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Institute on Aging: When Non-profits Operate Like   
For-Profits

James Pike and Vijay Sathe wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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In November 2017, Tom Briody, chief executive officer (CEO) of the Institute on Aging (IOA), reviewed the company’s latest balance sheet and income statement with a sense of satisfaction (see Exhibits 1 and 2). Gross revenue had expanded from US$28.7 million[[1]](#footnote-1) to $45.2 million. Net income had reached a break-even point. After more than a decade of financial turmoil, he had managed to turn around an organization that had teetered on the edge of insolvency.

The focus on opportunities rather than crises was a welcome change of pace. Briody vividly recalled the difficulties he faced in February 2012 when he became the CEO of the IOA. The debt covenants of a $41 million loan were being violated. The organization had $8 million cash in reserve, but was burning through it at a rate of $4 million per year. At the time, Briody’s statement to the board was succinct: “I’m going to be very honest with you. The house is on fire. We’ve got to do something immediately.”

Cost-cutting alone would not solve the problem. Briody needed the organization to rethink its role in the senior care market. The IOA was non-profit—but it needed to start acting like a for-profit organization.

A History of Serving Senior CITIZEns

In the early 1980s, a paradigm shift had begun to change how the United States treated its senior population. A growing distaste for nursing home facilities prompted the development of new forms of care designed to provide seniors with greater choice and autonomy.[[2]](#footnote-2) At the forefront of this trend were four foundations in San Francisco, California, that raised more than $12 million to initiate a comprehensive geriatrics program. Two years later, the program was transformed into a 501(c)(3)[[3]](#footnote-3) organization. The mission of the organization was to “enhance the quality of life for adults as they age by enabling them to maintain their health, well-being, independence, and participation in the community.”[[4]](#footnote-4)

In the years that followed, ongoing changes in the demography of the country created a large and growing population for the organization to serve. During the 20th century, the number of Americans younger than age 65 increased by a factor of three. In that same period, the number of Americans aged 65 and older increased by a factor of 15. In 2005, the United States had 36.6 million seniors; by 2015, the senior population had grown to 47.8 million. Within the next five decades, the senior population was projected to surpass 100 million.[[5]](#footnote-5)

In 2011, the United States spent more than $256 billion on long-term care for seniors. Four years later, that figure rose to $305 billion (see Exhibit 3). In response to escalating costs, US counties and states began seeking novel ways to reduce expenditures and tighten budgets. Seniors sought organizations that could help them navigate the array of costly services they could choose from. The demands of the market were changing, and the IOA needed to adapt to meet those demands.[[6]](#footnote-6)

The Search for New Leadership

Dr. David Werdegar, the IOA’s previous CEO, had been hired by the board in 2001. In the late 1980s, Werdegar led the San Francisco Department of Public Health, where he had been instrumental in tackling the AIDS (acquired immune deficiency syndrome) epidemic. In the 1990s, he served as the director of the office of Statewide Health Planning and Development, where his responsibilities ranged from monitoring the renovation of hospitals to providing loan insurance designed to support the construction of new medical facilities. Werdegar was known for his personal touch. The IOA staff fondly recalled how they “were affectionately greeted by name by our president who we all loved dearly.”

In 2011, an executive search firm identified multiple candidates who might succeed Werdegar. Three candidates were at the top of the list. The first candidate was an executive from Kaiser Permanente. Her interpersonal skills impressed the board but the strategic plan she presented was viewed as “more of the same.” The second candidate was the head of a hospital. While his vision for the IOA appeared strong, he seemed to operate with “an iron hand” (i.e., with stern control), which some board members feared would clash with the organization’s existing culture. The board decided that Briody was the best choice. He had a clear set of strategic objectives and an amiable personality that was open to criticism and feedback.

Briody received his undergraduate degree in business administration from Xavier University in Cincinnati, Ohio, in 1980. Two years later, he obtained a master’s degree in health science from the University of Toronto. His early career involved working in hospitals, long-term care centres, and assisted living facilities. Briody also had a background in small business, which appealed to the board. Between 2005 and 2010, he had planned the development of a $40 million continuing care retirement community (CCRC) in Lockport, New York, comprising 40 independent living homes, 66 independent living apartments, 32 assisted living apartments, and a full-service community centre.

The economic crisis of 2008 had prevented the CCRC from launching, and prompted Briody to search for new opportunities. That search led to the IOA—an organization in which he saw tremendous potential. His vision was to simultaneously cut costs, strengthen core services, and foster growth. This approach won over the board, but additional buy-in was necessary. Before hiring Briody, the board needed to convince Coastal Mortgage.

In 2008, Coastal Mortgage provided the IOA with a $41 million loan for the construction of a three-storey building in the middle of San Francisco. Principal and interest payments were scheduled to begin in 2012. As the deadline approached, it became clear that the IOA would be unable to meet the amortization schedule. Coastal Mortgage responded by demanding greater control, including representation at board meetings and approval of the salary offered to the incoming CEO. After a period of negotiation, Briody was officially hired in February 2012.

Early on, Briody recognized that his style of management different from that of his predecessor. Briody was perceived as “east coast” by the staff—some of whom balked at his initial insistence that senior directors not wear jeans to the office. The staff also worried about the changes Briody would be forced to make as he tackled the IOA’s financial problems. As one employee stated, “We needed to right our financial ship and that is why the board brought Briody in.”

Reorganizing and Reshaping Management

Briody understood that the IOA needed to become as cost-conscious and customer-centric as any for-profit firm. As Briody phrased it, “I have an aversion to non-profits thinking they’re better because they are non-profits and they’re very special. Not the case. There are good non-profits and there are bad non-profits. There are good for-profits and the reverse.” To be successful, “we need to operate as if we’re a for-profit and our stakeholder is the community.”

The first step Briody took was to reorganize the IOA’s service lines (see Exhibit 4) into three divisions (see Exhibit 5). The health services division had approximately 200 employees who provided medical care to seniors. The division’s main source of revenue was a subcontract with Senior Services Incorporated (SSI). In the 1970s, SSI had become a leader in the development of Programs of All-Inclusive Care for the Elderly (PACE). PACE was primarily paid for by Medicare and Medicaid. Each month, SSI received a capitation payment—a fixed amount per individual served. SSI used a portion of these funds to pay the IOA for PACE-related services. In a typical year, the IOA handled roughly one-third of SSI’s PACE clients.

The health services division also offered psychological services, such as cognitive behavioural therapy and grief counselling. The government paid for some of these services, while other services were provided free of charge, such as the IOA’s 24-hour toll-free Friendship Line, the country’s only accredited suicide hotline for older adults. In 2012, the Friendship Line fielded approximately 5,000 calls each month.

The home care services division of the IOA had approximately 250 employees who visited clients’ homes and assisted seniors with activities of daily living, such as bathing, dressing, and cooking. These services were paid for privately, and the division primarily catered to clients who could afford customized care. The home care services division also operated a social day program in which door-to-door transportation was provided to and from the IOA facilities. At these facilities, seniors received meals and personalized care and engaged in group activities.

The community living services division of the IOA had approximately 200 employees who were tasked with developing and implementing plans that allowed seniors to access services in a cost-effective manner. A key contract within the division was an agreement with the county of San Francisco to manage its Community Living Fund (CLF). The CLF was established in response to a lawsuit brought against a county-operated nursing home. Residents of the nursing home claimed that they had not been given the care and resources they needed to return to their own homes. After losing the lawsuit, the county set aside $3 million per year to pay for transition services and issued a request for proposal. The IOA won the bid shortly before Briody was appointed CEO.

Legally, the CLF was required to exist for only a few years. However, the program had an unexpected financial benefit. Nursing facilities in California that received funding through Medicare and Medicaid were mandated to provide certain services, such as a minimum of 3.2 hours of care per resident per day; however, many residents did not require this level of care. By successfully transitioning these individuals to their own homes, the IOA was able to generate a cost savings of approximately $50,000 per transferred resident per year. Recognizing the value of the program, the county decided to expand it. Other counties in California also took notice.

After reorganizing the various service lines at the IOA, Briody turned his attention to the company’s senior leadership. A top priority for Briody was to hire individuals who had experience in for-profit enterprises. Expertise in senior care was helpful, but Briody’s main goal was to assemble a team of managers who believed that non-profits needed to function as efficiently as for-profits.

The IOA’s chief financial officer was the first to leave. The director of marketing and the director of human resources were quick to follow. To keep the organization afloat, Briody reached out to Randolph Scott, who was brought in as a consultant before being hired as the vice-president of human resources. Having spent more than three decades working in both for-profit and non-profit firms, Scott quickly identified multiple problems: the IOA’s application, screening, and onboarding process for new employees varied by service line and by location; and payroll was executed through a Ceridian software system that had not been supported since 2005. As Scott viewed it, “Any person with three to five years of experience in HR [human resources] could see the procedural, policy, and process dysfunction in the department.”

The chief financial officer at the IOA was replaced in April 2013 by Roxana Blades. Previously, Blades had served as the vice-president of operations for a tech start-up, which she successfully scaled before orchestrating its sale to a multinational corporation. Prior to that, Blades held several leadership positions at the Federal Reserve Bank of San Francisco. During her first few weeks at the IOA, Blades quickly detected several factors that were negatively impacting the organization’s finances: government contracts were focused on revenue rather than income, receivables were not being collected in a timely manner, and complex spreadsheets with faulty formulas were being used to make fiscal projections that were often inaccurate.

Changing the Dynamic with Vendors and Partners

In addition to reconstituting the senior leadership, Briody wanted to re-examine the vendors that the IOA had historically utilized. During the 2011/12 fiscal year, the IOA paid an annual premium of $585,000 for its workers’ compensation plan. A day before the renewal deadline, the insurance broker informed Briody that the premium would increase to $902,275. In the past, the leadership at the IOA had not objected to these sudden increases. The assumption was that the IOA’s long-standing relationship with the broker guaranteed he would act in the IOA’s best interests. Briody disagreed. He begrudgingly accepted the increase, but three months later negotiated a high deductible plan with another insurance company for an annual premium of $732,000. The broker responded by urging the board to overrule the decision—but the board stood by Briody.

Briody then turned his attention to the IOA’s legal counsel. Financial records indicated that $3 million had been placed in a restricted endowment; yet, the IOA was legally required to keep only $1 million in the endowment. Briody and the board agreed that $2 million should be used to bolster the IOA’s cash reserves. The IOA’s attorney claimed this transfer of the funds was not possible, to which Briody countered by retaining the services of a new law firm that specialized in philanthropic giving and helped him transfer the misclassified funds.

Briody also took a second look at a lawsuit brought against the IOA by a former employee. Upon reviewing the case, Briody sided with the employee and settled the claim. He then sued the IOA attorney for overbilling. During the discovery process, evidence emerged that the attorney had been subcontracting to a third-party law firm. Eventually, the case was settled and the IOA terminated its partnership with the attorney.

Briody also recognized the inequity in some of the contractual relationships the IOA had forged with local for-profit and non-profit entities. One example was a program operated by the IOA in which artists were paid to work with seniors who resided in for-profit assisted living facilities. The for-profit firm used the program to attract and retain clients. However, the firm only paid $4,500 a year even though the program cost the IOA $12,000 a year. The expectation was that the IOA would make up the difference through fundraising. Seeing the disparity, Briody eliminated the program.

Each action Briody took improved the IOA’s financial position. Nevertheless, a core challenge remained. The IOA needed time to implement its turnaround strategy. To buy that time, Briody needed to convince Coastal Mortgage to provide a $3 million insured line of credit.

Weathering the Storm

Prior to Coastal Mortgage issuing the $41 million loan in 2008, a feasibility study had been conducted to assess whether the IOA would be able to repay the loan. Unfortunately, the study’s projections were based on faulty assumptions. For example, growth in the IOA’s PACE business was overstated by $2.1 million per year, and the IOA’s investment portfolio was expected to generate $1 million per year in revenue, even though it never did.

Several Coastal Mortgage staff members had questioned these assumptions and opposed providing the loan to the IOA. The leadership at Coastal Mortgage overrode their decision and approved the loan with a few critical debt covenants: the IOA needed to maintain a current ratio of 1.25, a debt service ratio of 1.25, and a non-restricted cash balance equal to 25 days cash on hand. Cash on hand would then increase to 45 days in 2010.

By the time Briody arrived in February 2012, the current ratio was 0.72, the debt service ratio was –0.08, and the company had only 16 days of cash on hand (see Exhibit 6). Some of the key decision-makers at Coastal Mortgage were sympathetic. They attributed the IOA’s situation to the financial collapse of 2008, which had prompted state cuts to Medicare and Medicaid. Others at Coastal Mortgage believed the problem resided in the IOA itself, claiming that Coastal Mortgage “had been lied to” when the IOA had submitted its original application.

To repair the relationship with Coastal Mortgage, the team at the IOA took immediate action. Cynthia Diana Whitehead, the chair of the IOA board, began calling every month to provide updates and discuss ongoing concerns. Blades began sending regular financial reports to Coastal Mortgage with the goal of improving transparency and rebuilding trust. Briody took steps to demonstrate that the IOA could reduce its annual costs. Early in his tenure as CEO, he noticed that the IOA provided PACE services at two separate locations. The first was the newly constructed IOA building, which was only partially occupied. The second was a rented facility a few blocks down the street. Recognizing the inefficiency, Briody raised $1 million, renovated the IOA building, and consolidated operations. The change resulted in a net positive cash flow of $700,000 per year.

Over time, the relationship between the IOA and Coastal Mortgage improved; however, that relationship was put to the test when a financial audit was conducted in the summer of 2013. The auditors were prepared to report that the organization did not have enough cash to meet its obligations for the next 12 months. The IOA had already received permission to use $3 million from its debt reserve, so its options were limited. As Briody viewed it, “Either Coastal Mortgage stepped up or we were on the road to ramp down.”

The leadership at Coastal Mortgage knew that the IOA had reached a critical moment. Fundraising would grind to a halt, and people would start leaving once they knew that bankruptcy was on the horizon. After careful deliberation, the decision was made to grant the IOA a $3 million insured line of credit.

Turning the Ship Around

When Briody first joined the IOA in February 2012, he needed to rapidly design and execute a turnaround strategy. “When I arrived I set four strategic priorities: integration, growth, operating efficiency, [and] fundraising.”

Integration

Before Briody’s arrival, the IOA had operated as a series of satellite programs. Each program functioned independently and cross-program interaction was rare. Clients wanting access to the IOA services were required to contact each program separately. As Briody described it, “We had no central access point for the community to contact us. They had to figure out which program to call. So we created IOA Connect. That’s become a major call centre for us. They do all the intake for all of our programs as well as serve as a community resource and referral.”

Briody also recognized that legacy structures had contributed to organizational silos. For instance, years earlier the IOA had acquired an innovative non-profit in Marin County, California, that provided fiduciary services to seniors. Under normal circumstances, the success of the program would have led to its expansion into other geographic regions; however, the program had been allowed to maintain an independent board that discouraged growth. Briody disbanded the board, placed the program under the home care services division, and expanded its reach to nearby counties.

Growth

Other service lines in the home care services division were similarly well positioned for geographic expansion. As Briody saw it, “We’d no longer be a San Francisco organization, but a California organization.” In 2012, home care services were primarily offered in Palo Alto. Within one year, services were extended to San Francisco. This expansion led to division growth at a rate of 30 per cent per year. Such rapid growth signalled that Briody’s vision was achievable. As stated by one employee, “The thing I will give Briody a fair amount of credit for was expanding our thinking or vision a little bit in terms of the geography that this organization could cover.”

Within the health services division, the best prospect for growth was to increase the number of PACE clients, which meant engaging in joint marketing campaigns with SSI. The catch was that the relationship between the two organizations was complicated. In some areas, such as PACE, they were partners; in other areas, they were competitors. For example, new tensions were introduced when the IOA acquired a management consulting contract with Sutter Health, the largest health system in northern California. Over time though, progress was made, as the IOA demonstrated a capacity for innovation. At the IOA, new approaches could be implemented and evaluated in a matter of months. This ability gave the IOA leverage in its negotiations with SSI. Instead of a fixed rate per client negotiated annually, SSI agreed to a three-year contract that aligned the incentives of the two organizations by stipulating that each entity receive a portion of the capitated revenue earned. The IOA and SSI also developed joint marketing campaigns to attract more PACE clients.

In the community living services division, stimulating growth meant landing contracts with health plans operating in various counties throughout California. The cost savings the IOA had generated for San Francisco caught the attention of the Health Plan of San Mateo, which decided to conduct a pilot for a new Community Living Program (CLP). Planning for the San Mateo CLP began in May 2012, and the program was launched in October 2014. Within the first 32 months, the IOA transitioned or diverted 150 individuals from nursing homes to their own homes. Participant satisfaction was high, with 90 per cent reporting they would recommend the program to others, and 85 per cent claiming the program had maintained or improved their quality of life. Utilization data showed that the cost savings were substantial. Impressed by the outcomes, the CEO of the Health Plan of San Mateo expanded the program. She also became an advocate for the IOA and made introductions to the heads of health plans throughout California.

Operating Efficiency

Traditionally, the IOA had funnelled the majority of the funds it raised directly into services. Major resources had never been allocated to an enterprise-wide information system. As a result, health records were not shared across programs. The IOA had separate systems for accounts receivable and separate systems for payroll, and the common view among the staff was that financial matters were none of their business. “Cash flow, P&L [profit and loss], forecast,” said one employee, “those words weren’t in my vernacular.”

Briody and Blades sought to change this situation. In 2012, Briody approached one of the original foundations that had established the IOA and obtained a sizable grant to improve organizational infrastructure. Using these funds, the IOA installed Procura, a system that standardized medical and billing records, made client information accessible to all programs, and provided the analytics needed to identify cost-effective strategies for improving patient outcomes.

Equipped with these new tools, Blades began to shift the IOA’s financial targets. She documented the revenue streams and emphasized net income over gross revenue (see Exhibit 7). She held monthly meetings with the IOA managers to review and explain financial metrics. Her recurring refrain to the staff was to “take off the social worker hat, take off the advocacy hat—wear your management hat for [the] IOA.”

While Blades focused on reforming finances, Scott standardized the IOA’s human resource procedures. In 2012, the IOA’s various service lines had separate hiring protocols and onboarding practices. Some even had their own employee handbooks. To improve efficiency, Scott established contracts with vendors such as SeniorCare Staffing to handle employee recruitment. He created a single handbook for all IOA employees. He switched the IOA’s outdated Ceridian payroll system to a modern ADP system. In time, the IOA’s operational redundancies began to shrink.

Fundraising

As Blades and Scott streamlined internal operations, Briody tackled the IOA’s fundraising challenges. Before Briody was appointed CEO, the board had fired the development team. A consultant was brought in to keep things afloat, but in 2012 the IOA raised only $904,009. Briody wanted to increase the fundraising to $3.1 million by 2018. He thought he had found the solution when he hired a new chief development officer (CDO). However, the job proved to be too overwhelming. A few months into her tenure, the CDO was scheduled to join home care staff in the field to gain a better understanding of how the IOA served the local community. She never showed for the appointment, never returned to the IOA offices, and tendered her resignation. Briody immediately began searching for a replacement, but it took two years to fill the position. As Briody put it, “How do you raise money for what someone could look at as a sinking ship?”

Briody saw an alternative path forward by changing the composition of the board itself. For decades, board members had been selected primarily based on their friendships with other board members. Financial resources, social connections, and professional expertise had not been the top priorities for board membership. Briody aimed to change that practice by establishing a formal vetting process. He also brought in Jonathan Schwartz, the former president and CEO of Sun Microsystems, who helped advocate for a minimum level of annual giving. After two years of discussion, the board agreed that each member would make an annual donation of $10,000.

Staff Turnover and Morale

The IOA’s rapid pace of organizational change had prompted waves of unrest to ripple through the staff. When Scott reached out to SeniorCare Staffing, he estimated the need to hire between 70 and 100 new personnel each year; however, the actual volume fluctuated between 200 and 300 per year. When Scott took over human resources, he was supported by two generalists who had dutifully served the IOA for years. Within a short amount of time, one of the generalists retired and the other obtained a new position at another organization. In the past, “people stayed here forever,” Briody remarked, “that wasn’t happening anymore.”

To address the unrest, the IOA conducted an employee engagement survey. One in 10 employees reported an unfavourable view of their manager and one in seven had a negative perception of the organization. A quarter of the staff believed that the IOA did a poor job of responding to their needs. “Communication from senior management is very challenging,” commented one individual. Another griped that “we haven’t gotten a pay increase in years.” Scott colourfully summarized the mood by noting that “there was a deep sense that senior management didn’t care. . . . I called it the mushroom patrol syndrome, you know, everybody craps on us and keeps us in the dark.”

Briody understood the dangers inherent in these findings. He also acknowledged that his leadership style had been a contributing factor. “I operated pretty much on a directing approach in the beginning,” he admitted. “It wasn’t a team discussion. These are the priorities. This is what we got to do. The house was on fire so you had to do something rapidly.”

A course correction was made. Briody began by empowering employees who shared his entrepreneurial spirit. He championed the efforts of Dustin Harper, the vice-president of Community Living Services. This support enabled Harper and his team of seasoned social workers to begin developing contracts with health plans throughout California.

Briody also fought for market-based salary adjustments even though the IOA was still losing nearly $1 million a year. “We needed to make that commitment to salaries because if we didn’t have talent we didn’t have a business,” Briody reasoned. “If you are just managing on the bottom line the response would be ‘we can’t afford it.’ My response was ‘we can’t afford not to do it.’ I committed to the staff that we would never again use the excuse that they were underpaid because we’re a non-profit.”

To ensure an open dialogue with the IOA staff, Briody initiated town hall meetings. He also set up a monthly management forum that allowed managers to relay the concerns of frontline staff. In 2017, Briody brought together a select group of employees and formed the Strategies and Operations Council. Previously, Briody had planned the future of the IOA on his own. He now treated the process as a collaborative exercise and encouraged employees to contribute. Throughout these discussions, Briody paid close attention to his choice of words. “In retrospect I think I should have changed my language. . . . I should have called it ‘mission expansion’ rather than ‘growth.’ Sometimes the vocabulary makes a difference in what people hear.”

The Effects of Growth

Between 2012 and 2017, the IOA made significant progress. Gross revenue had grown by 57.5 per cent. Annual fundraising had risen to $1.9 million. Revenue in the home care services division had grown by 30 per cent. The number of clients served by the health services division had grown by 5 per cent, and the capacity of its 24-hour toll-free suicide hotline had doubled. The community living services division had implemented a pilot program in Santa Clara County that had the potential to evolve into a $4.5 million contract. It had also negotiated a $6 million contract with the Inland Empire Health Plan, which operated in the counties of Riverside and San Bernardino.

The improved financial position of the IOA changed the demeanour of Coastal Mortgage. In 2012, Coastal Mortgage staff had demanded representation at all board meetings. Two years into Briody’s tenure, they stated how impressed they were with the senior leadership and recused themselves from future meetings. Coastal Mortgage even provided a vote of confidence by increasing the insured line of credit from $3 million to $4 million.

Rapid growth had placed new strains on the organization, however. For example, establishing contracts in different parts of the state meant hiring regional experts who had the ability to effectively implement the IOA programs. These new hires needed to be willing to share best practices and coordinate activities with managers in other geographic regions. In addition, they needed to embrace strategic decisions made by the leadership in San Francisco, even if doing so might burden local programs. For example, regional employees were asked to use enterprise-wide information systems that facilitated cross-program integration, but using these systems increased their administrative workload.

Geographic expansion also meant creating systems that permitted supervisors to remotely monitor operations. Dashboards needed to be developed for such metrics as the number of seniors served per month and the relapse rate for individuals who had transitioned out of nursing homes. Managers needed to “figure out ways to evaluate whether or not we are on track without necessarily being there in that office every day.”

Among the senior leadership, concerns were growing that the organization was rushing into new ventures without conducting proper due diligence. In San Mateo, the needs of the CLP had been quite different from the needs of the CLF in San Francisco. Consequently, the start-up phase had been more costly and time-consuming than anticipated. As one vice-president phrased it, “Sometimes our expectations and aspirations have not had all the rigour that they need.”

Addressing these challenges meant adopting new tactics. Before securing a large contract, prospective clients were now encouraged to conduct a comprehensive needs assessment. This process not only clarified the scope of work but also gave the IOA an opportunity to evaluate who benefited from the services it provided. In some counties, the structure of Medicare and Medicaid payments returned the cost savings to the federal government. In other counties, the value was captured by the county health plan. By performing a needs assessment, the IOA could adapt its approach to satisfy both the fiscal objectives of its clients and the needs of seniors in the community.

Steps were also taken to monitor the morale of employees whose responsibilities were expanding. Although progress was slow, the trend lines from the latest staff engagement surveys were encouraging. The percentage of employees who reported favourable views of the organization increased from 68 per cent in 2014 to 73 per cent in 2016. Favourable views of managers increased from 74 per cent to 76 per cent. Perhaps most strikingly, the percentage of employees who felt that the IOA had effective methods for responding to their needs increased from 51 per cent to 62 per cent.

Over time, many employees viewed the prior turnover at the IOA as a painful but necessary step. “There was some house cleaning that I think needed to happen,” stated one staff member. Others worried that acting like a for-profit firm would irrevocably damage the culture of the organization. Managers at the IOA had developed the habit of routinely discussing financial metrics. Equal attention now needed to be extended to the quality of care provided. As one supervisor put it, “What I fear is that we shift that balance so much to being so dollar-driven that we lose the special sauce we have had.”

Non-profit, For-profit, or Hybrid?

The decision to act like a for-profit was a strategy adopted by many non-profits that found themselves in competitive markets.[[7]](#footnote-7) The question that often arose was how far that transformation should be taken. In 2015, the US federal government changed the rules that had formerly prevented PACE from being owned and operated by for-profits. Since then, companies with access to vast amounts of capital were suddenly entering the market. “The game is all changed,” Briody observed. “You have all these for-profit entities coming into the marketplace—InnovAge is one of them—with huge aspirational goals of taking over the world.”

Competitors such as InnovAge were able to pursue growth on a scale that the IOA could not match. However, their expansion was still regulated by state and local governments. Moreover, attracting and retaining talent was a challenge. Many professionals who had degrees in nursing and social work also had large student debts, and under the US federal Public Service Loan Forgiveness program that debt could be erased if the individual made 120 qualifying monthly payments while working at a non-profit. This arrangement gave organizations such as the IOA a tremendous staffing advantage over for-profits such as InnovAge.

Briody weighed the pros and cons as he considered his next step. Should the IOA remain a non-profit or become a for-profit? Should he pursue a hybrid model by collaborating with other organizations to form a low-profit limited liability company? Should he attempt to protect the IOA against the coming wave of competition by merging with a larger organization? And what should he do about ensuring the successful execution of his growth strategy? Briody had prevented the ship from sinking. Now he needed to find a safe harbour and sail forth to new destinations.

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Exhibit 1: Institute on Aging Balance Sheets, 2012–2017 (in US$)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Current assets** |  |  |  |  |  |  |
| Cash and cash equivalents | 312,065 | 1,133,763 | 932,719 | 1,480,427 | 1,112,666 | 1,684,680 |
| Grants receivable | 240,000 | 265,250 | 55,000 | 202,452 | 170,048 | 305,005 |
| Accounts receivable | 1,861,649 | 2,312,095 | 2,792,551 | 3,285,059 | 3,215,104 | 4,152,271 |
| Trust accounts related to bonds | 1,344,383 | 2,147,202 | 2,097,047 | 2,126,532 | 2,427,538 | 742,103 |
| Other current assets | 235,109 | 121,144 | 150,022 | 182,902 | 279,070 | 434,503 |
|  |  |  |  |  |  |  |
| **Total current assets** | 3,993,206 | 5,979,454 | 6,027,339 | 7,277,372 | 7,204,426 | 7,318,562 |
|  |  |  |  |  |  |  |
| Investments | 6,613,418 | 3,701,266 | 2,169,462 | 2,295,489 | 2,380,177 | 2,725,898 |
| Property and equipment | 43,811,654 | 39,671,059 | 39,662,681 | 38,568,962 | 37,413,980 | 36,412,414 |
| Debt issuance costs | 2,893,766 | 3,244,248 | 3,109,771 | 2,975,295 | – | – |
|  |  |  |  |  |  |  |
| **Total assets** | 57,312,044 | 52,596,027 | 50,969,253 | 51,117,118 | 46,998,583 | 46,456,874 |
|  |  |  |  |  |  |  |
| **Current liabilities** |  |  |  |  |  |  |
| Accounts payable | 1,087,253 | 956,724 | 839,442 | 737,810 | 906,717 | 1,097,648 |
| Accrued bond interest | 849,354 | 833,888 | 817,435 | 800,102 | 781,674 | 142,650 |
| Accrued expenses | 1,772,729 | 2,109,538 | 2,590,908 | 2,860,342 | 2,599,443 | 2,538,259 |
| Line of credit | 3,600,000 | 1,500,000 | 1,089,898 | 2,377,775 | 3,000,000 | 3,900,000 |
| Bonds payable | 705,000 | 750,000 | 790,000 | 840,000 | 885,000 | – |
| Advances from third-party payers | 0 | 1,447,604 | 1,590,389 | 1,788,056 | 2,001,012 | 2,878,154 |
|  |  |  |  |  |  |  |
| Total current liabilities | 8,014,336 | 7,597,754 | 7,718,072 | 9,404,085 | 10,173,846 | 10,556,711 |
|  |  |  |  |  |  |  |
| Bonds payable | 42,067,948 | 39,775,000 | 38,985,000 | 38,145,000 | 34,419,182 | 38,157,599 |
| **Total liabilities** | 50,082,284 | 47,372,754 | 46,703,072 | 47,549,085 | 44,593,028 | 48,714,310 |
|  |  |  |  |  |  |  |
| **Net assets** |  |  |  |  |  |  |
| Unrestricted | 2,360,770 | 3,508,010 | 3,160,634 | 1,690,306 | 1,070,177 | (3,677,721) |
| Temporarily restricted | 3,815,994 | 662,267 | 52,551 | 824,731 | 282,382 | 367,289 |
| Permanently restricted | 1,052,996 | 1,052,996 | 1,052,996 | 1,052,996 | 1,052,996 | 1,052,996 |
|  |  |  |  |  |  |  |
| **Total net assets** | 7,229,760 | 5,223,273 | 4,266,181 | 3,568,033 | 2,405,555 | (2,257,436) |
| **Total liabilities and net assets** | 57,312,044 | 52,596,027 | 50,969,253 | 51,117,118 | 46,998,583 | 46,456,874 |

Source: Created by the authors using company documents.

Exhibit 2: institute on Aging Income Statements, 2012–2017 (in US$)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Revenues** |  |  |  |  |  |  |
| Public support | 7,370,004 | 8,053,134 | 8,916,824 | 9,468,296 | 10,009,188 | 11,324,308 |
| Other revenue | 21,343,438 | 19,791,370 | 21,348,660 | 24,013,621 | 28,940,732 | 33,888,634 |
| **Total** | 28,713,442 | 27,844,504 | 30,265,484 | 33,481,917 | 38,949,920 | 45,212,942 |
|  |  |  |  |  |  |  |
| **Expenses** |  |  |  |  |  |  |
| Program services | 25,772,037 | 23,440,597 | 26,410,580 | 29,432,438 | 34,420,107 | 39,207,355 |
| Supporting services | 7,227,082 | 6,141,606 | 4,899,522 | 4,663,453 | 5,558,885 | 6,172,467 |
| Net unrealized losses on investments | – | (268,788) | 87,526 | (84,714) | (133,406) | 114,368 |
|  |  |  |  |  |  |  |
| **Change in net assets (before loss on defeasance of bonds payable)** | (4,285,677) | (2,006,487) | (957,092) | (698,688) | (1,162,478) | (52,512) |
|  |  |  |  |  |  |  |
| **Loss on defeasance** | – | – | – | – | – | (4,610,479) |
|  |  |  |  |  |  |  |
| **Change in net assets** | (4,285,677) | (2,006,487) | (957,092) | (698,688) | (1,162,478) | (4,662,991) |

Source: Created by the authors using company documents.

Exhibit 3: Size of the US Long-Term Care Market, 2011–2015 (in US$ Millions)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Year** | **Nursing Home Care** | **Home Care** | **Hospice Care** | **Assisted Living** | **Total** |
| 2011 | 108,298 | 75,488 | 15,967 | 56,353 | 256,106 |
| 2012 | 109,056 | 81,074 | 16,414 | 59,735 | 266,279 |
| 2013 | 110,454 | 86,911 | 16,956 | 63,617 | 277,938 |
| 2014 | 112,232 | 93,001 | 17,650 | 68,000 | 290,883 |
| 2015 | 114,250 | 99,464 | 18,452 | 72,855 | 305,021 |

Source: Adapted from Kalorama Information, *Long Term Care Market: A Market Intelligence Analysis of the Market for Long Term Care* (Rockville, MD: Kalorama Information, 2016.)

Exhibit 4: Institute on Aging Organizational Structure in 2012

President & CEO

*Tom Briody*

Chief

Financial

Officer

Director

of

Facilities

Vice President of

Operations

Director

of

Marketing

Director of Information Technology

Director of Human Resources

Health   
Services

*5 Service Lines*

Home Care

Services

*6 Service Lines*

Fiduciary Services

*3 Service Lines*

Clinical &

Community Services

*8 Service Lines*

Note: CEO = chief executive officer

Source: Created by the authors using company documents.

Exhibit 5: Institute on Aging Organizational Structure in 2017

President & CEO

*Tom Briody*

Vice President of Marketing

*Deborah Cantu*

Vice President of Philanthropy

*Shabana Siegel*

Vice President of Business Development

*(To Be Named)*

Chief

Operating Officer

*Melissa Welch*

Chief

Financial Officer

*Roxana Blades*

Vice President of Technology Services & Facilities Management

*Joan Hestenes*

Vice President

of Human Resources

*Shari Moore*

Vice President

of Health Services

*Kristina Lugo*

Vice President of

Community Living

Services

*Dustin Harper*

Vice President of

Home Care

Services

*Abby Bourhis*

Vice President & Controller

*Virginia Lui*

Note: CEO = chief executive officer

Source: Created by the authors using company documents.

Exhibit 6: Institute on Aging’s Debt Covenants, 2012–2017

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Current Ratio** | 0.72 | 0.79 | 0.78 | 0.91 | 0.79 | 0.80 |
| **Debt Service Ratio** | –0.08 | 0.55 | 0.82 | 0.96 | 0.83 | 1.02 |
| **Days of Cash** | 16 | 25 | 25 | 30 | 23 | 30 |

Notes: Current Ratio *=* A measure of liquidity calculated by dividing the current assets by the current liabilities;Debt Service Ratio = A measure of solvency calculated by dividing the cash available for debt payments by the amount required for principal and interest payments; Daysof Cash = Number of days an organization can continue to pay its operating expenses using cash on hand.

Source: Created by the authors using company documents.

Exhibit 7: Institute on Aging’s Revenue Streams, 2012–2017

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
| **Capitation Revenue** | 42.6% | 43.2% | 41.7% | 40.8% | 40.1% | 39.0% |
| **Net Patient Service** | 30.4% | 24.5% | 25.4% | 24.5% | 25.2% | 23.5% |
| **Grant and Contribution** | 4.6% | 4.8% | 3.8% | 4.9% | 4.3% | 4.3% |
| **Government Contract** | 21.1% | 24.4% | 25.6% | 23.4% | 21.4% | 20.8% |
| **Investment Income** | 1.4% | 1.0% | 0.5% | 0.4% | 0.3% | 0.3% |
| **Realized and Unrealized** | –1.2% | 0.8% | 0.3% | –0.2% | –0.3% | 0.0% |
| **Health Plan Revenue** | – | – | – | 4.0% | 7.0% | 9.2% |
| **Other Revenue** | 1.1% | 1.3% | 2.7% | 1.7% | 2.1% | 3.0% |

Notes: Capitation Revenue = Payments received from Senior Services Incorporated for providing medical services to Programs of All-Inclusive Care for the Elderly clients; Net Patient Service = Payments received from patients and third parties for providing direct services;Grant and Contribution = Support from donations and grants; Government Contract = Funds provided through federal, state, and county contracts; Investment Income = Revenue from investments; Realized and Unrealized = Gains and losses from changes in the value of assets or liabilities; Health Plan Revenue = Income generated from contracts with county health plans, such as the Inland Empire Health Plan; Other Revenue = Miscellaneous sources of income.

Source: Created by the authors using company documents.

1. All currency amounts are in US$ unless otherwise specified. [↑](#footnote-ref-1)
2. Keren Brown Wilson, “Historical Evolution of Assisted Living in the United States, 1979 to the Present,” *The Gerontologist* 47, supplement 1 (2007): 8–22. [↑](#footnote-ref-2)
3. According to the United States Internal Revenue Code, this designation classified an organization as being exempt from federal income tax, and mandated that none of its earnings be distributed to private individuals or shareholders. [↑](#footnote-ref-3)
4. Institute on Aging, *Employee Handbook* (San Francisco, CA: Institute on Aging, 2006). [↑](#footnote-ref-4)
5. Administration on Aging, *A Profile of Older Americans* (Washington, DC: US Department of Health and Human Services, 2016). [↑](#footnote-ref-5)
6. Kalorama Information, *Long Term Care Market: A Market Intelligence Analysis of the Market for Long Term Care* (Rockville, MD: Kalorama Information, 2016). [↑](#footnote-ref-6)
7. Elaine V. Backman and Steven Rathgeb Smith, “Healthy Organizations, Unhealthy Communities?,” *Nonprofit Management and Leadership* 10, no. 4 (2000): 355–373; Florentine Maier, Michael Meyer, and Martin Steinbereithner, “Nonprofit Organizations Becoming Business-Like: A Systematic Review,” *Nonprofit and Voluntary Sector Quarterly* 45, no. 1 (2016): 64–86; Nobuko Kanaya, Hiromasa Takahashi, and Junyi Shen, “The Share of Nonprofit and For-Profit Organizations in the Quasi-Market: An Analysis of the Long-Term Care Services Market in Japan,” *Annals of Public and Cooperative Economics* 86, no. 2 (2015): 245–266. [↑](#footnote-ref-7)