

## Whispering Pines: Pining for Answers

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### Introduction

Lee McBride, an organizational consultant, was preparing for his noon meeting with Tim Hayden of Hayden Architects. When he got to the meeting Hayden wasted no time, “Lee, I need some outside help. I recently accepted a position on the board of directors of Whispering Pines, a retirement home here in town, and I have quickly realized that I am in over my head.” Hayden went on to explain that when he was recruited he was told that the position was “mainly honorary,” and that there was not much to do as a director. Hayden confided in McBride that he accepted the position out of a feeling of obligation. The by-laws of Whispering Pines require all of the board of directors to be members of the Society of Friends, commonly referred to as Quakers. Whispering Pines had a history of having trouble recruiting board members because of this and, after doing some soul searching, Hayden determined that he felt a sense of duty to “step up to the plate and accept the position.” “In retrospect,” he told McBride, “that may have been a mistake. I don’t have a background in business, but even I can see that the place appears to be a total mess. I can’t seem to get a clear answer or reliable financial information from the board treasurer, Marge Upman, and I’m afraid that Whispering Pines may be in serious trouble. It appears that we are losing money with our business model and surviving on donations, but I can’t be sure. I don’t have the time or the expertise to dig into the operations and see what’s wrong. I’ve heard good things about you and want you to take a look at the situation and give the board some recommendations. Will you do it?” McBride responded that before he could commit, he needed to know a little more about Whispering Pines.

Hayden went on to share the following details: Whispering Pines was founded in 1927 as a retirement home for members of the Society of Friends. Over the years, this affiliation requirement had relaxed and now anyone could be admitted. While called a “retirement home,” Whispering Pines was technically just a boarding house that provided rooms and meals for seniors. It was not a licensed nursing home, but the staff dispensed medicine that family members provided (without taking formal responsibility for doing so). Hayden stated that, as far as he could tell, this informal practice was based on the assumption that as long as Whispering Pines had less than nine residents the state would not consider a nursing home designation, although, Hayden stressed, “no one can really tell me where that number comes from.” Whispering Pines was run by a manager who reported to the board treasurer. Hayden was not quite sure what the manager’s duties and responsibilities were, but he did know that she collected the rent, planned the meals, and purchased the groceries. “Exactly how she does those things and

what type of controls the board has in place is unclear,” sighed Hayden. Very little financial information was available and the board made decisions based largely on opinions and perceptions. “I have a suspicion that we are losing money each month and that we’ve reached the point where we don’t have any reserves left to cover the monthly losses. It doesn’t look like we’re breaking even but there are no financials available to confirm or disprove this. We have the capacity for nine residents but currently we only have seven, and, as far as I can tell, there is no active recruitment or marketing plan. That is an overview but you need to know I don’t feel confident about the validity of any of this information.”

It was with a slight feeling of being overwhelmed that McBride decided to take on the engagement. After agreeing upon his fees for the project (which Hayden agreed to personally cover), McBride said, “Okay, get me a copy of the by-laws, all the financial information you do have, and anything else you feel may be valuable to me. Then, have Marge Upman tell the manager that I will be stopping by for a tour of the facility and to interview her about the operation. Please make sure that the manager knows she can be open and forthcoming with me. I’ll also want to talk to the other board members. May I come to the next board meeting and meet everyone?”

### **Information Gathering**

McBride decided to devote the next day to research. First, he went on the Internet and did a search using “Whispering Pines.” It turned out the facility did have a website, although there was not much on it aside from some pictures of the facility and a history of the building. He next researched the state requirements for a boarding house versus a nursing home and found that a boarding house claims no responsibility to care for its residents, whereas a nursing home does. He made a note to discuss this with the manager, particularly in light of the fact that Whispering Pines employees were dispensing medicine to residents. In order to get to the bottom of the issue of the number of residents influencing the type of business (nursing home or boarding house), he called the State Fire Marshal since boarding houses fell under his jurisdiction. The Fire Marshal told him that there was no arbitrary limit on the number of residents of a boarding house and that the determination of maximum occupancy would be done during an inspection of the property. In no case would a boarding house become a nursing home just because of the number of residents. The Fire Marshal further stated that the maximum occupancy had probably been determined in the past during a fire inspection and that perhaps had been misinterpreted by the board over time to mean the distinction between a boarding house and a nursing home. Based on what he had learned about the board’s operations and history, the Fire Marshal’s response made sense to McBride.

Next, McBride decided to go and do a “walk-about” to get a first impression of the facility. He had seen pictures of the home when it had once been the residence of prominent citizens. As he drove up he noticed that the tall, stately, perfectly formed pine trees that used to line the driveway were broken and spindly with some missing altogether. The once beautiful flower gardens had turned to patches of weeds, and the lawn was in desperate need of mowing. The driveway terminated at the back of the house next to some trash containers. There was no identification sign at the entrance to the driveway off the side street, although there was a sign at the front of the property facing the main street. All in all, the facility didn’t look appealing.

Two days later, McBride stopped by to see the manager Gail Goodbroom. He was pleasantly surprised to find that, unlike the exterior, the interior of the building was in great shape. Things were neat and orderly with fresh flowers and a collection of well-tended antiques. Most of the common rooms had dark oak paneling and many of the bedrooms had colorful, floral wallpaper. During his conversation with Gail, McBride learned that she was responsible for all facets of running Whispering Pines. She collected the rent from the boarders and made the bank deposits. She planned all of the meals and purchased the groceries. Gail hired the part-time help and set the schedule. As someone must be on-duty at all times, the total number of part-time staff varied between four and six (although only one was usually present at any given time). Gail usually worked from 7:00 a.m. to 3:00 p.m. Monday through Friday and prepared breakfast and lunch. The part-timers filled in the rest of the time. Gail managed the payroll and paid all the other bills as they came due. She made sure the residents' rooms were cleaned every other week and coordinated any necessary repairs to the building.

McBride also discovered that Gail completed these tasks with very few checks and balances in place. She did not prepare a detailed list each month showing the date and amounts of rent payments from each resident. In fact, in general she provided only the account totals to Marge, the board treasurer. She purchased all the groceries at a local market with a debit card so the funds were automatically deducted from the Whispering Pines account. Gail reconciled the checkbook on her own at the end of each month. If she had any specific questions or problems she called Marge, but since Marge spent the winters in a warmer climate, Gail was left to decide things for herself much of the time.

During the tour of the building McBride made note of several potentially serious facility issues that would need to be addressed with the board. He also noticed pillboxes on the dining room table and asked Gail to explain the medication policy. Gail responded somewhat defensively: "Marge tells me not to get involved in handling the medications, but that's just not possible. The families of the residents are supposed to put the pills that the resident takes each day in a container and then we hand them out. However, most of the time the family either gives me the whole bottle of pills or the pills are delivered here directly from the pharmacy. I put the pills in the individual containers and we keep them, passing them out at each meal as appropriate. Marge just doesn't seem to understand that if I follow her suggestion and not get involved in the residents' medications, they just wouldn't get them."

The next day McBride received the packet from Hayden containing a copy of the by-laws, some financial information from the past few years, and the application that each resident is required to fill out. McBride noted with dismay that the financial information was limited to a simple operating statement with virtually no supporting data. There were no balance sheets or cash flow statements and it was clear that even the most basic accounting concepts, such as depreciation, were foreign to the Whispering Pines board. McBride reviewed all of the documents provided by Hayden and, together with the information that he had collected, prepared his thoughts for the board meeting.

## The Board Meeting

The day of the board meeting came and McBride was at Whispering Pines by 9:45 a.m. for the scheduled 10:00 a.m. meeting. Hayden arrived right before 10:00, but none of the other board members showed up until around 10:30. The meeting finally got started at 10:45. After being introduced to everyone McBride was asked to speak. He began, "I am a little confused. The by-laws call for a 12-member board. There are only four here, which isn't even a quorum. Where are the other board members?"

"That's been an ongoing problem," responded Marge. "Based on our original mission of 'Quakers helping Quakers,' the by-laws call for all board members to be members of the Society of Friends. That limits our pool of potential board members and we have a hard time getting anyone to serve. At the present time we only have four board members. We do have an unofficial policy that you cannot leave the board until you find a replacement for yourself but that doesn't work very well." There were nods of agreement from the other board members. "Interesting," McBride said, "your board members must be Friends, but your residents don't have to be. Is that correct?" "Yes, that's right," Marge responded. "And, why must the board members be Friends?" "Board members must be Friends because that's what the by-laws state," she replied with a look that conveyed that she thought McBride was a little slow on the uptake.

With that, McBride began to share his findings. He began by noting that Whispering Pines was incorporated as a non-profit religious group, yet the only discernible connection to religion was the requirement that board members must belong to the Society of Friends. "With the tax authorities clamping down on non-profits who claim to be religious groups but do not demonstrate that fact through their operations, this issue should be of great concern to the board. You may lose your preferred tax status because your operations do not follow your Articles of Incorporation, which state that you are a religious group providing a retirement home to your members."

McBride shared that during his tour of the facility he noticed several potentially serious health and safety issues. He had found residents' medication on the counter in the kitchen, available to anyone at any time. Furthermore, there did not seem to be a clear indication of which medication was for which patient. The fire extinguishers had not been serviced for three years although the State Fire Code requires annual servicing. "You have a chairlift on the back stairway to transport residents up and down. This chairlift requires an Elevator Operating Permit. You must know this since the operating permit is posted at the bottom of the stairs next to the chairlift. However, the permit expired two years ago and has not been renewed." McBride pointed out.

McBride then highlighted the almost total lack of financial systems. "My discussion with Gail identified that there are no checks and balances with the finances. Gail collects the rents, makes the deposits, uses the debit card, pays the bills and does the payroll all on her own. She even reconciles the bank statement. Marge, your financial reports are based solely on what Gail tells you with no possible way to verify the information, since Gail doesn't even have receipts for the expenditures. Finally, there don't seem to be any formal minutes of board meetings or any

formal financial reports. For example, the financial report included in today's materials is not dated and contains no backup detail justifying the expenditures."

To conclude, McBride expressed concern regarding the fundamental viability of the business model. He noted that the facility did not seem to be breaking even. Whispering Pines was currently operating with 2 vacancies and did not have a recruitment or marketing plan in place. From the financial information that did exist he could see that, for at least the previous two years, the gap between income and expenses had been filled by donations solicited on an ad hoc basis by board members. These donations accounted for a significant percentage of the income, yet, there was apparently no discussion of or plan for either marketing or fundraising.

McBride's report was met with stunned silence followed by a confused and unfocused discussion. When it became clear that the board was paralyzed by the current situation, Hayden stepped in. "Mr. McBride, it looks like we may need your help with some further analysis. What would you suggest at this point?"

### **Next Steps**

McBride had anticipated this question and had given significant thought to possible next steps. "One thing that makes this seem overwhelming is that there are a variety of issues at play. I would like to begin by using an organizational assessment framework to organize the issues so that the board can begin to get a clearer picture of the lay of the land. I have used something called McKinsey's 7S framework in the past and clients have found it to be a useful tool. I think I would recommend beginning there. I would also like to prepare a break-even analysis so that the board can get a more accurate handle on the financial gaps that exist. Once we understand the gaps, it will be important to focus on long-term financial viability and develop a plan to successfully recruit and retain residents – and board members as well. Finally, I think we will need to do some prioritization, and there are some great analytical tools to help with that process."

"Well," said Hayden with a nervous laugh, "that should be enough to get us started."

## Appendix A

### Summary Financial Information Years Ending December 31, 2009 and 2010

	<u>2010</u>	<u>2009</u>
Revenue:		
New Resident Fee	600	600
Room Rent	58,760	51,950
Resident Laundry Fee	617	519
Garage Rent*	1,610	2,025
Donations	12,798	14,792
	<u>74,385</u>	<u>69,886</u>
Expenses:		
Salaries	43,523	46,140
Food	6,038	5,269
Insurance	4,035	4,062
Utilities	9,626	10,062
Supplies	3,664	640
Repairs and Maintenance	4,637	3,958
Miscellaneous	269	461
	<u>71,792</u>	<u>70,592</u>
Net Income	<u>2,593</u>	<u>(706)</u>

Other Financial Information:

Room Rent: \$750 per month (\$9000 per year)

Entrance Fee: \$300

Garage (storage) Rent: \$225/month

\* Garage rent is independent of number of residents

**Appendix B  
 Break-Even Analysis**

**2009 Information:**

\$51,950 / \$9,000 = 5.8 Residents  
 \$519 / 5.75 = \$90 Laundry Fee per Resident  
 \$5,269 / 5.75 = \$ 916 Food Cost per Resident  
 \$2025 / \$225 = 9 months of Garage Rent

**2010 Information:**

\$58,760 / \$9,000 = 6.5 Residents  
 \$617 / 6.5 = \$95 Laundry Fee per Resident  
 \$6,038 / 6.5 = \$929 Food Cost per Resident  
 \$1,610 / \$225 = 7 months of Garage Rent

**Break-Even Assumptions:**

No increase in rent. Room Rent: \$750/month x 12 months = \$9,000/yr  
 All expenses except Food averaged (2009 + 2010) / 2  
 Garage rented for 12 months @ \$225/month  
 Food Cost per Resident same as 2010  
 No Resident Turnover

	<b>Number of Residents</b>			
	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>
<b>Income:</b>				
New Resident Fee			300	600
Room Rent	54,000	63,000	72,000	81,000
Resident Laundry Fee	570	665	760	855
Garage Rent	2,700	2,700	2,700	2,700
Donations	13,795	13,795	13,795	13,795
	71,065	80,160	89,555	98,950
<b>Expenses:</b>				
Salaries	44,832	44,832	44,832	44,832
Food	5,574	6,503	7,432	8,361
Insurance	4,049	4,049	4,049	4,049
Utilities	9,844	9,844	9,844	9,844
Supplies	2,152	2,152	2,152	2,152
Repairs and Maintenance	4,298	4,298	4,298	4,298
Miscellaneous	365	365	365	365
	71,114	72,043	72,972	73,901
<b>Net Income</b>	<b>(49)</b>	<b>8,117</b>	<b>16,583</b>	<b>25,049</b>

## Appendix C Case Analysis Resources

### Resources Related to the McKinsey 7S Framework

The McKinsey 7S framework has been widely-used for organizational analysis since the early 1980s (Fleisher & Bensoussan, 2007) and is included in many text books. In addition, there are many excellent resources readily available on the Internet that can be used to support application of this Framework.

Fleisher, C.S., & Bensoussan, B.E. (2007). *Business and competitive analysis: Effective application of new and classic methods*. Upper Saddle River, NJ: Pearson Education Inc.

*The McKinsey 7S Framework*. (nd) Retrieved April 3, 2011, from  
[http://www.mindtools.com/pages/article/newSTR\\_91.htm](http://www.mindtools.com/pages/article/newSTR_91.htm)

### Resources Related to Issue Prioritization

The Interrelationship Digraph (ID) is one of the seven management and planning tools (Brassard, 1996). It provides a structured approach to issue prioritization that leads to identification and analysis of cause and effect relationships among a set of +/- 6 – 20 critical issues. GOAL/QPC ([www.goalqpc.com](http://www.goalqpc.com)) is the best source of support resources for this tool. Note: The ID has been in use for decades, but in recent years has been incorporated into Six Sigma analysis, providing an opportunity to extend the activity by exposing students to an important current management trend.

Brassard, M. (1996). *The memory jogger plus+*. Salem, NH: GOAL/QPC