

Southeast Finance Conference ROUND-UP SERIES

CHALLENGE / Find the Courage to Face Dangers We Ignore Part I: Recognize and Define Your Rhino

DHG presented the 7th Annual Southeast Finance Conference in January 2021. The theme of the conference was “Black Swans and Gray Rhinos: Identifying Opportunity in the Face of Challenge.” Presenters discussed events and neglected threats that are challenging the senior living industry and various strategies to turn these threats into opportunities. We want to continue this dialogue with you through 2021 by presenting our CHALLENGE Series, a four-part installment designed to explore the concepts discussed at the conference.



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INTRODUCTION

As described in Michele Wucker’s *The Gray Rhino*,¹ a “gray rhino” is a highly probable, highly impactful yet neglected threat to organizational health, like COVID-19 and technological advancements to virtual ways of life. The concept of a Gray Rhino is a parallel to that of a “Black Swan” (*The Black Swan: The Impact of the Highly Improbable* by Nassim Taleb²), which are unpredictable economic, physical or social threats that have widespread impacts, such as the terrorist attacks on 9/11, and are consequently difficult, if not impossible, to predict.

While Black Swan and Gray Rhino events are both organizational disruptions that require early recognition and a calibrated response, they are primarily differentiated based on their levels of predictability. A true Black Swan event cannot be predicted and thus could not have been prevented. What matters most are the actions leaders take immediately following such events. Do they cower in the rubble of such events, or do they dust off the weight of crisis and emerge stronger?

Economic downturns, such as the 2008 recession or sudden business disruptions associated with population health, are often considered Black Swan events due to the immediate impact felt by an organization and the lack of pre-planning. In addition, natural disasters such as wildfires in California or below freezing temperatures in Texas are examples of ill-preparedness for such Black Swan events. However, many would argue these events are foreseeable or, at least, viewed as probable and are, in fact, Gray Rhino events.

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While just as impactful, Gray Rhino events are, in contrast, accompanied by warning signals prior to the event's occurrence. In the face of Gray Rhino events, strong leaders have the opportunity to tackle these challenges proactively and seek to mitigate the negative impacts before it is unavoidable.

IMPLICATIONS TO THE SENIOR LIVING INDUSTRY

Senior living providers just experienced the biggest impact on the population they serve (seniors) and on their employees (hands-on care/nursing staff and dining and housekeeping frontline workers) in the aftermath of the pandemic.

This and many more examples of slow-moving but impactful Gray Rhino threats affecting the senior living industry include:

Financial Performance: Increased competition, more diversified consumer demands and pressures on wages, employee health benefits and supplies costs continue to impact senior living providers' bottom lines. Organizations must properly understand and proactively plan for financial pressure points in order to maintain financial health. Specific threats include:



Increasing Cost of Senior Living – It is estimated that there are more than 48,000 retirement communities in the United States.³ Each community, regardless of the level of care, is driving for product diversification by providing more services and more luxurious amenities but at a cost to the consumer. Between 2019 and 2020, the cost of senior living services increased between three and three and a half percent, dependent on the level of care provided.⁴ These price increases are pushing senior living products further out of reach from low- and middle-income earners and are driving upper-middle-income earners towards alternative products, such as home health services. Some providers have begun to address the increasing cost of senior living services by offering à la carte options and fee-based access to amenities.



Developing Products for the Middle Market – The Middle Market conversation is not new to the senior living industry, as it has been a Gray Rhino charging towards providers for years. Many providers have reshaped service offerings, access to amenities and other unbundled services to better tailor senior living products to the Middle Market.



Challenges with Employee Wages – The minimum wage is increasing across the United States, as are pay rates for lower-skilled jobs. These pressures place a heavy burden on the senior living industry, particularly in low-margin communities. Licensed nurse practitioners (LPNs), certified nursing assistants (CNAs) and other senior living frontline staff are contemplating why they should continue a high-stress and high-skill job at pay rates slightly higher than minimum wage when less demanding jobs at supermarkets and restaurants are offering higher pay for lower commitment. Senior living communities are beginning to develop innovative methods to maintain appropriate staffing levels by offering various benefit packages and opportunities for career growth. Without rewriting the script on pay rates for highly skilled jobs like LPNs and CNAs, organizations will not be able to retain staff.



Long-term Sustainability – Senior living providers have faced an array of challenges in recent months, particularly with respect to the impacts of COVID-19.⁵ It is evident providers must not only plan for immediate challenges but also maintain relevance for long-term sustainability. They must consider changes in regulations, state and federal payment models, shifts in healthcare trends, the current state of the competitive environment and the strengths and weaknesses of the organization to achieve long-term sustainability.⁵ Planning for long-term sustainability will be paramount as providers move beyond COVID-19 and face emerging Gray Rhino challenges.

Organizational Culture: Culture is rooted in an organization’s goals, strategies, structure and approaches to labor, consumer, investors and the greater community. The shared values, attitudes, standards and beliefs which define an organization’s nature are critical to overall organizational health.⁶ Senior living providers must understand the current state of their culture and enact meaningful changes in their organization to improve employee satisfaction and retention. Specific areas of focus include:



Inclusion and Diversity – Changing national demographics and heightened awareness of cultural diversity must be considered in employee hiring, development and retention efforts.



Work-Related Stress and Burnout – While the topic of burnout was historically reserved for select industries, COVID-19 has brought burnout to every corner of the economy. The impact on the healthcare industry has been especially profound.⁷ In a recent Knowledge Share piece, [Putting Out the Fire: What Causes Organizational “Burnout” and How to Fix It](#), DHG has outlined the unprecedented impact of COVID-19 on the healthcare industry and steps leaders can take to combat burnout among their organizations.⁶



Generational Collaboration – Today’s senior living organizations were developed by the baby boomer generation. However, millennials make up the majority of today’s national workforce. Increased focus on developing multigenerational teams will be critical in attracting and retaining future leaders in the senior living industry.

Physical Plant and Design: With a dual focus on consumer lifestyle, health and wellness, senior living providers must continually evaluate the marketability and safety of their physical spaces. Specific challenges include:



Aging Physical Plant – Often developed in the 1990s or early 2000s, many senior living organizations have tackled changing consumer demands with light renovations, unit combinations, or modest expansions. Many industry leaders are pushing back on this practice, and instead encouraging providers to start fresh and build products that future generations of seniors truly desire including high levels of technology, luxurious amenities, access to the nearby community and room for loved ones to visit.



Opportunistic Infrastructure and Design – The infamous X-shaped nursing home design, with long corridors and institution-like settings, has been a deterrent for older adults and their families. If the industry were to consider newer, more innovative options such as the Green House Project model, where buildings are designed into pods or households, it would likely see improved levels of satisfaction with the nursing home care setting.⁷



Congregate Living Settings – On the minds of senior living providers is the increased focus on infectious disease transmission within congregate living settings. An epidemiologist may make an analogy to an “opportunistic infection,” which is when an organism takes full advantage of the host’s weaknesses. In this analogy, COVID-19 has found long corridors and connected hallways in convalescent nursing settings to optimize its spread from person-to-person. Many best practices gained from the COVID-19 pandemic will help determine essential future strategies.



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CONCLUSION

To mitigate adverse effects from uncertainty and challenge, organizations must have the courage to face their specific Gray Rhino events and develop a plan to emerge with strength— whether that be improved financial performance and liquidity, organizational culture and/or physical plant and design. Identifying gaps in these organizational characteristics through sound financial performance, a resilient culture, centralized vision, effective leadership, robust planning or novel innovation will enable an organization to best address Gray Rhino events before they begin to charge full speed ahead.

UP NEXT

To continue this conversation, **CHALLENGE / Part II: What to do with Your Gray Rhino?** will be released in the upcoming months.

AUTHORS

Keith Seeloff

Partner, DHG Healthcare
770.330.6413
keith.seeloff@dhg.com

James Larson

Managing Director, DHG Healthcare
404.575.8994
james.larson@dhg.com

Haley Adrian

Consultant, DHG Healthcare
334.524.5872
haley.adrian@dhg.com

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