"IT IS ESSENTIAL THAT THE SCHOOL TAKES A LONG HARD LOOK AT HOW MUCH IT IS ABLE AND WILLING TO INVEST IN ITS SISTER S

AN UNPRECEDENTED OPPORTUNITY

Mark Abell looks at the structural and legal options for UK schools wanting to take advantage of the burgeoning international market

With an increasingly competitive environment in the UK independent schools sector, governors, heads and bursars are turning to more innovative and non-traditional strategies to secure their school's future. Foremost amongst these strategies is international growth: the establishment of "sister" schools outside of the UK. However, lack of international commercial experience, concern to protect the integrity of the school, a lack of familiarity with the available structural options and a fear that they may not be able to comply with relevant regulatory requirements can discourage schools from taking full advantage of this opportunity.

This article seeks to reassure schools that internationalisation is a realistic option for many of them. While acknowledging that there are indeed potential risks which need to be faced, it focuses mainly on the ways in which schools can structure their international expansion so as to reduce these risks to an acceptable level and optimise their return on investment within the limitations of the resources available to them.

A great opportunity

The move by independent schools towards internationalisation is enthusiastically supported by Vince Cable, secretary of state for business innovation and skills (BIS), who stated in his speech at the conference British Education – Our last Great Export?, that education is one of the UK's prime export assets, accounting for a higher level of exports from the UK than both the insurance and IT sectors in 2011. It's a sentiment echoed in his department's publication 'International Education - Global Growth and Prosperity: An Accompanying Analytical Narrative'.

With the global education market estimated at US$4.5 trillion in 2012 and a year-on-year growth profile for the next five years estimated to be some 7 percent, it is easy to see both why the government is so enthusiastic for British schools to stake their claim to a share of it and why schools such as Wellington College, Harrow, Repton, Brighton College, King's College School Wimbledon, St Albans School, Dulwich College, Malvern and Marlborough have grasped the opportunity with both hands.

In the Middle East, China, India, Russia and South East Asia there is a strong demand for UK education. This is fuelled by youthful demographic profiles, a lack of local educational infra-structure and high esteem for British education. In many countries, such as the UAE, Qatar and Saudi Arabia, it is also strongly supported by the national government.

The opportunity is not only for those schools which teach 11-18 year olds. Prep schools and indeed pre-prep schools are also very much in demand. In some countries these schools are aimed predominantly at expatriates with children who need schooling, but in others they are aimed more at the local population. These differences all have an impact upon the nature and structuring of the various opportunities.

Whatever the nature of the educational need though, with well-resourced investors hungry for the opportunity to grab a share of this lucrative market while at the same time making a valuable contribution to their home country's future growth and development, many schools are inundated

R SCHOOL AS REGARDS TIME AND RESOURCES"

ABOVE (L-R): schools that have already grasped the opportunity to open international franchises include Wellington College (China), Harrow (Hong Kong) and Marlborough (Malaysia)

with potential suitors. The problem that they find themselves facing is not so much how to find a potential partner (although this is sometimes an issue), but more how to structure their relationship with the selected partner and ensure an appropriate level of control over the proposed sister school.

The risks

If the international venture is structured in an appropriate manner, there should be no material financial risk to the school. The risks that school faces will revolve mainly around quality assurance and control, protecting the school's integrity and reputation and ensuring that the sister school maintains the relevant high standards as regards not only academic studies, but also pastoral care and traditions and ethos.

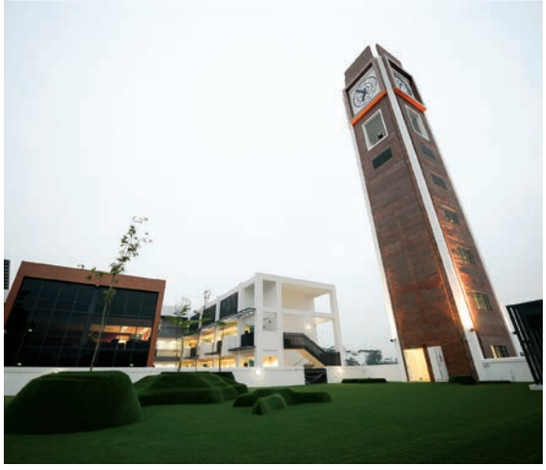
The best way of reducing this risk to an acceptable level is to ensure that the school chooses an appropriate partner. The partner may or may not have relevant experience of operating schools. That is not important. What is important is that the partner is committed to the school's educational ethos and is willing to place that above the financial returns that the sister school generates for them. For example, are they willing to support the relevant staff/student ratios, even though higher ratios will generate a higher fiscal return on their investment?

Once an appropriate partner has been identified, it is important to ensure that the school has sufficient resources to support the sister school. Exactly what resources are needed will depend upon the structure adopted, but in any event the international venture will have to be considered an important part of the school's commitments. The head and the bursar will need to be involved in the launch of the sister school, helping with staff recruitment and training to some degree. The school governors will also have a role in ensuring that the sister school is monitored and given appropriate levels of ongoing support.

In order to reduce the risks of internationalisation to the minimum it is essential that the school takes expert advice from professionals, particularly lawyers, with an established track record of advising schools on their international ventures. The charitable status of schools, the role of the school governors, the nuances of the education sector and the regulatory maze in the target markets that needs to be negotiated all mean that professionals without relevant experience are unlikely to be able to give the level of advice and support that is needed.

The basic options

There is a variety of ways in which schools can structure their relationship with their overseas sister school, each offering a differing degree of involvement and control. Increased control involves increased responsibility and it is essential that the school takes a long hard look at how much it is able and willing to invest in its sister school as regards time and resources. There are three basic structural options, although technical nuances, local regulatory requirements and differing commercial ambitions mean that within each structure, particularly the franchise and "manchise" models, there is a wide range of possible options which allows



ABOVE: author Mark Abell. TOP (L-R): Wellington College (China), Dulwich College (Singapore)

schools to tailor things to best suit their individual circumstances.

***A licence*:** this involves the school committing to a minimal level of involvement in the sister school, which is fully funded by the local partner. Typically it involves the local school, (sometimes an existing establishment) adopting the school's name, being given a basic curriculum and having access to the school's head and certain other staff for a fixed number of days a year. In return the school receives an initial fee and a fairly modest ongoing royalty based on the sister school's tuition fees. The advantage of this structure is that it requires minimal investment of time and resource by the school and generates an ongoing income stream for it. On the downside, it potentially exposes the school to the risk that its reputation will be damaged or diluted by the way in which the sister school is operated. This structure is best used if the local partner is an experienced and successful school operator in the target market in whom the school has significant confidence.

A franchise: this involves the local partner fully funding the sister school and the school investing far more time and effort into producing a clear and periodically updated statement of the school's ethos, modus operandi, curriculum and business model (the school guidelines), ensuring that sister school staff are fully trained and apply them. The school will invest time in designing the curriculum for the sister school and recruiting the sister school's head, deputy head, bursar and academic staff, training them and supporting and policing them on an ongoing basis. There are often staff and student exchanges. In return the school will receive an upfront fee and an ongoing percentage of the sister school's income. The upside of this approach is that it gives the school far greater control over how the sister school is operated, thereby better protecting its reputation and the quality of its teaching. The downside is that the school is still not totally in control of the way in which the sister school is operated and has to build considerable resources in order to monitor and support the sister school on an on-going basis.

A "manchise": this involves the local partner fully funding the sister school and the school granting it a franchise, as above. However, in addition, the school enters into a management agreement with the sister school under which the school's operating company undertakes to run the sister school on a day-by-day basis in return for an additional management fee. The advantages of this approach is that it gives the school full control of the sister school and another substantial income stream. The downside is that it requires the school to invest a great deal of time and resources in the sister school.

In some jurisdictions, the regulators require that the school has an equity shareholding in the sister school, the idea being that it gives a greater degree of permanence to the relationship. This does not necessarily mean that the school has to invest its own capital in the sister school however, and there are a number of different structural options that can be adopted.

Conclusion

Independent schools in the UK are currently enjoying an unprecedented opportunity to access new and substantial long-term income streams by establishing sister schools in wealthy markets which lack educational infrastructure and are looking to UK schools to fill the vacuum. They are also being offered the opportunity to imprint their ethos and values on young minds across the world and raise their profile as leaders in the field of international education.

By adopting one of the structure types detailed in this article, they are able to do this in a manner which is consonant with their resources and avoids the risk of the school's reputation being adversely impacted by low standards in the sister school. This window of opportunity will not be open for ever, as the demand for educational infrastructure in developing markets is understood not only by UK schools, but also by those in the US and elsewhere. For example, the Singapore-based Raffles College is in the process of setting up a sister school in India.

If British schools are to take advantage of this opportunity, they need to take the initiative now, identify suitable foreign partners and ensure that they avail themselves of appropriate expert advice. IE

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