

# HOW US HEALTHCARE PROVIDERS CAN IMPROVE THEIR ORGANIZATIONAL HEALTH AND MAXIMIZE THEIR CHANCES OF LONG-TERM SUCCESS DURING TURBULENT TIMES



In this time of rapid change for US healthcare, providers need to be particularly nimble and innovative. They must be able to improve quality and outcomes for an increasingly aging population while simultaneously lowering costs and keeping their staffs motivated.

We have identified a key factor that distinguishes organizations which succeed in challenging industries, while sustaining exceptional performance over time. That factor is **organizational health** – the ability to align behind common goals, execute effectively to meet those goals, innovate and continually adapt to change to shape the future. Healthy organizations are more agile, resilient, and endure longer.

The good news today is that many of the US healthcare providers that we have studied *have* strong organizational health, and correspondingly high performance. In research drawn from 20 providers with 114 medical facilities, we have found the healthiest ones enjoy a significantly higher level of patient satisfaction<sup>1</sup>, lower hospital-acquired conditions<sup>2</sup>, and better core measures of performance<sup>3</sup> than the unhealthiest providers. We recognize that health systems have historically had resources to invest in organizational health, but today all face challenges in maximizing both health and performance in an environment that pulls them in many directions simultaneously.

To support organizations in this mission, McKinsey & Company's Organizational Health Index Solution provides a comprehensive assessment of your organization's current health, and a clear, tailored roadmap to help you improve and sustain it over the long term.

## With strong organizational health and highly motivated staff, US healthcare providers in our sample generally enjoy a strong starting position

Our research has found that, on average, the US healthcare providers in our sample enjoy strong organizational health, outperforming both our global and industry norms. In fact, 65% of our sample score in the top quartile of our global organizational health database and 38% score in the top decile. Closer inspection reveals mostly top-quartile performance on three dimensions of organizational health that are vital for healthcare providers -- Direction, External Orientation, and Leadership

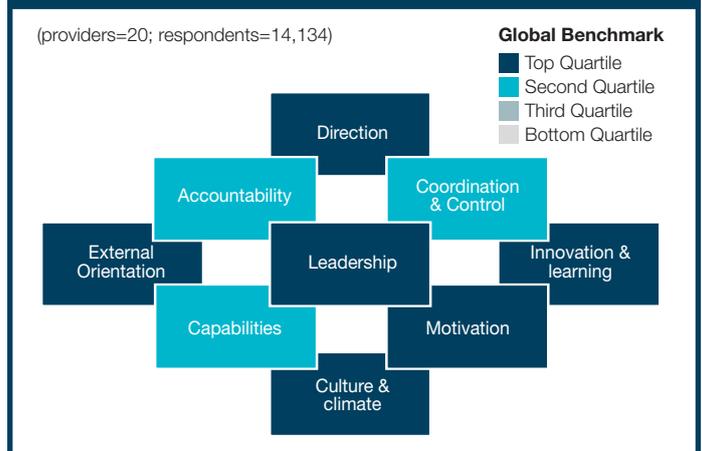
<sup>1</sup> Patients who gave their hospital a rating of 9 out of 10 on a scale from 0 (lowest) to 10 (highest) in the AHA Hospital Survey database

<sup>2</sup> Average of the hospital acquired conditions indicators from the AHA Hospital Survey database

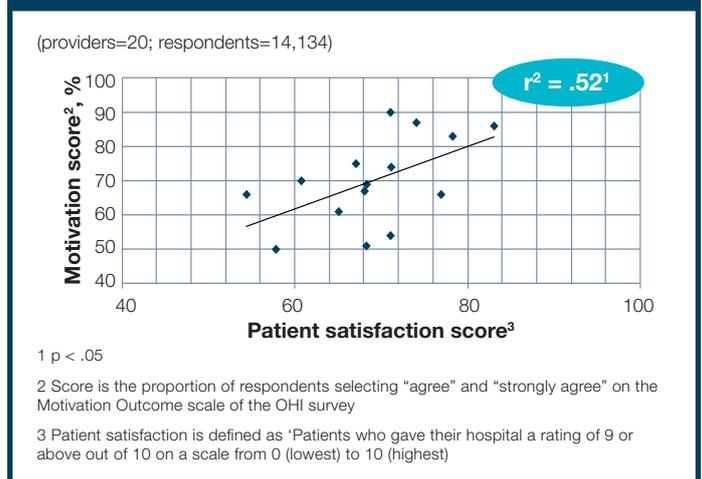
<sup>3</sup> Average of the core measure performance indicators from the AHA Hospital Survey database

and Motivation (Exhibit 1). From our research, we also know that having a highly motivated staff offers significant rewards in healthcare. For the US providers we studied, highly motivated staff who are willing to go the extra mile are associated with significantly higher scores on patient satisfaction<sup>1</sup> (Exhibit 2).

### Exhibit 1 - On average, our sample of US providers start from a position of strong organizational health



### Exhibit 2 - Higher levels of staff motivation are associated with higher scores on patient satisfaction



To better understand what is driving this strong health profile and high motivation, we compared the 37 drivers of organizational health for the US providers in our sample with global norms. We also looked at what differentiates the healthiest providers in the industry.

Together these comparisons revealed 5 key insights:

**1 US providers rely on non-traditional methods to motivate their staff.** Instead of financial incentives and rewards – or the “carrot and stick approach” – the US providers we studied placed significantly more emphasis on communicating compelling organizational values and driving performance through inspiring leaders that praise, encourage, and support staff<sup>5</sup>. Looking ahead, this approach is likely to come under increased pressure as leaders are diverted to evolving strategic needs. Therefore, provider organizations will likely need a more formal, dedicated focus on employee engagement and motivation – one that uses non-financial incentives such as career progression, coaching, and mentorship. Front-line healthcare employees are often asking for more differentiation between high and low performers, so programs such as career ladders or public recognition may represent more powerful, and less expensive options, than financial incentives.

**2 US providers communicate a meaningful direction.** We see that the US providers in our sample significantly outperform the norm on articulating a compelling vision for the future, communicating this throughout the organization, and reinforcing this sense of purpose with a meaningful set of organizational values<sup>5</sup>. This is not a surprising area of strength for health systems, given the underlying focus on patient health. Looking ahead, it will be an increasingly important focus to maintain, as margin pressures become stronger, and uncertainty grows around the unfolding of healthcare reform.

**3 US providers manage their organizations with an eye to the external environment.** Compared to the global standard, our sample of US providers places significantly more emphasis on building a strong brand within the local community, developing strong relationships with payors, and understanding and responding to the needs of patients<sup>5</sup>. While these are all important, success in the future will require an equal focus on internal operations and healthy internal competition to ensure safety, quality, and efficiency. Safety and quality have always been paramount for most providers, but they will need greater efficiency and capabilities, and disciplined execution to evolve health care delivery successfully.

**4 US providers invest in their ability to learn from the past and innovate for the future.** US providers significantly outperform the global norm on driving innovation and improvement through top-down initiatives, and by importing ideas from the outside. They also invest more in sharing knowledge and ideas across their organizations<sup>5</sup>. This knowledge dissemination and ability to innovate will be a strong foundation regardless of market changes. Looking ahead, however, more innovation will need to come from the front-line to ensure buy-in for changes in operations. Front-line employees can often be a powerful source of innovation for identifying areas for improvement and eliminating waste.

**5 The healthiest providers emphasize employee empowerment and engagement over behavioral compliance.** US providers in our sample that achieved top quartile health emphasize a more open environment, in which employees are more involved in direction setting, have opportunities to share ideas and innovate, and are motivated through inspiring leaders. In contrast, providers with the weakest health, place more emphasis on an authoritative style to get things done and use compliance with professional standards to manage staff behavior.

## With pressure growing to do more with less, US providers that are strategic in prioritizing their organizational health efforts can double their chances of achieving top quartile health

Rather than trying to excel at all 37 drivers of organizational health, we have found that high-performing companies focus on a handful of critical drivers that work together as a winning “recipe” to create a coherent, effective management system that supports an organization’s strategic imperatives. There are four distinct recipes, reflecting different core beliefs about how to create value and drive success. And there are clear benefits for healthcare providers to align themselves with one of these recipes. Our research shows that US providers with a strong or very strong alignment to a recipe double their chances of achieving top quartile health.

In our sample, we found that the majority of providers have adopted the recipe we call “**Market Focus**,” which is focused on building and nourishing ties with the external environment and patient needs. About 65% of healthy providers are aligned to this recipe. Another recipe is called “**Execution Edge**,” which is focused on continuous improvement through bottom-up innovation and knowledge sharing. While only a few of the healthy providers in our database are aligned today with Execution Edge, we expect many will need to do so over time, given increasing margin pressures and shifting fundamentals of care delivery and reimbursement that require more focus on performance and discipline. Organizations can also be healthy by aligning with the “**Knowledge Core**” recipe, which is built around hiring and motivating expert talent, or the “**Leadership Driven**” recipe, which is based on cultivating a cadre of top-notch leaders.

To decide upon the right recipe for success, healthcare leaders should factor four important criteria into their deliberations: 1) overall industry dynamics, 2) their competitive strategy, 3) their own leadership preferences, and 4) their current similarity to a recipe.

## How McKinsey’s Organizational Health Index (OHI) Solution helps leaders manage their organization’s health during this time of rapid disruption

The OHI Solution is based on a healthcare survey database involving more than 14,000 respondents from 20 US healthcare providers. Respondents came from 114 medical facilities across 24 states, representing a range of non-profit and for-profit providers. To put results in perspective, the Solution benchmarks US healthcare against more than 1,300 (is this the right number?) surveys globally, involving more than 2.0+ million respondents.

The Solution provides a comprehensive assessment that tells you how healthy your organization is overall, what managers are doing (or not doing) to drive health, what recipe your organization most resembles today, and how your organization compares to peers and others.

Most importantly, the Solution provides a clear, tailored roadmap to improve your organization’s health. We offer evidence-based, predictive guidance to identify priorities and help you convert these into actions through “Action Planning Workshops” that capitalize on the best of McKinsey knowledge and experience.

The OHI Solution can be a valuable tool for leaders looking to shift to a more patient-focused organization. It also can support an organizational transformation – whether it is focused on achieving operational efficiencies, moving performance from “good-to-great,” or identifying synergies and differences ahead of a merger. After a merger or partnership agreement, an organizational health profile provides a powerful way to compare and contrast management styles, and the compatibility of values between two organizations.

With pressures growing across US healthcare and conflicting mandates complicating future strategy setting, the only constant that leaders can count on is constant change. In such an environment, leaders have a strong imperative to measure their organization’s health today, determine their recipe for future success, and prioritize where they should invest their management time and financial capital. Those that do will be well-positioned to improve and sustain their organizational health – and their overall performance -- over the long term.

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