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

Webinar
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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)

Health

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

“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

“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)

<table>
<thead>
<tr>
<th>Org Health¹</th>
<th>TRS over time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top quartile</td>
<td></td>
</tr>
<tr>
<td>Middle quartiles</td>
<td>16</td>
</tr>
<tr>
<td>Bottom quartile</td>
<td>9 ³x</td>
</tr>
</tbody>
</table>

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)

Performance gap to best in class ($ per unit produced)

- Unit 2
- Unit 3
- Unit 4
- Unit 5
- Unit 6
- Unit 7
- Unit 8
- Unit 9
- Unit 10
- Unit 11
- Unit 12
- Unit 13
- Unit 14
- Unit 15
- Unit 16

Strength of Organizational Health Index (OHI) Average

- Weak
- Strong

**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

SOURCE: McKinsey Organization Practice / OHI Solution
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
- [x] 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.

**SCORE**
Benchmark overall health using a normative, predictive measure

**DRIVERS**
Profile strengths and weaknesses of underlying management practices

**FOCUS**
Define a signature combination of priority practices, starting with proven ‘archetypes’ for health

**TOOLS**
Implement best practice approaches to drive action for targeted improvements against priorities

**SYSTEM**
Embed multi-year health measurement into performance management cycles to maintain focus

SOURCE: McKinsey Organization Practice / OHI Solution
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.

**Distribution of healthcare providers by overall OHI health score**

% of providers in global database

<table>
<thead>
<tr>
<th>Quartile</th>
<th>% of Providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom Quartile</td>
<td>28</td>
</tr>
<tr>
<td>3rd Quartile</td>
<td>20</td>
</tr>
<tr>
<td>2nd Quartile</td>
<td>16</td>
</tr>
<tr>
<td>Top Quartile</td>
<td>36</td>
</tr>
</tbody>
</table>

46 58 67 78

SOURCE: McKinsey Organization Practice; OHI database April 2013
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

**Direction**
- Shared vision
- Strategic clarity
- Employee involvement

**Motivation**
- Meaningful values
- Inspirational leaders
- Careers opportunities
- Financial incentives
- Rewards & recognition

**Accountability**
- Role clarity
- Performance contracts
- Consequence mgmt
- Personal ownership

**Innovation & Learning**
- Top-down innovation
- Bottom-up innovation
- Knowledge sharing
- Capturing external ideas

**Coordination & Control**
- People performance review
- Financial mgmt
- Operational mgmt
- Professional stds
- Risk mgmt

**External Orientation**
- Customer focus
- Competitive insights
- Business partnerships
- Govt & community relations

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**Practice for healthiest providers significantly higher than the industry average**¹

- 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

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

**SOURCE:** McKinsey Organization Practice; OHI database April 2013
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 | 2 | Inspirational leaders | 3 | Open and trusting | 4 | Financial incentives | 5 | Risk management | 6 | Consequence management | 7 | People performance review | 8 | Strategic clarity | 9 | Operationally disciplined | 10 | Financial management |
|---|----------------------|---|-----------------------|---|-------------------|---|--------------------|---|-------------------|---|-----------------------|---|-------------------------|---|----------------------|---|----------------------|
| 1 | Customer focus       | 2 | Competitive insights | 3 | Business partnerships | 4 | Financial management | 5 | Govt & community relations | 6 | Capturing external ideas | 7 | Strategic clarity | 8 | Process based capabilities | 9 | Shared vision | 10 | Operationally disciplined |
| 1 | Knowledge sharing    | 2 | Employee involvement | 3 | Creative & entrepreneurial | 4 | Bottom-up innovation | 5 | Talent development | 6 | Internally competitive | 7 | Personal ownership | 8 | Consequence management | 9 | Capturing external ideas | 10 | Meaningful values |
| 1 | Rewards & recognition | 2 | Talent acquisition | 3 | Financial incentives | 4 | Career opportunities | 5 | Personal ownership | 6 | People performance review | 7 | Consequence management | 8 | Process based capabilities | 9 | Top-down innovation | 10 | 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 alignment**¹

<table>
<thead>
<tr>
<th>Number of healthcare providers by archetype</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership Driven</td>
<td>0</td>
</tr>
<tr>
<td>Market Focus</td>
<td>17</td>
</tr>
<tr>
<td>Execution Edge</td>
<td>3</td>
</tr>
<tr>
<td>Knowledge Core</td>
<td>1</td>
</tr>
</tbody>
</table>

**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

SOURCE: McKinsey Organization practice
One management practice is “hazardous to health” in healthcare providers

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

<table>
<thead>
<tr>
<th>Healthy Healthcare providers</th>
<th>Unhealthy healthcare providers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Govt. &amp; community relations</td>
<td>1. Govt. &amp; community relationships</td>
</tr>
<tr>
<td>2. Customer focus</td>
<td>2. Supportive leadership</td>
</tr>
<tr>
<td>3. Financial management</td>
<td>3. Consultative leadership</td>
</tr>
<tr>
<td>4. Supportive leadership</td>
<td>4. <strong>Authoritative leadership</strong></td>
</tr>
<tr>
<td>5. Shared vision</td>
<td>5. Operationally disciplined</td>
</tr>
<tr>
<td>6. Consultative leadership</td>
<td>6. Professional management</td>
</tr>
<tr>
<td>7. Operationally disciplined</td>
<td>7. Financial management</td>
</tr>
<tr>
<td>8. Top-down innovation</td>
<td>8. Strategic clarity</td>
</tr>
<tr>
<td>10. Meaningful values</td>
<td>10. Top-down innovation</td>
</tr>
<tr>
<td>13. Strategic clarity</td>
<td>13. Customer focus</td>
</tr>
<tr>
<td>15. Inspirational leaders</td>
<td>15. Shared vision</td>
</tr>
<tr>
<td>17. Capturing external ideas</td>
<td>17. Open &amp; trusting</td>
</tr>
<tr>
<td>18. Operational management</td>
<td>18. Role clarity</td>
</tr>
<tr>
<td>19. Role clarity</td>
<td>19. Outsourced expertise</td>
</tr>
<tr>
<td>20. Knowledge sharing</td>
<td>20. Talent acquisition</td>
</tr>
<tr>
<td>22. Personal ownership</td>
<td>22. Inspirational leaders</td>
</tr>
<tr>
<td>23. Career opportunities</td>
<td>23. Meaningful values</td>
</tr>
<tr>
<td>24. Employee involvement</td>
<td>24. Performance contracts</td>
</tr>
<tr>
<td>25. People performance review</td>
<td>25. Risk management</td>
</tr>
<tr>
<td>27. <strong>Authoritative leadership</strong></td>
<td>27. Talent development</td>
</tr>
<tr>
<td>28. Bottom-up innovation</td>
<td>28. Career opportunities</td>
</tr>
<tr>
<td>29. Outsourced expertise</td>
<td>29. Personal ownership</td>
</tr>
<tr>
<td>30. Talent development</td>
<td>30. Employee involvement</td>
</tr>
<tr>
<td>31. Consequence management</td>
<td>31. Knowledge sharing</td>
</tr>
<tr>
<td>32. Creative &amp; entrepreneurial</td>
<td>32. Bottom-up innovation</td>
</tr>
<tr>
<td>33. Internally competitive</td>
<td>33. Creative &amp; entrepreneurial</td>
</tr>
<tr>
<td>34. Financial incentives</td>
<td>34. Consequence management</td>
</tr>
<tr>
<td>35. Internally competitive</td>
<td>35. Internally competitive</td>
</tr>
<tr>
<td>36. Rewards &amp; recognition</td>
<td>36. Financial incentives</td>
</tr>
<tr>
<td>37. Financial incentives</td>
<td></td>
</tr>
</tbody>
</table>

1 New practice absent from healthy providers

**SOURCE:** McKinsey Organization practice
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
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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

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

SOURCE: McKinsey Organization practice
Case studies: OHI recently used at two provider clients

<table>
<thead>
<tr>
<th>Description</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Broad transformation diagnostic to drive performance in health system</strong></td>
<td>▪ Surveyed all parts of health system, e.g., across hospitals, types of staff</td>
</tr>
<tr>
<td>▪ Surveyed all parts of health system, e.g., across hospitals, types of staff</td>
<td>▪ Management used results in developing transformation and incorporated improvement on 2 practices into their executive performance targets</td>
</tr>
<tr>
<td><strong>Merger of two health systems</strong></td>
<td>▪ Deployed OHI survey across clinical and non-clinical staff, accompanied by management and board interviews</td>
</tr>
<tr>
<td>▪ Deployed OHI survey across clinical and non-clinical staff, accompanied by management and board interviews</td>
<td>▪ Survey uncovered a number of cultural similarities to build on in communications</td>
</tr>
<tr>
<td></td>
<td>▪ Highlighted areas for boards and management teams to be aware of in integration process</td>
</tr>
</tbody>
</table>
# Case studies: OHI as a baseline to set hospital strategy

## 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
- 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

<table>
<thead>
<tr>
<th>Organizational Health Index (OHI)</th>
<th>Satisfaction/Engagement surveys</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on Organizational Health and the organization’s capacity to perform</td>
<td>Focus on individual happiness/attitudes</td>
</tr>
<tr>
<td>Systematically assess management practices: the full set of levers that improve health</td>
<td>Tend to identify employee “hot buttons”</td>
</tr>
<tr>
<td>Comprehensive health assessment including effectiveness &amp; frequency questions</td>
<td>High level assessment, often based on fewer questions</td>
</tr>
<tr>
<td>Rigorous academically supported construction and testing by McKinsey experts</td>
<td>Customized surveys designed to vary over time based on company priorities</td>
</tr>
<tr>
<td>Standard surveys enables external benchmarks across industries, regions, function, etc.</td>
<td>Company-specific questions enable internal comparisons across company and time</td>
</tr>
</tbody>
</table>

SOURCE: McKinsey Organization Practice / OHI Solution
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.
The OHI evaluates organizational health along two dimensions: observable health outcomes and supporting management practices.

**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”)

**Sample Scores**
- Role clarity: 48 (Top quartile), 56 (2nd quartile), 85 (3rd quartile), 73 (Bottom quartile)
- Performance contracts: 48 (Top quartile), 56 (2nd quartile), 85 (3rd quartile), 73 (Bottom quartile)
- Consequence management: 85 (Top quartile), 56 (2nd quartile), 48 (3rd quartile), 73 (Bottom quartile)
- Personal ownership: 73 (Top quartile), 56 (2nd quartile), 48 (3rd quartile), 85 (Bottom quartile)

SOURCE: McKinsey Organization Practice
The OHI results help you ...

**UNDERSTAND HOW HEALTHY YOUR ORGANIZATION IS**

- **HEALTH SCORE**
  - Overall health score relative to global standard (1mm+ in database)

- **OUTCOME PROFILE**
  - Outcome scores relative to global standard highlight key strengths and opportunities

- **OUTCOME BENCHMARK**
  - Outcome scores compared to specific peer groups show potential competitive advantage(s)

- **OUTCOMES BY DEMOGRAPHIC**
  - Heat map of outcome scores across demographic groups highlight internal relative strengths

**UNDERSTAND WHAT IS DRIVING THAT HEALTH**

- **PRACTICE PROFILE**
  - Scores on 37 key drivers of health, relative to global standard

- **PRACTICE PATTERNS**
  - Key management patterns that affect health positively or negatively

- **CURRENT & DESIRED VALUES**
  - Comparing current to desired values shows where employees want to go

**DEFINE SPECIFIC PRIORITIES FOR IMPROVING HEALTH**

- **ARCHETYPE SIMILARITY**
  - Comparison of practice profile to the four archetypes of organizational health

- **PRIORITY PRACTICES**
  - Identification of potential practices to prioritise and signature strengths to sustain

- **THEMES FOR CHANGE**
  - Summary of recommended themes for change based on priority practices
Q & A

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