

Organizational health in healthcare – how to drive and sustain high levels of performance over time

Webinar
June 26, 2013

Connie Cibrone, Senior Director of Client Service
Objective Health, a McKinsey Solution for Healthcare Providers

Elizabeth Irons, Chief Operations Officer
McKinsey & Company's Organizational Health Index (OHI) Solution

Carla Arellano
McKinsey & Company's Organizational Health Index (OHI) Solution

Content

Organizational health in healthcare – how to drive and sustain high levels of performance over time

- **What do we mean by organizational health – and why does it matter in healthcare?**
- Introducing the Organizational Health Index (OHI)
- Appendix

How much time does your leadership team spend on organizational health?

Pick the best answer from the following list

- None
- Some “it comes up a couple of times a year”
- Quite a bit – “we talk about it quarterly”
- Lots – “we actively measure & manage it”



Our core belief: organizations need to manage performance and health with equal rigor

Performance

What an enterprise delivers to stakeholders in **financial** and **operational** terms (e.g., net operating profit, ROACE, TRS, net operating costs, stock turn)

“The narrow pursuit of shareholder value was the dumbest idea in the world”



– Jack Welch
Former Chairman and CEO of GE
Financial Times, August 2009

Health

The ability of an organization to **align**, **execute** and **renew** itself to **sustain** exceptional performance over time

“We have not achieved our tremendous increase in shareholder value by making shareholder value the only purpose of our business”



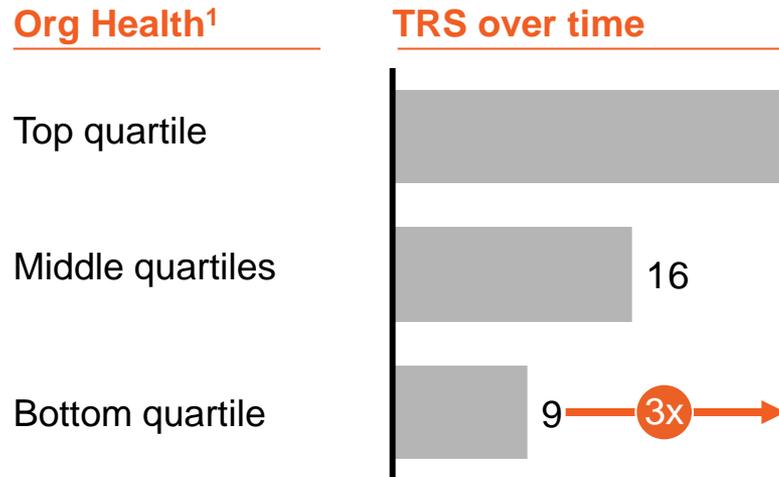
– John Mackey
Founder and CEO of Whole Foods
Reason Magazine, October 2005



Empirical research has proven that organizational performance and health are mutually reinforcing drivers

Organization level

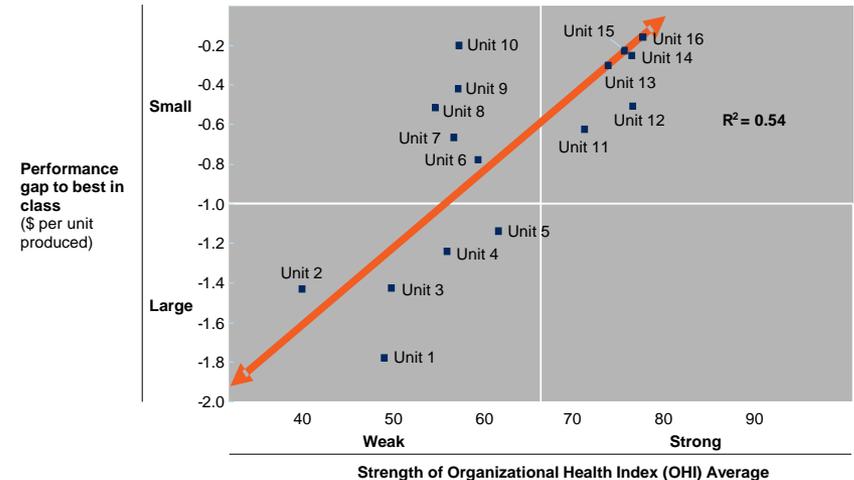
Average Total Return to Shareholders by health quartile (9 year average)



3X greater TRS = ~\$1.2B in value for the average company in our dataset

Department level

Correlation of organizational health and performance (global energy company)



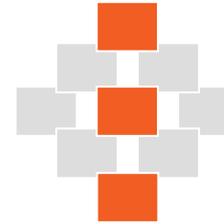
The healthiest organizations and business units tend to financially and operationally outperform less healthy organizations

1 As defined by Organizational Health Index score; n = 272

We define 'health' as an organization's ability to align, execute and renew over time

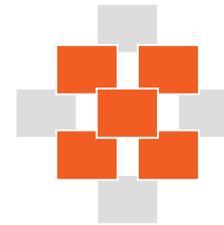


Internal alignment



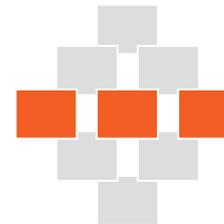
The organization has a compelling vision and well-articulated strategy, which is supported by its culture and values

Quality of execution



The organization demonstrates executional excellence against its strategy and in delivering its services

Capacity for renewal



The organization effectively understands, interacts, responds, and adapts to its situation and external environment

Why is this important for healthcare providers?

Focus on organizational health is increasingly important for providers

- Need to improve operations and alignment across employees to succeed in post-reform world
- Consolidation expected to continue and increase
- Increasing importance of integrating physicians – both newly employed and more loosely affiliated



Based on the previous discussion – how healthy is your current organization?

Pick the best answer from the following list

- Very healthy
- Somewhat healthy
- Unhealthy
- Very unhealthy



Contents

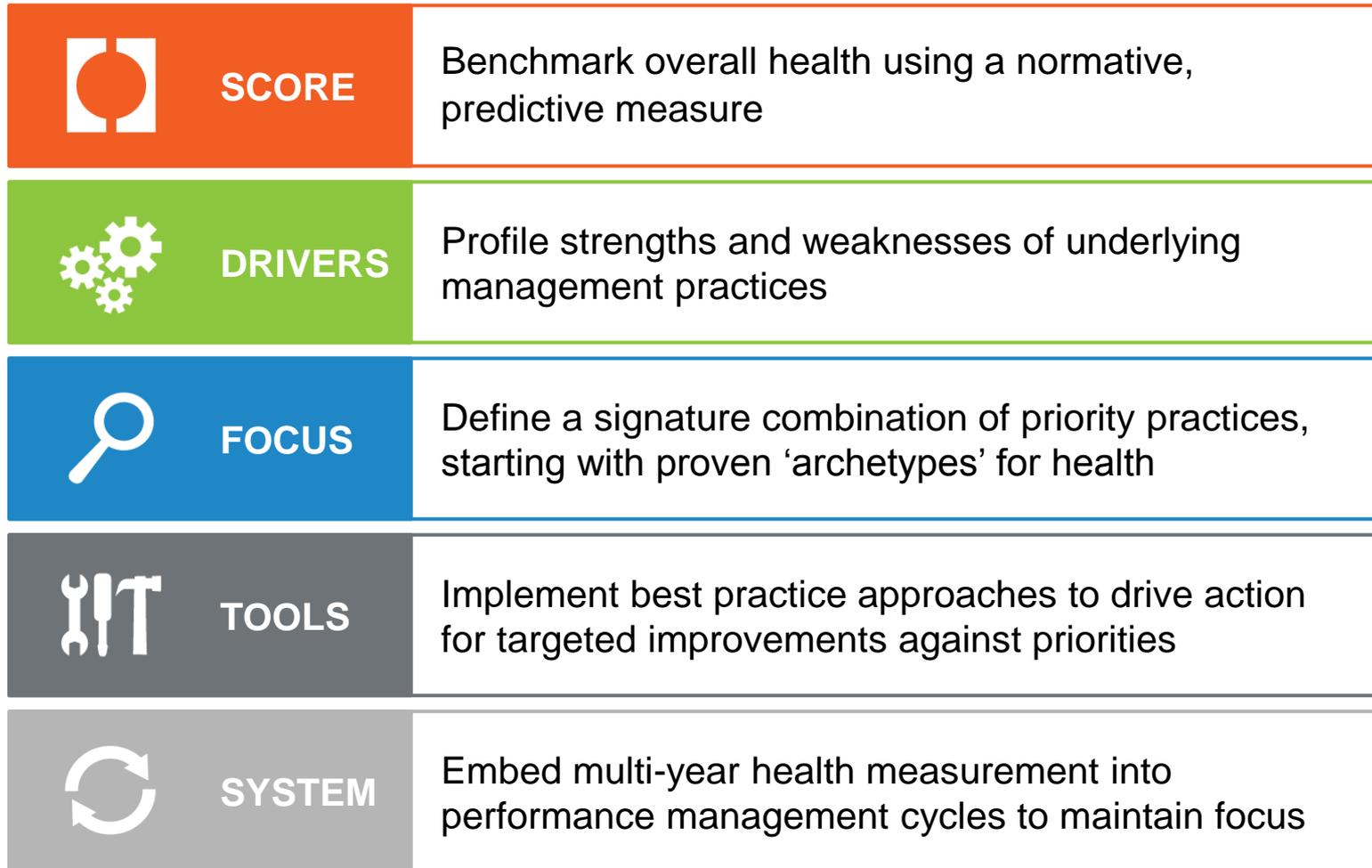
Organizational health in healthcare – how to drive and sustain high levels of performance over time

- What do we mean by organizational health – and why does it matter in healthcare?
- **Introducing the Organizational Health Index (OHI)**
- Appendix

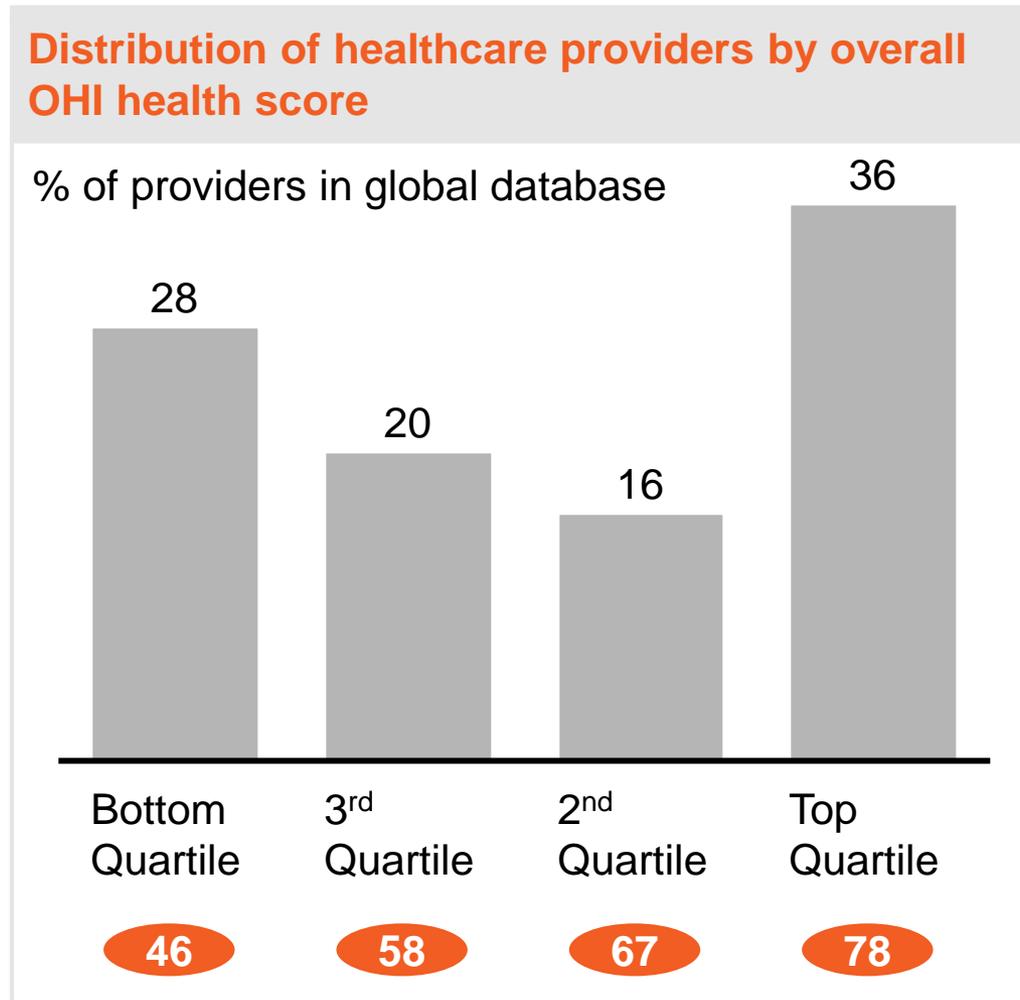
**THE OHI SOLUTION ENABLES
LEADERS TO PIN-POINT AND
FINE-TUNE THEIR ORGANIZATION'S
'HEALTH'— ITS CAPACITY TO DELIVER
ABOVE-AVERAGE FINANCIAL
AND OPERATING PERFORMANCE
OVER THE LONG TERM**



The Organizational Health Index (OHI) enables organizations to move from an overall health diagnostic to specific, systemic actions that drive sustained improvements in health and performance



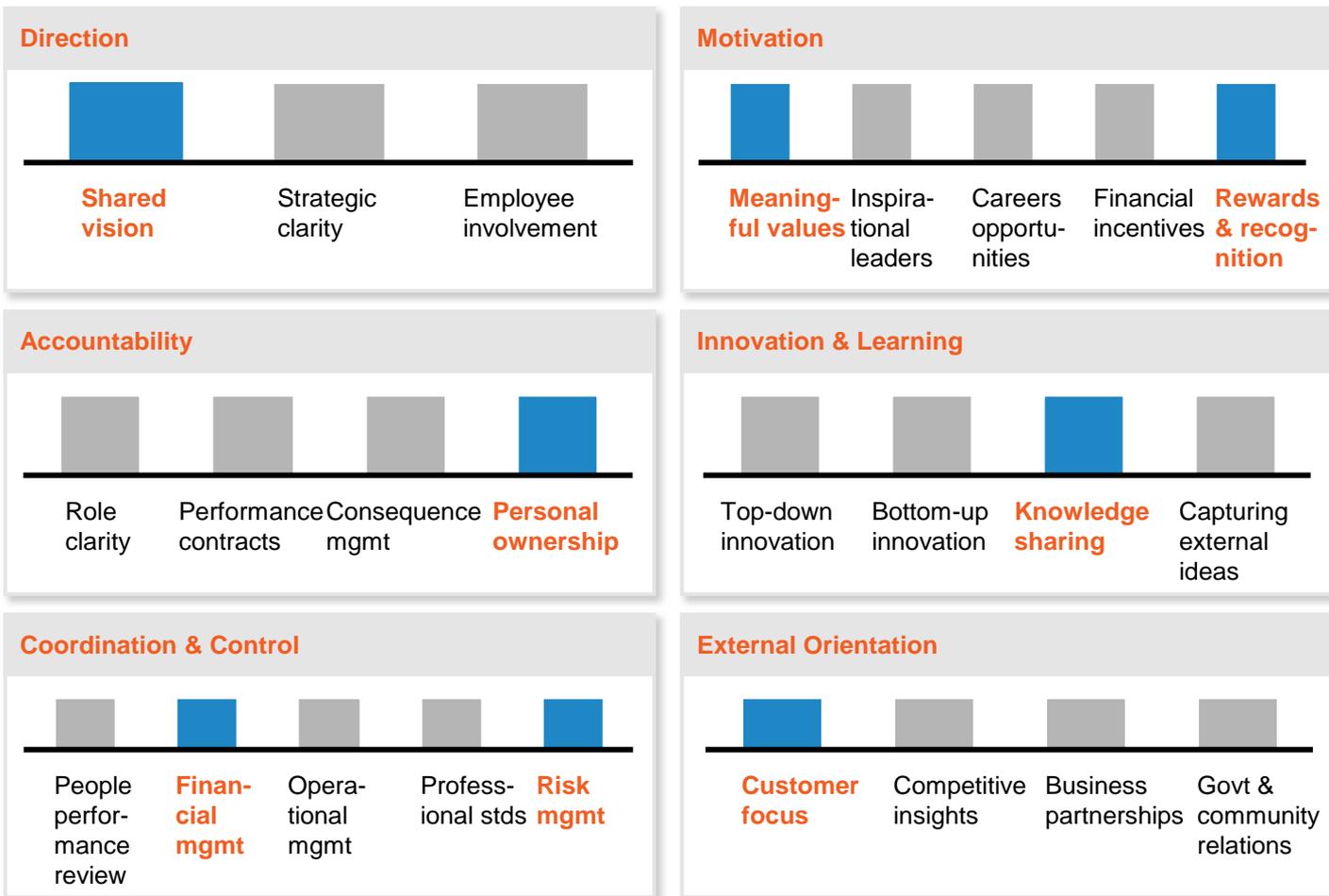
We see polarized health scores across healthcare providers – just over 1/3 of providers in the top quartile, just less than 1/3 in the bottom health quartile



XX Overall health score, average per quartile

The healthiest providers emphasize patients, and motivate and engage staff through a clear vision, meaningful values and recognition/reward

Comparison of practice averages for top quartile providers vs. industry norm



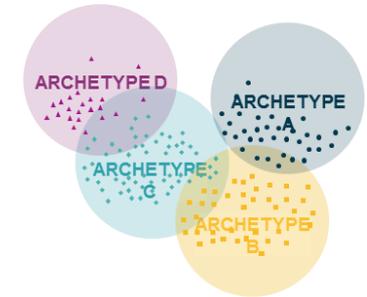
Practice for healthiest providers significantly higher than the industry average¹

- The best performers within the healthcare provider industry excel at engaging and motivating employees through a clear vision, values and rewards, and creating a sense of personal ownership
- They also have a strong focus on patients, continuously share knowledge and effectively manage finances and risk

¹ Differences of 15%+ between industry's average and best performing - top quartile health – organizations in individual outcomes and practices

The OHI helps clients understand and identify the ‘signature combination’ of priority practices that they need to focus on to drive better health

The organizations we have surveyed are clustered in four clear groups - each with its own pattern of success



ARCHETYPE A

Leaders are the performance catalyst; they set high expectations and help the organization achieve them

ARCHETYPE B

Shaping market trends and building a portfolio of solid, innovative brands keeps us ahead of the competition

ARCHETYPE C

Discipline, sound execution, and continuous improvement are the foundations of great performance

ARCHETYPE D

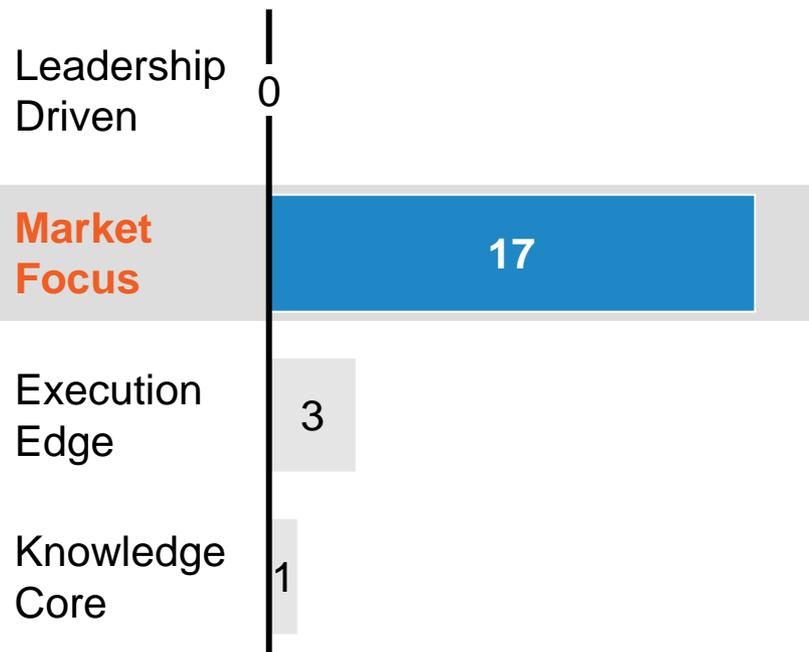
Our collective talent and knowledge is our most important asset; our success depends on developing this effectively

| | | | |
|-----------------------------|----------------------------|----------------------------|----------------------------|
| 1 Career opportunities | Customer focus | Knowledge sharing | Rewards & recognition |
| 2 Inspirational leaders | Competitive insights | Employee involvement | Talent acquisition |
| 3 Open and trusting | Business partnerships | Creative & entrepreneurial | Financial incentives |
| 4 Financial Incentives | Financial management | Bottom-up innovation | Career opportunities |
| 5 Risk management | Govt & community relations | Talent development | Personal ownership |
| 6 Consequence management | Capturing external ideas | Internally competitive | People performance review |
| 7 People performance review | Strategic clarity | Personal ownership | Consequence management |
| 8 Strategic clarity | Process based capabilities | Consequence management | Process based capabilities |
| 9 Operationally disciplined | Shared vision | Capturing external ideas | Top-down innovation |
| 10 Financial management | Operationally disciplined | Meaningful values | Knowledge sharing |

“Healthy” providers tend to follow a ‘Market-Focused’ recipe – though some in the US believe they may need to become ‘Execution Edge’ in a post-reform world

Healthcare providers with moderate to very strong archetype alignment¹

Number of healthcare providers by archetype



Top practices for the 17 Market-Focused healthcare providers...

1. Government & community relations
2. Supportive leadership
3. Operationally disciplined
4. Customer focus
5. Consultative leadership
6. Professional standards
7. Financial management
8. Top-down innovation
9. Competitive insights
10. Business partnerships

¹ Includes all observations with archetype correlations above 0.3

One management practice is “hazardous to health” in healthcare providers

Ranking of management practices from most to least-emphasized (standardized)



1 New practice absent from healthy providers

Two “competitively differentiating” management practices are critical for sustaining performance and health in healthcare providers

Ranking of management practices from most to least-emphasized (standardized)

Healthy Healthcare providers

1. Govt. & community relations
2. **Customer focus**
3. Financial management
4. Supportive leadership
5. Shared vision
6. Consultative leadership
7. Operationally disciplined
8. Top-down innovation
9. Professional management
10. **Meaningful values**
11. Competitive insights
12. Business partnerships
13. Strategic clarity
14. Open trusting
15. Inspirational leaders
16. Process-based capabilities
17. Capturing external ideas
18. Operational management
19. Role clarity
20. Knowledge sharing
21. Performance contracts
22. Personal ownership
23. Career opportunities
24. Employee involvement
25. People performance review
26. Talent acquisition
27. Authoritative leadership
28. Bottom-up innovation
29. Outsourced expertise
30. Talent development
31. Consequence management
32. Creative & entrepreneurial
33. Internally competitive
34. Financial incentives

Unhealthy healthcare providers

1. Govt. & community relationships
2. Supportive leadership
3. Consultative leadership
4. Authoritative leadership
5. Operationally disciplined
6. Professional management
7. Financial management
8. Strategic clarity
9. Business partnerships
10. Top-down innovation
11. Challenging leadership
12. Competitive insights
13. **Customer focus**
14. Operational management
15. Shared vision
16. Process-based capabilities
17. Open & trusting
18. Role clarity
19. Outsourced expertise
20. Talent acquisition
21. Capturing external ideas
22. Inspirational leaders
23. **Meaningful values**
24. Performance contracts
25. Risk management
26. People performance review
27. Talent development
28. Career opportunities
29. Personal ownership
30. Employee involvement
31. Knowledge sharing
32. Bottom-up innovation
33. Creative & entrepreneurial
34. Consequence management
35. Internally competitive
36. Rewards & recognition
37. Financial incentives

“Differentiating”

1

2

1 Focusing on “customers” is a priority practice in healthy healthcare providers as it enables providers to understand and respond to the needs of patients

2 Attending to communication of a set of **meaningful values** enhances organization’s culture and improves employee engagement in healthy healthcare providers

1 New practice absent from healthy providers

Case studies: OHI recently used at two provider clients

| | Description | Impact |
|--|--|---|
| Broad transformation diagnostic to drive performance in health system | <ul style="list-style-type: none"> Surveyed all parts of health system, e.g., across hospitals, types of staff | <ul style="list-style-type: none"> Management used results in developing transformation and incorporated improvement on 2 practices into their executive performance targets |
| Merger of two health systems | <ul style="list-style-type: none"> Deployed OHI survey across clinical and non-clinical staff, accompanied by management and board interviews | <ul style="list-style-type: none"> Survey uncovered a number of cultural similarities to build on in communications Highlighted areas for boards and management teams to be aware of in integration process |



Case studies: OHI as a baseline to set hospital strategy

New strategic plan

Context

- Develop a strategic plan in light of healthcare reform and increased financial pressures
- OHI survey was deployed to understand the hospital's readiness/ willingness to change as part of the broader strategic plan

Impact

- OHI indicated very healthy organization with a few areas to strengthen:
 - Differentiate based on performance and reward appropriately
 - Attract and develop the best talent
 - Empower and support people
- Results gave leaders confidence in driving change and prompted them to re-consider their approach to rewards and recognition

Strategy review

- Conducted OHI as part of broader strategy review to define position in the market and long-term viability as an independent
- Objective for OHI was to understand hospitals' ability to adapt to change and overall 'capacity' to drive performance

- OHI gave new CEO a view into what to fix and strengths to build on
 - Lack of accountability driven partly by structural issues and lack of clear ownership
 - Community focus and clinical care real strengths to build on

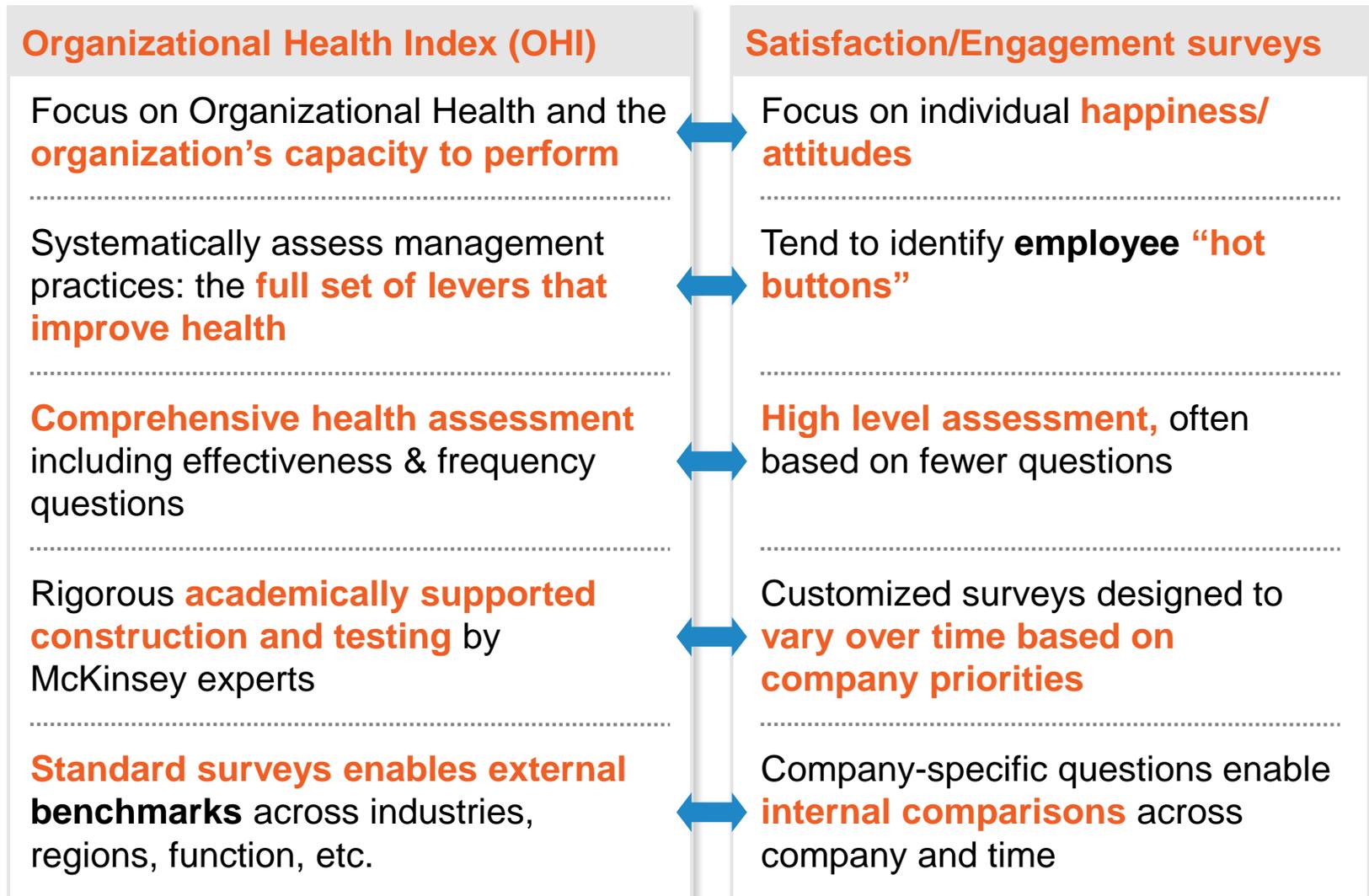
What 'recipe for success' is your organization most likely deploying today?

Pick the best answer from the following list

- Execution edge – relying on continuous improvement & innovation
- Market focus – focusing on patients and bringing ideas from outside
- Talent core – Hiring and developing the best people
- Leadership driven – Developing leaders and deploying them to tackle the thorny issues
- None



The OHI offers a deep understanding of performance culture that can be a powerful complement to traditional employee surveys



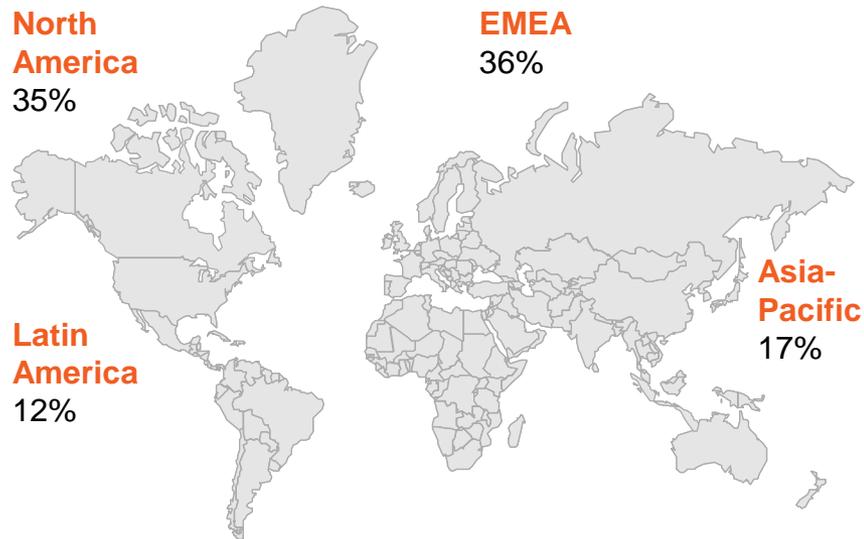
Organizational health in healthcare – *how to drive and sustain high levels of performance over time*

- What do we mean by organizational health – and why does it matter in healthcare?
- Introducing the Organizational Health Index (OHI)
- **Appendix**

The OHI survey has now been run over 1,400 times and includes benchmarking data from more than 1,000,000 respondents

OHI by geography

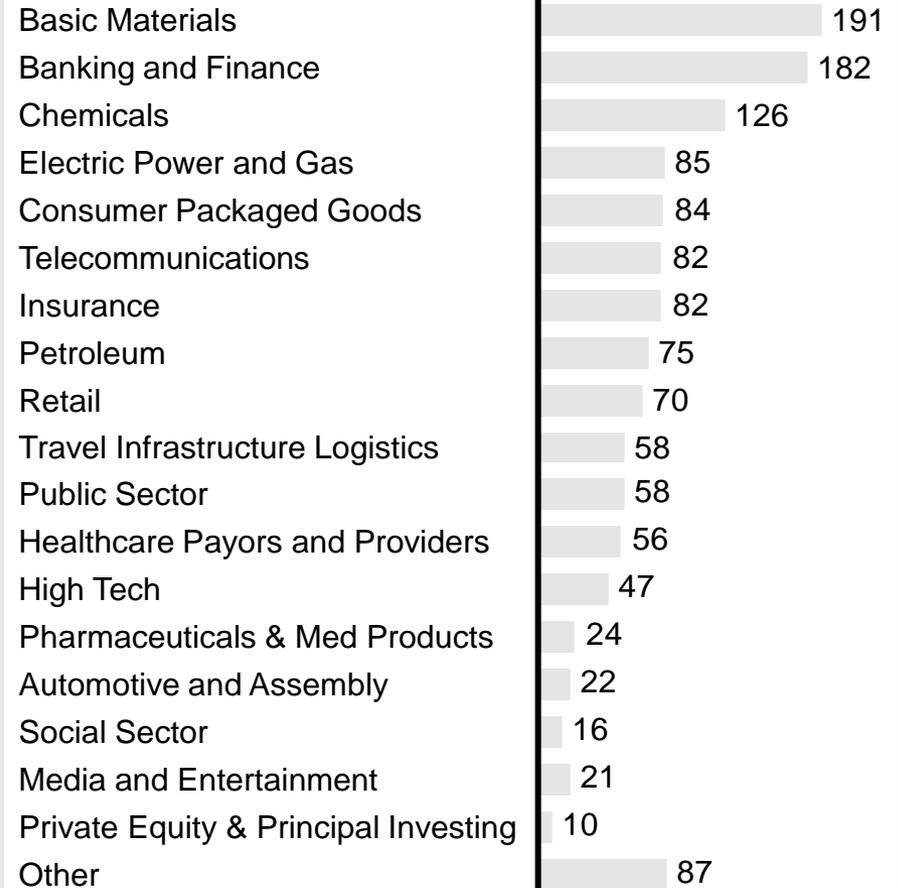
% of OHI surveys 2006 – 2013 YTD



**1,200,000+ OHI respondents
from 760+ companies
worldwide**

OHI by sector

of OHI surveys, 2006 – 2013 YTD

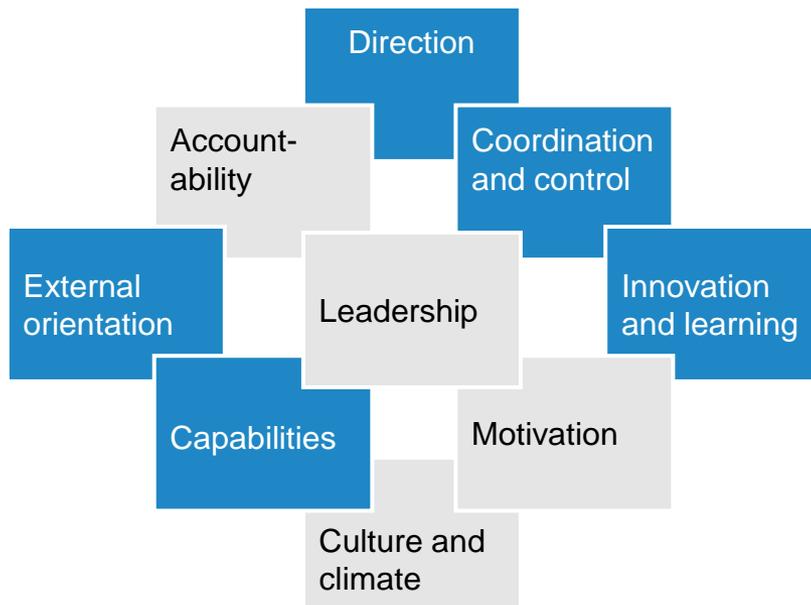


The OHI evaluates organizational health along two dimensions: observable health outcomes and supporting management practices

■ Top quartile
 ■ 2nd quartile
 ■ 3rd quartile
 Bottom quartile

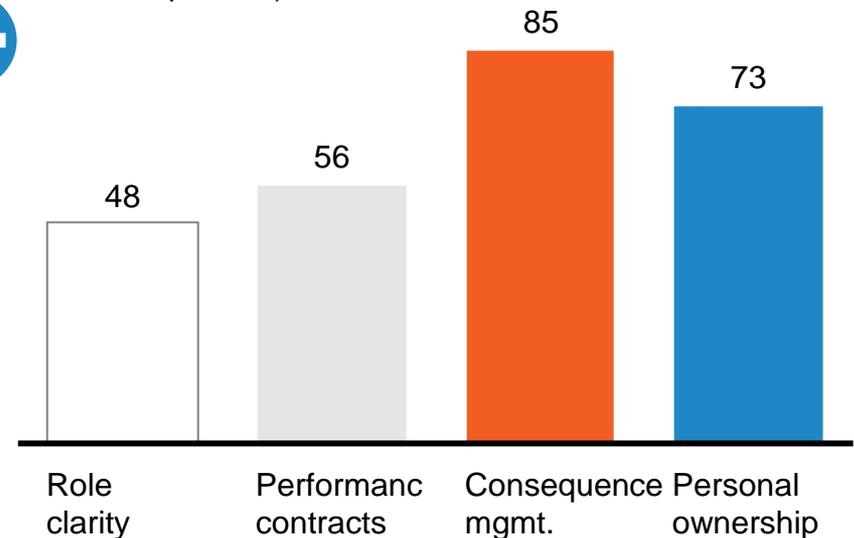
Outcomes

- “Outcomes” describe the **results** which a company **has ultimately achieved** (“how **effective** is the company?”)
- Sample question for accountability: “Employees in our company feel trusted to do their jobs well”
- As a result every element is benchmarked against the overall OHI database (from “top quartile” to “bottom quartile”)



Management practices

- “Management practices” describe **what managers at a company do** in order to achieve their goals
- Sample question for accountability: “The company provides coaching to under-performers to help them improve their results”
- For every one of the nine elements, a set of graphs is available showing **how frequently** the management practices are being applied, which is also benchmarked against the overall OHI database (from “top quartile” to “bottom quartile”)



The OHI results help you ...

UNDERSTAND HOW HEALTHY YOUR ORGANIZATION IS



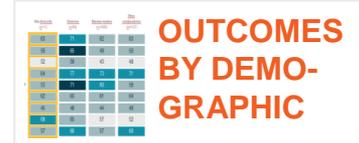
Overall health score relative to global standard (1mm+ in database)



Outcome scores relative to global standard highlight key strengths and opportunities



Outcome scores compared to specific peer groups show potential competitive advantage(s)



Heat map of outcome scores across demographic groups highlight internal relative strengths

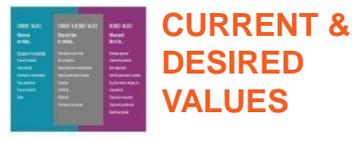
UNDERSTAND WHAT IS DRIVING THAT HEALTH



Scores on 37 key drivers of health, relative to global standard



Key management patterns that affect health positively or negatively



Comparing current to desired values shows where employees want to go

DEFINE SPECIFIC PRIORITIES FOR IMPROVING HEALTH



Comparison of practice profile to the four archetypes of organizational health



Identification of potential practices to prioritize and signature strengths to sustain



Summary of recommended themes for change based on priority practices

Q & A

Organizational health in healthcare – *how to drive and sustain high levels of performance over time*

Connie Cibrone, Senior Director of Client Service
Objective Health, a McKinsey Solution for Healthcare Providers

Elizabeth Irons, Chief Operations Officer
McKinsey & Company's Organizational Health Index (OHI) Solution

Carla Arellano
McKinsey & Company's Organizational Health Index (OHI) Solution

For more information visit: www.objectivehealth.com