Cash		13	46
TOTAL ASSETS		8 134 851	7 247 359
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES		4 449 845	4 040 536
Revaluation Reserve	2	1 241 518	1 241 518
Accumulated Funds		3 208 327	2 799 018
Designated Funds	5	3 219 928	2 804 804
CURRENT LIABILITIES		465 078	402 019
Accounts Payable		164 819	134 515
Bank Overdraft	6	300 259	267 504
TOTAL EQUITY AND LIABILITIES		8 134 851	7 247 359

THE EVANGELICAL SEMINARY OF SOUTHERN AFRICA
(ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

		Note	2005 R	2004 R
INCOME				
Revenue			1 058 388	953 039
Library Income			76 336	146 338
Management Fee			28 800	26 400
Rental Income	Students		212 335	208 724
Rental Income	Other		43 060	36 308
Student Fees			697 857	535 269
Other Income			775 768	765 954
Donations		7	773 764	747 057
Interest Received			768	5 487
Sundry Income			1 236	13 410
TOTAL INCOME			1 834 156	1 718 993
EXPENDITURE				
Administrative expenses			1 668 371	1 631 929
Accountancy Fee	- Current year		10 000	10 000
	- Unprovision prior year		(940)	(800)
Actea			3 695	3 663
Advertising			1 454	-
Audit Fee - Current year provision			5 000	6 000
- Overprovision prior year			(1 776)	(2 894)
Bank Charges			11 908	11 610
Bad Debts			71 058	47 058
Book Publishing			3 000	-
Cleaning, Refreshments & Hospitality			13 463	10 410
Cluster			369	481
Conferences			700	288
Depreciation			55 854	59 283
Exchange Loss			-	(116)
Insurance			20 083	28 299
Lease Costs on Equipment			22 572	23 298
Licences			1 027	-
Membership/Accreditation			10 000	-
Postage			2 610	5 810
Printing, Stationery and Photocopies			14 866	15 917
Publicity and local Fundraiser			167 380	80 939
Repairs and Maintenance		8	47 954	69 700
Salaries and Wages			1 092 481	1 168 171
Security			4 824	3 966
Staff Expenses			2 349	-
Student Expenses			30 933	28 599
Sundry Expenses			10 360	9 711
Telephone			59 331	50 509
Travel			7 816	2 027
Other operating expenses			106 233	118 958
Bursaries			-	23 467
Electricity and Water			53 840	61 890
Lecture Costs			37 405	19 187
Library Expenditure			14 988	14 414
Financing Costs			36 202	25 304
SURPLUS/(SHORTFALL) FOR THE YEAR			23 350	(57 198)

THE EVANGELICAL SEMINARY OF SOUTHERN AFRICA
ASSOCIATION INCORPORATED UNDER SECTION 21 OF THE COMPANIES ACT)

BALANCE SHEET AT 31 DECEMBER 2005

	Notes	2005 R	2004 R
ASSETS			
NON-CURRENT ASSETS		9 702 268	4 773 718
Property, plant and equipment	4	9 685 268	4 756 718
Investment of Designated Funds	3	17 000	17 000
CURRENT ASSETS		4 756 137	3 881 677
Investment of Designated Funds	3	4 235 083	3 202 928
Accounts Receivable		197 572	149 590
Cash at Bank	6	323 432	529 146
Cash on Hand		50	13
TOTAL ASSETS		14 458 405	8 655 395
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES		9 343 944	4 449 845
Revaluation Reserve	2	6 108 233	1 241 518
Accumulated Funds		3 235 711	3 208 327
Designated Funds	5	4 252 083	3 219 928
CURRENT LIABILITIES		862 378	985 622
Accounts Payable		216 557	164 819
Owing to Designated Funds	6	645 821	820 803
TOTAL EQUITY AND LIABILITIES		14 458 405	8 655 395

UNION BIBLE INSTITUTE

GENERAL FUND INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2003

	2003	2002
INCOME	R	R
Donations	522,674	450,217
General	312,674	270,217
Seconded Staff	210,000	180,000
Student Fees	466,285	308,986
Interest Received	52,007	29,696
Sale of Memorabilia	6,239	-
Sundry Income	4,200	220
Use of facilities and conferences	28,657	16,941
TOTAL INCOME	1,080,062	806,060
EXPENDITURE	1,039,560	722,828
GENERAL ADMINISTRATION	142,270	87,966
Bank Charges	8,733	5,160
Electricity and Water	77,594	37,081
Insurance	9,847	8,936
Miscellaneous	9,127	14,136
Postage & Stationery	6,522	3,013
Telephone and Fax	30,447	19,640
STUDENT EXPENDITURE	7,997	2,485
LIBRARY	-	-
Expenditure	40,710	18,995
Student Contributions	(18,500)	(8,000)
Donations utilised	(22,210)	(10,995)
HOUSEKEEPING	297,465	224,963
SALARIES AND ALLOWANCES	492,304	362,604
Institute Staff	478,112	361,906
Seconded Staff	210,000	180,000
Less Support received	(195,808)	(179,302)
MAINTENANCE	60,395	4,566
Depreciation	21,364	19,367
Expenditure, Salaries & Wages	227,507	65,746
Amy Flint Fund	(101,390)	(18,354)
Donations/Salary recovery	(40,416)	(25,053)
Rental Income	(46,670)	(37,140)
TRANSPORT	39,129	40,244
Depreciation	6,717	8,397
Fuel & Use of EBS Vehicle	32,490	22,356
Insurance and Licence	4,981	6,275
Repairs	1,741	4,059
Recoveries	(6,800)	(843)
EXCESS INCOME OVER EXPENDITURE	40,502	83,232

UNION BIBLE INSTITUTE

GENERAL FUND BALANCE SHEET AT 30 JUNE 2003

	Note	2003 R	2002 R
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	2	1,385,896	1,373,886
INVESTMENTS			
Specific Funds	3	644,750	567,069
CURRENT ASSETS		619,327	490,746
Stock - English Text Books		36,825	28,921
Accounts Receivable		43,455	18,118
Staff Salary Support Investment		147,502	135,069
Cash at Bank and on Hand		391,545	308,638
TOTAL ASSETS		2,649,973	2,431,701
EQUITY AND LIABILITIES			
EQUITY			
Accumulated Funds		1,637,807	1,558,521
SPECIFIC FUNDS	4	644,750	567,069
CURRENT LIABILITIES		367,416	306,111
Accounts Payable		157,998	150,262
Staff Salary Support		209,418	155,849
TOTAL EQUITY AND LIABILITIES		2,649,973	2,431,701

UNION BIBLE INSTITUTE
GENERAL FUND INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
INCOME	R	R
Donations	340,906	522,674
General	158,406	312,674
Seconded Staff	182,500	210,000
Student Fees	563,883	466,285
Interest Received	25,170	52,007
Sale of Memorabilia	2,132	6,239
Sundry Income	-	4,200
Use of facilities and conferences	20,936	28,657
Unizulu Subsidy received	16,300	-
Unizulu Subsidy transferred to funds	(16,300)	-
TOTAL INCOME	953,027	1,080,062
EXPENDITURE	1,167,381	1,039,560
GENERAL ADMINISTRATION	161,790	142,270
Bad Debt Provision	20,000	-
Bank Charges	11,998	8,733
Electricity and Water	70,533	77,594
Insurance	13,003	9,847
Miscellaneous	13,244	9,127
Postage & Stationery	4,224	6,522
Telephone and Fax	28,788	30,447
STUDENT EXPENDITURE	3,974	7,997
LIBRARY	-	-
Expenditure	14,473	40,710
Student Contributions utilised	(14,473)	(18,500)
Donations utilised	-	(22,210)
HOUSEKEEPING	332,805	297,465
SALARIES AND ALLOWANCES	566,658	492,304
Institute Staff	625,736	478,112
Seconded Staff	182,500	210,000
Less Support received	(241,578)	(195,808)
MAINTENANCE	72,651	60,395
Depreciation	17,208	21,364
Expenditure, Salaries & Wages	172,555	227,507
Amy Flint Fund	(38,315)	(101,390)
Donations/Salary recovery	(24,280)	(40,416)
Rental Income	(54,517)	(46,670)
TRANSPORT	29,503	39,129
Depreciation	7,281	6,717
Fuel	22,581	32,490
Insurance and Licence	5,746	4,981
Repairs	6,222	1,741
Recoveries	(12,327)	(6,800)
EXCESS EXPENDITURE OVER INCOME	(214,354)	40,502

UNION BIBLE INSTITUTE
GENERAL FUND BALANCE SHEET AT 30 JUNE 2004

	Note	2004 R	2003 R
ASSETS			
NON-CURRENT ASSETS			
Property, Plant and Equipment	2	1,888,473	1,385,896
INVESTMENTS			
Specific Funds	3	651,030	644,750
CURRENT ASSETS		368,227	610,529
Stock		57,569	36,825
Accounts Receivable		53,236	34,657
Staff Salary Support Investment		145,881	147,502
Cash at Bank and on Hand		111,541	391,545
TOTAL ASSETS		2,907,730	2,641,175
EQUITY AND LIABILITIES			
EQUITY			
Accumulated Funds		1,951,862	1,637,807
SPECIFIC FUNDS	4	651,030	644,750
CURRENT LIABILITIES		304,839	358,618
Accounts Payable		114,112	149,200
Staff Salary Support		190,726	209,418
TOTAL EQUITY AND LIABILITIES		2,907,730	2,641,175

UNION BIBLE INSTITUTE (ASSOCIATION INCORPORATED UNDER SECTION 21)

GENERAL FUND INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

	2005 R	2004 R
INCOME		
Donations	576 453	379 221
General	254 329	158 406
Seconded staff	280 000	182 500
Sundry income	34 618	38 315
Unizulu subsidy received	7 506	16 300
Unizulu subsidy transferred to funds	-	(16 300)
Student fees	704 053	563 883
Interest received	48 863	25 170
Sale of memorabilia	1 637	2 132
Rental income	112 450	75 453
TOTAL INCOME	1 443 456	1 045 859
EXPENDITURE - see page 12	1 392 372	1 260 214
Net surplus/(deficit)	51 084	(214 355)
Transfer (to)/from reserves	(35 313)	528 409
	15 771	314 054

Pietermaritzburg
12 October 2005

UNION BIBLE INSTITUTE (ASSOCIATION INCORPORATED UNDER SECTION 21)

BALANCE SHEET AT 30 JUNE 2005

	NOTES	2005 R	2004 R
ASSETS			
NON-CURRENT ASSETS		2 523 611	2 539 503
Property, plant and equipment	2	1 884 976	1 888 473
Investments	3	638 635	651 030
CURRENT ASSETS		374 205	368 227
Inventory	4	68 359	57 569
Accounts receivable	5	119 543	53 236
Cash and cash equivalents		186 303	257 422
		2 897 816	2 907 730
EQUITY AND LIABILITIES			
EQUITY		2 606 269	2 602 893
Retained earnings		1 967 634	1 951 863
Reserves	6	638 635	651 030
CURRENT LIABILITIES			
Accounts payable	7	291 547	304 837
		2 897 816	2 907 730

Pietermaritzburg
12 October 2005

APPENDIX D – GUIDED INTERVIEW OUTLINE

Which institution are you associated with, and what is your role within the organisation?

Merger Desirability

Do you think a merger would be helpful for your organisation?

What do you know about the other institution – what do you perceive its strengths and weaknesses to be?

Do you have any concerns about being amalgamated with this institution?

Do you think other stakeholders from your institution would approve of this move?

Merger Feasibility

Do you think a merger is possible? What do you consider the major challenges and obstacles to overcome?

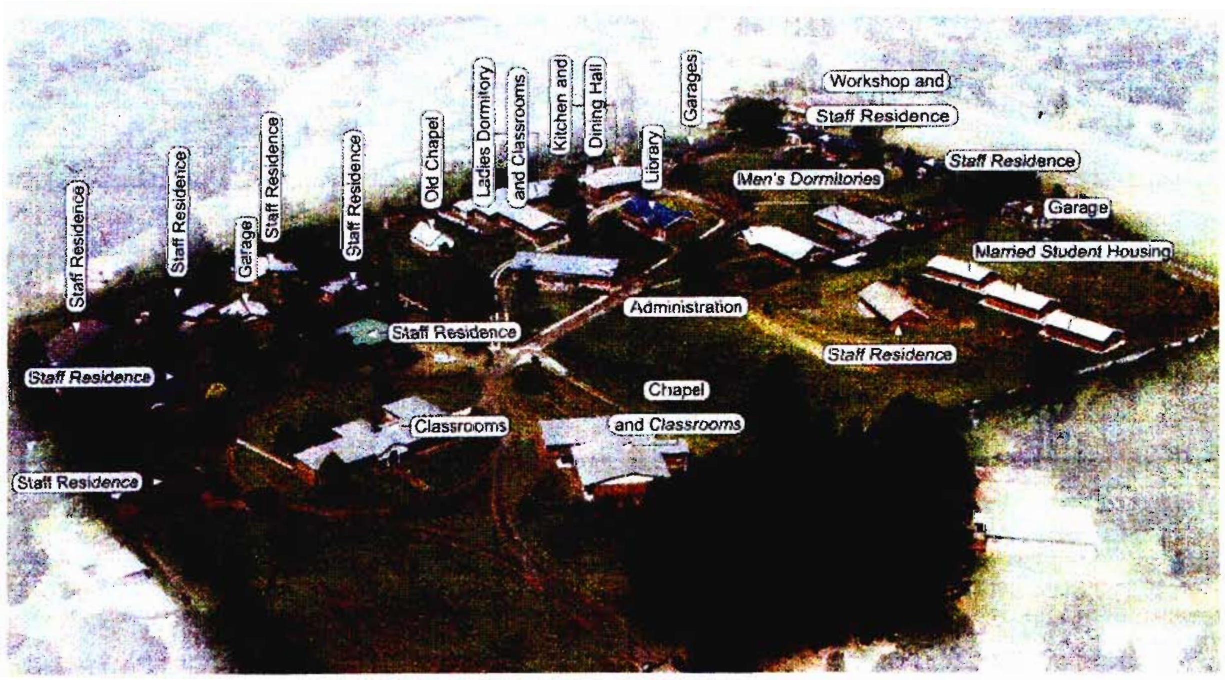
In your own particular area of expertise, what do you think the major challenges will be?

Do you have any proposals as to how a multi-campus system might work between the two institutions?

APPENDIX E – CAMPUS FACILITIES

ESSA CAMPUS

UBI CAMPUS



APPENDIX F – ACADEMIC CURRICULA

UBI: Diploma in Biblical Studies		
Bible Introduction	Hermeneutics	Bible Culture and Geography
Old Testament History I-IV	New Testament History I,II	Matthew
Romans	Doctrine I-III	Comparative Religion
Christian Education I-IV	Homiletics I	Library and study skills
Computers / English	Pastoral Theology / Christian Education V	Psalms
Isaiah	Minor prophets	John: Gospel and Epistles
1 Corinthians	Ephesians	General Epistles
Pastoral Epistles	Future Events	Church History
Church History (Africa)	Worship	Basic Counselling
Advanced Counselling	Church Administration	Homiletics II or Public Speaking
Greek I or Homiletics III	Greek II or Sowers	Biblical Missions
History of Missions	Church Planting	Personal Evangelism
Devotional Life	Christian Home	Christian Ethics
Communication Skills		
Additional credits for upgrade to BTh (UniZul)		
Worship I-II	Advanced Counselling / AIDS	Greek I-IV
Selected Ethical Issues	Contemporary Theological Issues	Missions History
Developing the Christian	Community / Missions sending	Crosscultural communication
Tolerance and empathy	Literacy skills	Creative thinking, work ethic, computer

Evangelical Seminary of Southern Africa

Bachelor of Theology (Ministry and Mission)

Total credits required: 388

Year: 1st

Code	Course name	Credits	
DEV100	Study Methods / Practical Communication	4	
DEV102	Principles of Development	8	
DEV111	Introduction to Computers	4	
HIS101	History of Christianity	8	
MIN102	Counselling	8	
MIN108	Christian Spirituality	8	
MIN109	Discipleship and Evangelism	8	
MSS101	World Mission	8	
MSS102	Anthropology and Intercultural Communication	8	
MUS101	Introduction to Music Ministry	8	
NTE102	Romans	8	
NTE106	Introduction to New Testament	8	
OTE104	Genesis	8	
OTE105	Introduction to Old Testament	8	
PTH100	First year fieldwork	0	
PTH104	Christian Management and Leadership	8	
PTH150	Aids and the Church	8	
THE104	Systematic Theology A	8	
COM101	English Skills	4	Choose one course
COM102	Zulu Language and Culture	4	

Year: 2nd

Code	Course name	Credits
HIS201	Church in Africa	8
HIS204	Christianity in Contemporary Society	8
MSS202	Theology of Mission	8
MSS205	Mission in Practice	8
NTE201	Synoptic Gospels	8
NTE202	Gospel of John	8
OTE202	History of Israel	8
OTE203	Exodus and Deuteronomy	8
PTH200	Second Year Fieldwork	0
PTH201	Small Group Leadership	8
PTH202	Hermeneutics and Exegesis	8
PTH205	Conflict Resolution	8
PTH207	Personal Renewal and Stress Management	8
PTH230	Christian Education	8
PTH240	Preaching	8
THE201	Introduction to Philosophy and Theological Methods	8
THE205	Systematic Theology B	8

Year: 3rd

Code	Course name	Credits
MSS301	World Religions	8
MSS307	African Initiated Churches	8
MSS308	L A M P	8
NTE302	James	8
NTE305	Apocalyptic Literature	8
NTE306	Pastoral Epistles	8
OTE302	Isaiah	8
OTE303	Hosea / Amos / Jonah	8
OTE304	Psalms and Wisdom Literature	8
PTH300	Third year fieldwork	0
PTH302	Pastoral Care	8
PTH306	Church Ministry to Family and Home	8
PTH309	Areas of Counselling	8
PTH350	Church in the City	8
THE301	Contemporary Theologies	8
THE302	Ethics	8
THE306	Systematic Theology C	8

APPENDIX G – INFORMED CONSENT FORM

INFORMED CONSENT FORM: MBA THESIS

My name is Michael Bishop (contact telephone number 033 3941679) and I am undertaking this study in partial fulfillment of the requirements for a Masters in Business Administration.

The supervisor of the project is Prof Debbie Vigar-Ellis of the School of Management (University of KwaZulu-Natal), who can be contacted on 033 2605899.

The project title is "A feasibility study of a proposed merger between the Evangelical Seminary of Southern Africa (ESSA) and the Union Bible Institute (UBI)". As an employee of ESSA and someone who is concerned for the development of theological education in Southern Africa, I believe that there may be real benefits for both institutions in considering a merger. This study attempts to ascertain whether or not that belief is well-founded.

You have been asked to complete a questionnaire and/or participate in an interview. While your contribution will be very helpful to both organizations, you are not obliged to answer any question put to you. Questionnaires may be submitted on an anonymous basis and I will personally retain all records relating to any interviews conducted so as to protect the anonymity of all individuals. Once the thesis is published, these records will be destroyed. You will not be identified by name in the body of the thesis. You should be able to complete the questionnaire in no more than ten minutes, while an interview will probably take between thirty and sixty minutes.

Participation in this study is voluntary and you are free to withdraw from the study at any stage and for any reason.

DECLARATION

I..(full names of participant) hereby confirm that I understand the contents of this document and the nature of the research project, and I consent to participating in the research project.

I understand that I am at liberty to withdraw from the project at any time, should I so desire.

SIGNATURE OF PARTICIPANT ***DATE***

....

Potential subjects should be given time to read, understand and question the information given before giving consent. This should include time out of the presence of the investigator and time to consult friends and/or family.