

## **An Unusual Merger**

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## An Unusual Merger

A housing and health care charity for the elderly makes British history when it acquires a for-profit care company **BY DAVID GRAYSON**

WE WERE COMING TO THE END of a routine board meeting when Finance Director and Deputy CEO Pushpa Raguvaran dropped a bombshell. “How would the board feel about a potential bid for a group of publicly quoted care businesses?” she asked. “We would be in competition with private equity firms and commercial care businesses.”

Raguvaran and the management team at Housing 21 (H21), a U.K. housing and health care charity for the elderly, had already proved to be innovative. The 46-year-old organization had won the only two Private Finance Initiative contracts for older people’s housing offered by the U.K. government. (Private Finance Initiatives are public-private partnerships in which public infrastructure projects are funded with private capital.) From its origins as a Registered Social Landlord (RSL), the enterprise pioneered the concept of extra-care housing, whereby tenants maintain their own apartments but are part of a community with on-site care and support services that ramp up as the tenant becomes mentally or physically frailer. H21 was also the first RSL to develop expertise in dementia care.

Nevertheless, the proposal to bid for a for-profit company was bold. As nonexecutive chairman, I felt my mind racing through a series of questions. Did the board have the expertise on to oversee such a bid? Did the senior executive team? Even if we had the necessary expertise, did the board and executive team have the ability to try? Would the Claimar owners and their professional advisors (KPMG) take us seriously? Was the invitation to bid genuine, or would we be wasting time and money? How would our new regulator, the Tenant Services Authority (TSA), view such a move?

H21’s 2007–2012 corporate plan was to double the size of its care business to 60,000 hours per week. We previously assumed that this would be organic growth through winning new contracts from local authority social service commissioners. We had looked at small acquisitions previously, and we had done a couple of single contract, family-owned business acquisitions in the previous year. But we had never considered buying a public limited company or national business. Claimar, however, fit with our growth objectives. The board quickly decided that the staff time and professional fees we would incur while examining the bid would be justified by the experience our management team would gain in reviewing the U.K. eldercare market. Furthermore, we had two experienced bankers on the board.

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### DID WE WANT TO WIN?

A few weeks later, and with a board working group delegated to oversee the bid process, we faced far more difficult questions: Did we want to win, and if so, what would be the maximum bid price? Were we being suitably cautious about assumed synergies? Did we have the management capacity for integrating Claimar if we won? Were there likely to be more interesting future opportunities that a successful bid for Claimar would preclude us from exploiting? Would tenants or the TSA react negatively to a bid?

After a few nerve-racking days, we decided to bid 39 pence per share, valuing Claimar at approximately £19.5 million—and won. The press was uniformly positive. “Buy-out champions bowled out by charity amateurs” was the verdict of an Aug. 8, 2009, *Times* story. “Money well spent” was the headline on an *Inside Housing* article.

My colleagues’ and my summer had been turned upside down, with 14 extra board and working group meetings, often held at short notice. The board had to cover issues unfamiliar to a number of us.

As chairman, I was responsible—for the first time in my life—for a takeover bid conducted under the very rigorous rules of the U.K. Takeover Code and the Takeover Panel.

Now the question was what would happen after the successful bid. We asked every experienced person we knew: Why do commercial mergers and acquisitions (M&As) fail? How do we avoid the fate of the majority of M&As that don't deliver the promised added value—and even destroy value? What are the specific integration issues facing a nonprofit that acquires a for-profit group of companies?

The initial integration was not without drama, as we grappled with sensitive organizational and personnel issues within the acquired companies. There was also the hurdle of absorbing a

development of a joint new business development function to pitch for new contracts; the merger of crucial back-end functions such as information technology, human resources, and finance; and the development of relations with the commissioners of care contracts.

We were able to use the values of H21—caring, individuality, empowerment, integrity, improvement, investment, and ambition—as the basis for a culture change program across the combined organization. This involved H21 “ambassadors” (senior and middle managers) visiting all the Claimar branches to explain the vision, values, activities, and future plans of the combined organization. Visible changes like new uniforms, signage, badges, and an integrated website reinforced the culture program. In parallel, professional advisors

helped us decide which subsidiaries should be sold, closed, or retained. We decided to sell the high-acuity care business. We also closed Claimar's loss-making training business and a subsidiary that installed home panic alarms for old people.

## We used the integration as stimulus to look afresh at everything we do, rather than to assume that either the old H21 or the old Claimar had it right.

group of for-profit companies into the culture of a nonprofit social enterprise. Two senior Claimar staff left early on.

With input from friends and colleagues with wide commercial M&A experience, board members identified several critical success factors. They included communicating the timescales for restructuring and deciding which parts of Claimar would be retained or sold. We spent an intensive day as a board and executive team interviewing the leadership of each of the main subsidiaries we had acquired. This “eyeball” time gave us a better feel for the potential chemistry among the principals as well as the strategic choices we had to make.

We decided that our priorities were first to ensure no loss of service to clients. Only then would we try to seek synergies and business improvements. We aimed to identify the best practices of each organization, not just to maintain business as usual at H21. Claimar's finance director became interim financial director for the merged organization, and Raguvaran became the merged organization's new CEO.

### INTEGRATING AND ADDING VALUE

The businesses we acquired looked after some of the most vulnerable and high-need people in our society. They were not just elderly people in need of housing with care and health services. One of the acquired subsidiaries cared for patients injured in sporting and car accidents who required long-term intensive 24/7 care—very different from our core activities.

After some lively internal debate, we appointed a senior nonexecutive director—a banker who previously chaired both our audit and performance committees—to be the integration champion. He chaired a fortnightly integration working group (IWG) with top executives from H21 and Claimar. We added an implementation group meeting, on alternate weeks, to chase progress. We also hired a temporary integration project manager.

These operational groups have continued through the fall of 2010, overseeing detailed work, such as the rollout of H21's health and safety procedures, the training of frontline care staff, and the rationalization of the local office network. The IWG also oversaw the

stimulus to look afresh at everything we do, rather than to assume that either the old H21 or the old Claimar had it right. The board remuneration committee has agreed to a new compensation system for senior management. Board and senior management are working together to develop a new, long-term strategy for the merged organization. This is proving particularly timely as the United Kingdom's new coalition government is driving dramatic change in the delivery, funding, and design of public services.

Currently, our combined organization is the second largest provider of sheltered social housing for older people in the United Kingdom, and we are the fourth largest care provider in the country. We have more than 8,200 staff across more than 500 locations, and we now are able to serve more than 30,000 older Britons. We also have added new services to our portfolio, including an online pharmacy and 24-hour live-in care.

Our considerably expanded size inevitably puts H21 on media's and regulators' radar screens. It also raises the stakes for us in ensuring that we have the procedures in place to protect our greater number of care customers and that we can remain agile in responding to a rapidly changing public policy and commissioning environment.

The lessons I draw from the acquisition experience are the importance of hiring and properly using professional advisors—and not skimping on this. Identifying and addressing stakeholder concerns is another critical lesson. The moment we announced our formal bid, Raguvaran wrote to all our tenants explaining what we were doing and why, and how the acquisition would enable us to offer more and better services for an increasing number of older Britons. The personal letters and e-mails she received from around the country informed the second wave of our communications with tenants. We kept our regulator regularly briefed on developments, which itself required dispensation from the U.K.'s Takeover Panel.

The Claimar acquisition was a significant social innovation. It represents a further extension of the blurring of the boundaries between the for-profit and nonprofit worlds and an important extension of the role of civil society organizations. ■