Making Innovation Work: Ambidextrous Organizations in the Seniors Housing and Care Industry

Ryan Frederick, MBA

Abstract

For a variety of reasons, including demographic-, psychographic-, and government-related reasons, the seniors housing and care industry is set for tremendous change. This change will represent new opportunities for growth, channels of revenue, and ways to add value to consumers. It will also challenge the industry's existing business models and paradigms of thinking. This article leverages insights from business academia, including the "ambidextrous organization" concept, to suggest strategies and planning techniques to balance exploiting current business models with exploring new opportunities. This article asserts that key elements for a successful organization in this environment include: (a) questioning core assumptions of the industry; (b) creating a compelling vision for growth; (c) initiating organizational changes to position for success; (d) introducing a vernacular for innovation; and (e) establishing accountability for today and tomorrow.

INTRODUCTION

Today: The Industry Could Not Be Better

The seniors housing and care industry ("seniors housing"), or perhaps better defined as housing and services serving the age 70-plus segment,[1] is thriving. Occupancy rates have nearly returned to pre-recession levels (NIC, 2014). Investors of various types, including institutional, equity, and private investors, have increased their interest in the segment (Mace, 2015). Returns in 2014 were higher than any other real estate asset class; transaction activity exceeded $17 billion, the second highest on record for the industry (NIC, 2014). A key industry driver is demographics that are favorable in the near and long term. Over the next five years, the 75-plus demographic is expected to increase by approximately three million people, or 15%, to 20.2 million people (Colby & Ortman, 2015). By 2030, however, this same demographic is expected to increase by 14 million people, or nearly 70%, to 34 million people (Colby & Ortman, 2015). Assuming the current industry penetration rate, or the inventory of private-pay seniors housing units divided by the number of age 75-plus households, of 10% (NIC, 2014), there will be a need for an additional 80,000 units in the top 31 markets by 2020 to keep up with anticipated demand, based on demographic growth.[2]

Tomorrow: Looking Ahead to 2030

While the industry is performing well, there is change ahead. In the near term, industry experts are concerned about the risk of rising interest rates, potential for overbuilding, and headwinds if the macro economy slows for an extended period. In the long term, looking 15 years out to 2030, some of the same near-term concerns apply, but the picture becomes much more complex. Following are some of the key elements that will have influence on the future of the field.

The existing consumer profile is changing. Sparked by the recession, the profile of the resident in seniors housing has changed. In general, residents are older, frailer, and sicker. Indeed, as of 2012, the average age of entry in independent living is 83 years, an increase of six years over just a decade (American Seniors Housing Association, 2012). This trend has a number of key implications, including the prospect of requiring sales and marketing efforts to be more effective (Frederick, 2012). One of the questions facing the industry is whether this trend will abate, continue at the same pace, or accelerate.

The prospective consumer has different psychographics. The psychographics—the study and classification of people according to their attitudes, aspirations, and other psychological criteria—of today's and tomorrow's consumer differs considerably from that of the historical consumer. The current product was designed with yesterday's consumer in mind (i.e., the Greatest Generation), and the success of the segment will depend on its attractiveness to the prospective consumer (i.e., the Silent Generation and Baby Boomer Generation). The following summarizes some of the key differences (Morrison Senior Dining, 2007; American Seniors Housing Association, 2012; McIlWain, 2012)[3]:

- less subject-to-peer influence and status issues—they are more likely to do it their way
- less responsive to embellished claims—they want to see the facts and will do their homework
- less sensitive to price and more sensitive to value (assuming they can afford it)
- greater interest in having choice
- greater interest in intergenerational interaction
- greater interest in well-being and programming to support it
- greater interest in walkability to outside services and amenities
- greater comfort with technology

Affordability will be of greater significance. Many people need additional financial assistance in order to pay for today's seniors housing—a challenge that is certain to be more significant in the future. For example, median rent for assisted living and independent living as a percentage of the median 75-plus household income is approximately

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[1] Properly defining the industry is important and can be somewhat arbitrary. For the purpose of this article, the definition is intended to be broad.
[2] Extrapolated based on NIC MAP Data Service, as of Q4 2014. Total number of units in top 31 metro markets is 534,481, as of Q4 2014.
[3] Note that as of 2015, the ages of the Greatest Generation are 88 and older; the Silent Generation: between 70 and 87; Baby Boomer Generation: 51 and 69.

135% and 95%, respectively (Watkins, 2014). With increasing longevity, decreasing prevalence of pensions, likely reform of social security, and lower personal savings, many of the next generation of consumers will have a harder time affording today's seniors housing options.

Prospect of increasing options. Given the psychographics of the next generation consumer and the attention that the size of this demographic will attract, more alternatives to today's seniors housing will undoubtedly emerge. One of the more high-profile movements is that of the "virtual village," led by the not-for-profit organization Village to Village Network, which supports more than 250 villages across the U.S. This network provides services to people largely in their single-family homes who wish to age in the community.

We should also expect organizations outside the field to offer new residential and service options that aim to better appeal to the consumer at more affordable prices. For example, Smart Living 360 is a residential development and services company that targets older adults with select services on an à la carte basis in walkable, mixed-use, intergenerational locations.[4] Its first community opens in 2016 in the Washington, D.C., metro market and offers many of the key benefits of traditional independent living but at a significant price discount compared to traditional seniors housing.

Impact of the evolution of the U.S. health care system. The U.S. health care system is undergoing an unprecedented transformation from a fee-for-service model to one that values health outcomes. The Center for Medicare and Medicaid Services (CMS) is focused on a "triple aim" of simultaneously solving for (i) better health for the population and (ii) better care for individuals, while at the same time (iii) lowering cost. The implications are significant for post-acute care and seniors housing. For post-acute care, we can expect increased scrutiny of cost and health care outcomes. Some industry experts expect significant changes in reimbursement methodologies within six to 18 months (Fike, Frederick, & Paprocki, 2014). For seniors housing, we can expect greater

importance placed on tracking health care outcomes and well-being measures, some of which may involve investment in technology systems to support.

Increasing role of technology. The rapid change in technology, both consumer facing and infrastructure related, will have a significant and growing impact on the field. With a greater comfort with and desire to control technology, the next generation of prospective consumers will expect more in regard to technology than in-building Wifi. With the "Internet of things" set to explode in the coming years,[5] future consumers will have much more technology to manage, and they will expect their living environments to help support, not hold back, their ability to stay connected and age well using technology.

At the same time, it is important to not underestimate the role technology will have in creating alternatives to today's seniors housing. From the inevitable medical breakthroughs through the personalization of medicine, to the ease of delivery of products and services exemplified through Amazon.com and Uber, to the prospect of driverless cars being advanced by Google, it is hard to imagine the possibilities of tomorrow. These and other technological advances may create viable alternatives to today's products and have a profound impact on demand.

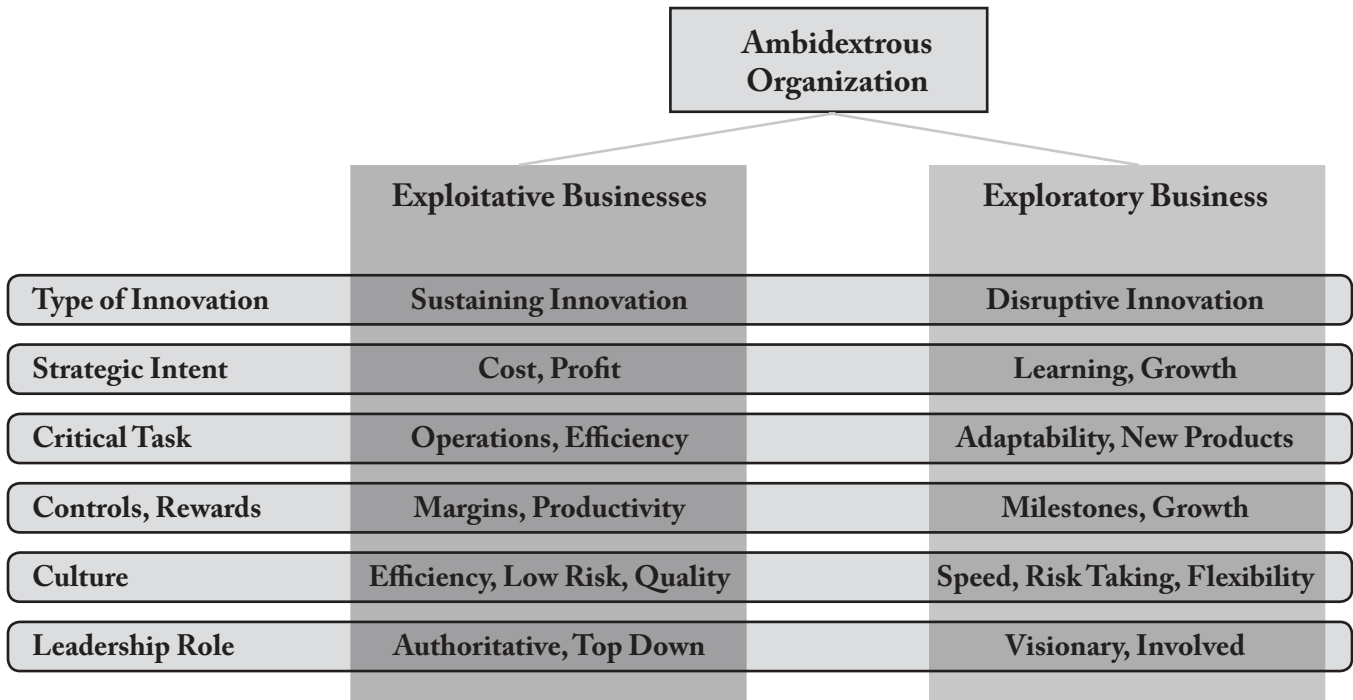## Time for a New Era: Ambidextrous Organizations

Given the aforementioned, to properly address the challenges and opportunities of today and tomorrow, organizations must reorient how they think of themselves. Organizations must create a dual capacity: the ability to continue to *exploit* their current business and develop competencies to *explore* new business opportunities. In other words, they must become "ambidextrous organizations."

Professor Charles O'Reilly of Stanford Business School and Professor Michael Tushman of Harvard Business School are leaders in researching organizations that have become ambidextrous (O'Reilly & Tushman,

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[4] Its first community, The Stories at Congressional Plaza, is developed in partnership with Federal Realty Investment Trust, a public retail REIT. More information can be found at www.thestories.com and www.smartliving360.com.
[5] According to BI Intelligence, the number of connected devices is expected to increase from approximately eight million in 2014 to nearly 20 million by 2018.

Exhibit 1. The Composition and Characteristics of an Ambidextrous Organization.

Ambidextrous Organization	Exploitative Businesses	Exploratory Business
Type of Innovation	Sustaining Innovation	Disruptive Innovation
Strategic Intent	Cost, Profit	Learning, Growth
Critical Task	Operations, Efficiency	Adaptability, New Products
Controls, Rewards	Margins, Productivity	Milestones, Growth
Culture	Efficiency, Low Risk, Quality	Speed, Risk Taking, Flexibility
Leadership Role	Authoritative, Top Down	Visionary, Involved

2004; O'Reilly & Tushman, 2011), observing that leaders need to fully appreciate the differences between successfully managing mature businesses ("exploitative") and emerging businesses ("exploratory"). Without an appreciation of these differences and a careful strategy to see that both succeed, the exploratory business often struggles to compete for time, attention, and resources amid the more dominant exploitative business.

Exhibit 1 depicts the key differences between exploitative and exploratory businesses within an ambidextrous organization (O'Reilly & Tushman, 2004).

Different Types of Innovation

As part of this change, organizations must proactively think and plan for innovation. They must also have a nuanced understanding of the different types of innovation and how it applies to the organization. Two common types of innovation are *sustaining innovation* and *disruptive innovation*.

Sustaining innovation is an innovation that does not create new markets or value networks but rather only evolves existing ones with better value, allowing the firms within to compete against each other's sustaining improvements. Sustaining innovations may be either "discontinuous"— there is a transformational or revolutionary advancement in the field; or "continuous"—there are more incremental changes. Examples may include improved automotive engines for cars, faster and cheaper microprocessors for computing devices, etc. Examples within the seniors housing field may include pricing model changes such as à la carte pricing instead of bundled pricing, a trend toward larger (or smaller) apartment unit sizes, and adding home health care services to support aging in place, among other examples. In our observation, most sustaining innovations within seniors housing have been continuous in nature, thereby improving the customer value proposition but not in a transformational or revolutionary way.

Exhibit 2: Comparison of Sustaining Innovation and Disruptive Innovation.
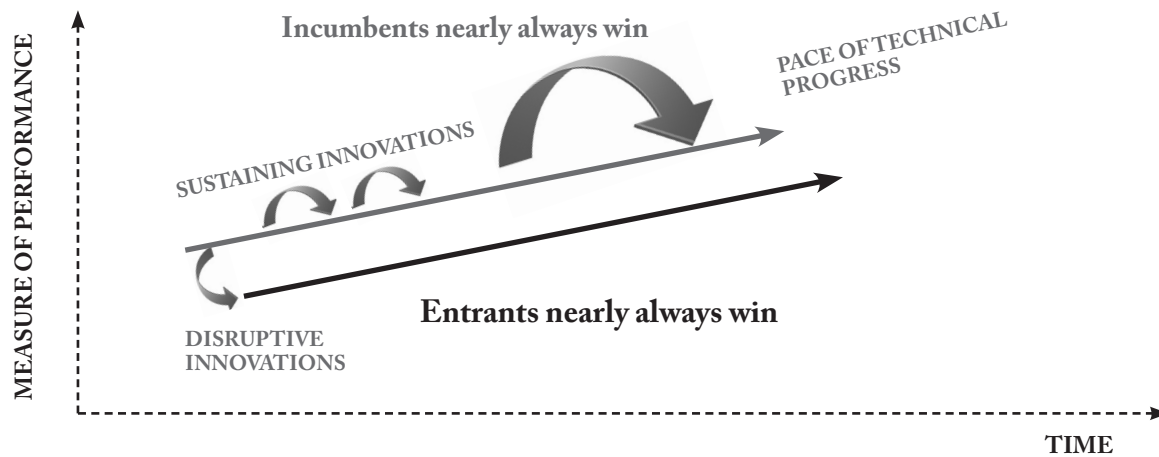
In contrast, disruptive innovation is an innovation that helps create a new market and value network,[6] and eventually disrupts an existing market and value network. Clayton Christensen of Harvard Business School first coined this concept in 1995. It is used in business literature to describe innovations that improve a product or service in ways the market does not expect, typically first by designing for a different set of consumers in a new market and later by lowering prices in the existing market (also called "new market disruption"). Examples include automobiles versus rail transport, downloadable media versus CDs and DVDs, and smartphones versus traditional mobile phones, among many other examples. One of the best examples within the seniors housing field was the introduction of private-pay assisted living in the 1980s as an alternative to skilled nursing. In this instance, assisted living attracted the lucrative private-pay consumer and was able to create a scalable business model with attractive profit margins, longer resident length of stay, and limited regulation. Meanwhile, skilled nursing lost its most profitable consumer segment and has struggled with the quality of its payer mix and increased regulation.

It is important to note that sustaining innovation tends to favor incumbents within an industry, whereas disruptive innovation tends to favor entrants, as **Exhibit 2** illustrates (Christensen, 2015). This poses a risk for seniors housing providers who wish to rely on demographic growth for their continued success; when the next disruptive innovation is introduced to the field, complacent incumbents are most at risk.

For ambidextrous organizations, pursuit of both sustaining innovation and disruptive innovation is important. Effective, sustaining innovation helps increase the success of the organization's exploitative business; disruptive innovative helps spawn exploratory businesses that may be pivotal for the organization's future. In addition, internally created disruptive innovation can serve as an insurance policy against others who may introduce disruptive innovations that would otherwise disrupt an organization's exploitative business. In other words, sometimes the best defense is a good offense.

Increasing Common Approach to Innovation: Thinking of Innovation as a Process

While a visionary leader aids innovation, innovation is more of process, not a single-minded stroke of genius. It involves the capacity for creativity and execution. As part of this process, the ability to prioritize and eliminate ideas is a key competency (Carson & Vaitheeswaran, 2007). For ambidextrous organizations, this process must

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[6] A value network is a business analysis perspective that describes social and technical resources within and between businesses. Source: Wikipedia on Value Network.

make considerations for both sustaining innovation and disruptive innovation.

The process for gaining key insights for sustaining innovation is becoming more popularized in business circles. One trend is the use of design thinking, which, as defined by Tim Brown, CEO of IDEO, is "innovation powered by a thorough understanding, through direct observation, of what people want and need in their lives, and what they like or dislike about the way particular products are made, packaged, marketed, sold, and supported." It is rooted in understanding the targeted consumer in a more personal way than other forms of market research, such as broad-based macro studies of the targeted consumer. It advocates rapid idea generation, rough prototyping of possible solutions, and testing solutions with real prospective consumers for candid feedback.

The process for achieving disruptive innovation looks different. While developing empathy for the targeted consumer is important, reframing the opportunity and heeding developments outside the field is even more important. Clayton Christensen, for example, suggests that disruptive innovators need to unlearn what managers often accept as golden rules, chief among them being listening and responding to the needs of one's best customers (Carson & Vaitheeswaran, 2007). One approach we have found particularly helpful is using the Blue Ocean Strategy framework to help encourage outside-the-box thinking and challenge core hypotheses (Kim & Mauborgne, 2005). Blue Ocean Strategy recommends looking outside the current "red ocean," where existing competition generally only differentiates on price, and focusing on uncontested market space with a differentiated value proposition.

Innovating solely using internal resources can be a challenge, particularly when considering disruptive innovation. Leaders are often not fully aware of their biases or blind spots. They also may not be as in tune with best practices, both within and outside of the field in the area of innovation. Partnering with outside organizations that have an unbiased perspective and can safely assume a devil's advocate position can be immensely valuable in identifying these opportunities for innovation. The creation of an advisory "think tank" group with diverse external business experts could be another approach to offer an organization an external perspective while also gaining insights into possible opportunities from outside the core business.

How to Become an Ambidextrous Organization in Seniors Housing

For a number of organizations in seniors housing, becoming ambidextrous will not be easy. Some organizations have been in existence for decades and have well-established cultures based on a traditional exploitative business model. Some firms have limited first-hand experience with innovation as a process, particularly disruptive innovation. It is likely that transitioning to an ambidextrous organization will require a different mindset and involve a steep learning curve.

In our experience when working with organizations in seniors housing, a move to transform into an ambidextrous organization typically involves the following five steps:

1. Question core assumptions of the industry and current business. One must explicitly outline and question the key assumptions underpinning the industry and an organization's business model. It is important that the questions are sufficiently broad and that leaders understand that some questions are not easily or quickly answered. For some of the most important and most challenging questions, leaders may have to "live in the questions"—meaning that they may have to struggle with these questions for some time and bring to bear additional information and perspective to refine their position. Fresh eyes looking at an organization, such as those from new employees, board members, and strategic partners, can be instructive to see what is otherwise unseen by leaders of the organization.

Following are some questions for organizations in seniors housing to consider for independent living:

• Why do 90%-plus of independent seniors choose not to move into independent living communities?

- What are the implications if the profile of new residents follows the current trend of older, frailer, and sicker?
- For entrance-fee continuing care retirement communities (CCRCs), what if the entrance fee and bundled services business model is no longer viable or compelling to consumers?

Following are some questions to consider for assisted living:

- If Yelp were widely used by all prospective residents and their families, how favorably would your community be rated?
- What are the implications if your community becomes primarily residents with dementia?
- If acuity trends continue, what infrastructure is required, including the appropriate staffing and training, to provide excellent care and deliver top health care outcomes?

Following are some questions to consider for post-acute care and skilled nursing:

- If "money follows the person," why should a person choose your skilled nursing facility?
- For rehabilitation services, what clarity is there on reimbursement rates, especially in a bundled payment or accountable care organization (ACO) model, and what can be done to create areas of competitive advantage or differentiation?
- For long-term care, what does long-term care in a skilled environment look like in the future as alternative forms, including home care and assisted living? Does it provide comparable quality at a lower cost? Is this an attractive business to remain in?

With this step, it is also important to look at non-customers in the industry. For example, what could be changed to attract younger or less affluent customers into the segment? Blue Ocean Strategy thinking is an important step.

2. Create a compelling and clear vision and reason for growth, led by the CEO and board. No one is more important than the CEO and board of directors when taking ownership of the questions and providing an imperative for growth. This vision may include different

avenues for growth than the organization has traditionally experienced. For example, it may come in the form of services rather than bricks and mortar. The CEO and board of directors must be persuasive in their vision. They must be able to articulate it clearly to gain organizational alignment and clarity of purpose, and it must not be overly ambitious. If new priorities are established to help plan for tomorrow, it is highly likely that other initiatives must be jettisoned or reprioritized. Typically, organizations try to take on more than they can handle, and the quality and speed of all initiatives are compromised.

3. Evaluate current organization and initiate changes to position for success. Leaders need to critically evaluate their current organization, including talent, structure, and culture, to assess whether the organization is properly equipped to transform into an ambidextrous organization. In our experience, changes are almost certain to be necessary.

One of the areas of change is the organization's budget. Dollars and management time need to be allocated to make bets on and learn about tomorrow's business. Some organizations call this an "R&D" budget. For traditional organizations focused on the exploitation of the current business, such allocations have not been necessary; for ambidextrous organizations, they are part of the lifeblood for the organization's success. Some of these funds can be used for design thinking practices and other pursuits to identify potential disruptive innovations.

As mentioned previously and outlined in Exhibit 1, the metrics for an exploratory business are markedly different than for an exploitative business. For an exploitative business, the return on investment tends to be strictly financial and more certain. For an exploratory business, the return on investment initially comes primarily in the form of learning and growth. Over time, however, the hope and expectation is that the financial return for the exploratory business exceeds that of the preexisting exploitative business.

4. Introduce a new vernacular and way of thinking about innovation. When transforming into an ambidextrous organization, it is important to introduce new terms in a clear and understandable way. Employees at many levels of the organization need to be schooled on the

philosophy behind ambidextrous organizations and be able to differentiate between sustaining and disruptive innovation. At best, this education will help various people on the frontlines of the organization, particularly those in sales and marketing, who interface with prospective customers on a daily basis, helping to identify potential opportunities for the organization.

5. Establish accountability of both today and tomorrow. Leaders need to have a sense of ownership in the pursuit of becoming an ambidextrous organization. Key success factors and metrics need to be established for both mature businesses and the future businesses. These outcomes will be different. The tendency will be to focus on the mature business as it is more clearly defined and contributes more meaningfully to the current cash flow of the organization. To do so will starve the future business, however; systems must be put in place to help create incentives that enable traction for both businesses. At a minimum, the CEO must be accountable for progress in both areas.

Need for a New Approach to Strategic Planning

Fundamental in the process of becoming an ambidextrous organization is rethinking strategic planning, which should not be a top-down process led by a couple of individuals with specific mandates for the future with the implicit assumption that the future is reasonably certain. It should not be based on a five-, 10-, or 15-year horizon where a plan is bound and placed on a bookshelf. Rather, strategic planning is a dynamic process that may not necessarily have a clear beginning and clear end. Particularly for ambidextrous organizations, there is a constant calibration and balancing between optimizing for today and placing bets on the future. It involves a commitment to understanding and asking questions about the current business, industry, and its non-customers, and having the creativity and courage to envision and help shape the future.

Strategic planning should be an iterative process that evaluates where the organization is, where it should consider going, and how best to get there. It is important that an organization spend sufficient time evaluating where it is and the field before assessing where to go.

Much of this process utilizes many of the aforementioned concepts, including, most notably, the roles of sustaining innovation and disruptive innovation.

CONCLUSION

Imagining the Future

Leaders in seniors housing should take careful note: the next chapter in the industry will be a high-risk and high-reward game. Changing sparingly or only incrementally, a successful strategy in recent decades, will not be a viable strategy in the future. Both sustaining and disruptive innovation will need to be competencies of all leading organizations in the field. "Innovate or die," a common adage in Silicon Valley, applies to the seniors housing industry.

The key to the future is to become an ambidextrous organization. Such organizations are adept at simultaneously exploiting today's businesses and exploring tomorrow's opportunities. The transformation will likely be a challenge for many organizations in seniors housing. For those intent on this outcome, there is a formula to follow, but it will be difficult to achieve.

Looking to 2030 may seem far away. Over that time span, there will be massive change, only some of which is possible to accurately predict. The leading organizations of tomorrow, however, will be actively preparing for the future starting today. To not do so may be the riskiest strategy of all.

AUTHOR

Ryan Frederick, MBA
Point Forward Solutions
508 Woodlawn Rd.
Baltimore, MD 21210
rfrederick@pointforwardsol.com

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