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A WHCC Report: Diagnosing the Health of the Health Sector

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Most health organizations are inherently unhealthy. That hypothesis is inspired by experience, informed by economic theory, and now supported by hard data.

As management consultants specializing in organizational transformation, Booz Allen Hamilton professionals have collectively spent decades helping clients identify and overcome organizational impediments to effective execution. Based on that experience, we have identified seven basic organization types—three healthy, four unhealthy—that together describe the persistent patterns of behavior we have seen in corporate, government, not-for-profit, and academic contexts (see “The Seven Types of Organizations” sidebar). These organization types, or profiles, reflect different interactions between and among four basic organizational building blocks: decision rights, information, motivators, and structure (see Exhibit 1).

We then applied to this typology leading research on the economic theory of organizations to develop an online assessment tool called the *Org DNA Profiler*® (see “Diagnose Your DNA” sidebar). This tool enables an individual working in any organization anywhere in the world to come up with a snapshot diagnosis of his or her organization’s type in as little as five minutes. In essence, it’s a “personality test” for organizations. When many individuals from the same organization take the test, the aggregate results reveal the root causes of many performance failures and pinpoint the

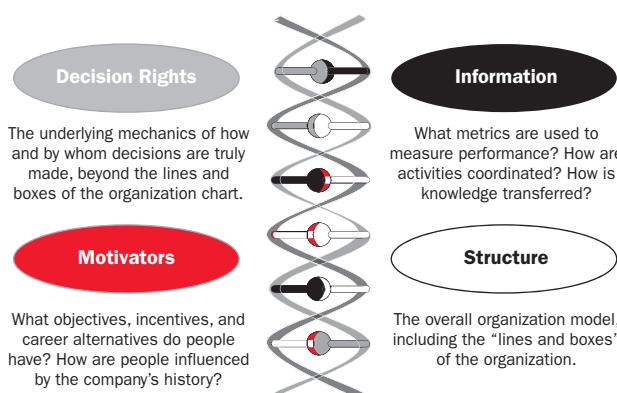
areas where a company can focus to improve its ability to execute (see Exhibit 2 on page 3). Such diagnostic clarity gives new meaning and purpose to the typical organizational restructuring.¹

Since its launch on our website, www.orgdna.com, in December 2003, the *Org DNA Profiler*® has captured responses from more than 50,000 persons. Respondents come from companies of all sizes in 23 different industries and represent every function and level in the corporate hierarchy. Since adding a field to collect country data, in April 2004, we have received profiles from more than 100 countries.

Represented in this dataset are over 5,100 health sector respondents, including World Health Care

Exhibit 1

The Four Building Blocks of Organizational DNA



Source: Booz Allen Hamilton

¹ For more information on remedies, see *Results: Keep What's Good, Fix What's Wrong, and Unlock Great Performance*, by Gary L. Neilson and Bruce A. Pasternack, Crown Business, 2005.

The Seven Types of Organizations

No two organizations have the same DNA, but there are seven common patterns that we have identified based on our experience and extensive research. Four of these patterns are unhealthy—they describe organizations that cannot execute effectively—and three are fundamentally healthy (see exhibit below).

Based on the nature of its four DNA building blocks and the degree of coherence between and among them, most organizations fall into one of these seven organizational “cultures.”

The Seven Organizational Cultures

“Unhealthy” Cultures

The Passive-Aggressive Organization	“Everyone agrees, but nothing changes.” Congenial and seemingly conflict-free; builds consensus easily, but struggles to implement agreed-upon plans
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The Overmanaged Organization

“We’re from Corporate, and we’re here to help.”
Multiple layers of management create “analysis paralysis”; bureaucratic and highly political environment

“Healthy” Cultures

The Just-In-Time Organization

“Succeeding by the skin of our teeth...”
Inconsistently prepared for change; can “turn on a dime” when necessary, without losing sight of the big picture

The Military Precision Organization

“Flying in formation...”
Often driven by a small, involved senior team; succeeds through superior execution and the efficiency of its operating model

The Outgrown Organization

“The good old days meet a brave new world.”
Too large and complex to be effectively controlled by a small team; has yet to delegate decision-making authority

The Resilient Organization

“As good as it gets...”
Flexible enough to adapt quickly to external market shifts, yet steadfastly focused on and aligned behind a coherent business strategy

The Fits-and-Starts Organization

“Let 1,000 flowers bloom.”
Contains scores of smart, motivated, and talented people who rarely pull in the same direction at the same time

Source: Booz Allen Hamilton *Org DNA Profiler*®

Diagnose Your DNA

Have you ever wondered why some companies succeed when others of equal size and similar resources fail? Staffed with equivalent talent and armed with essentially the same strategy, one firm flourishes, while the other flounders.

We think it's “in the genes.” An organization's ability to execute—to get things done—is not something you can hire or mandate. It's inherent, embedded in that organization's unique DNA. Like human DNA, an organization's genetic code is an integrated pattern of four basic building blocks that combine and recombine to express and, in some ways, even predict that organization's performance. These building blocks—decision rights, information, motivators, structure—largely determine how an organization looks and behaves, both internally and externally.

For more information on Organizational DNA or to test your own organization's profile, visit the *Org DNA Profiler*® at www.orgdna.com.

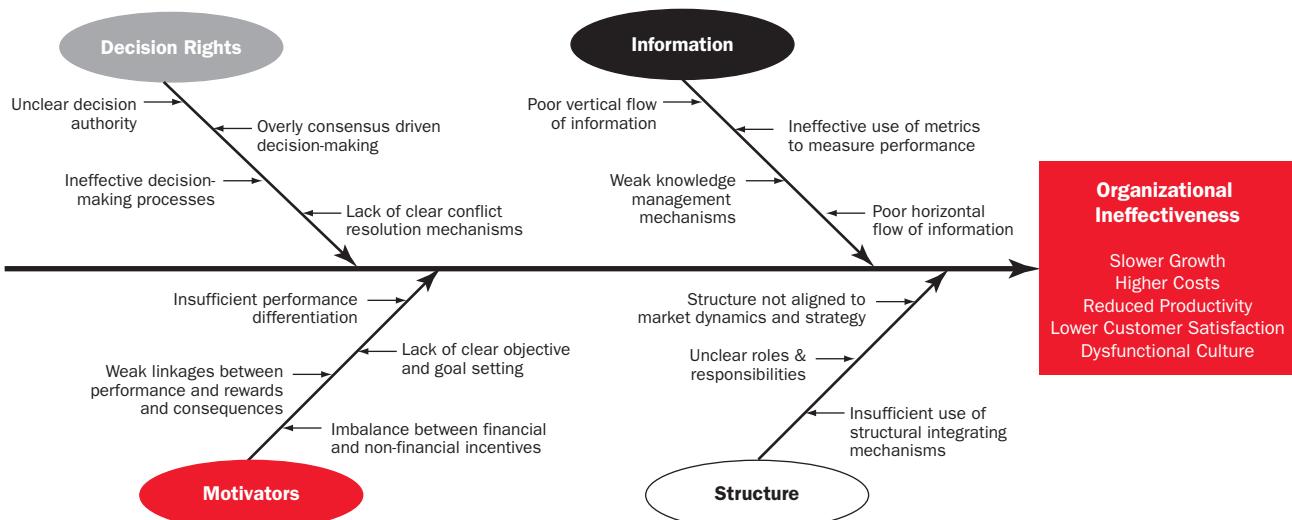
Congress (WHCC) participants, from three industries: pharmaceuticals (23%), insurance (29%), and other healthcare (48%). This report highlights key findings from these health sector data. A global research report covering all of our findings is available on our website, www.orgdna.com.

Most Health Organizations Are Unhealthy

Organizational health can be defined as the ability to execute: Healthy companies get things done. Unhealthy companies, in the opinion of their employees (who, after all, are among the best judges), do not. According to this definition, our research shows that the health sector is no different from the rest of the global economy in one important—and seemingly paradoxical—respect: Most organizations in it are unhealthy.

Our “genetic marker” for organization's health is whether it can quickly translate important strategic and operational decisions into action; 56% of the survey respondents from the health sector answered that their

Exhibit 2
Example Root Causes of Poor Execution



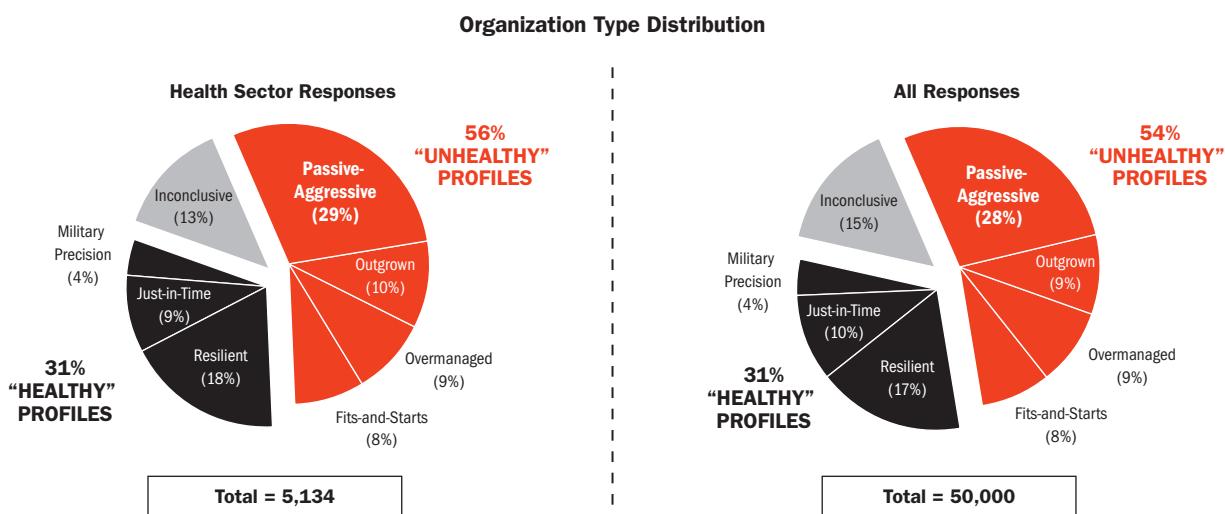
Source: Booz Allen Hamilton

organizations could not, which is consistent with our overall results (see Exhibit 3).

Any organization's promise to deliver on its stated strategic goals is realized in the thousands of individual decisions and actions that collectively constitute and define firm performance. Thus, the first step in resolving execution breakdowns is to understand how the inherent traits of an organization influence—and, in some ways, even determine—how each individual

thinks and acts on the job. That behavior is what drives results. As Exhibit 3 shows, less than a third of the roughly 5,100 health sector respondents reported traits and behaviors consistent with a "healthy" profile. More than half of the survey responses resulted in one of the four "unhealthy" profiles, with the Passive-Aggressive profile, by far, the most prevalent (see "Passive-Aggressive Predominates" sidebar). In other words, by a margin of nearly 2 to 1, health sector employees diagnosed their own organizations as sick.

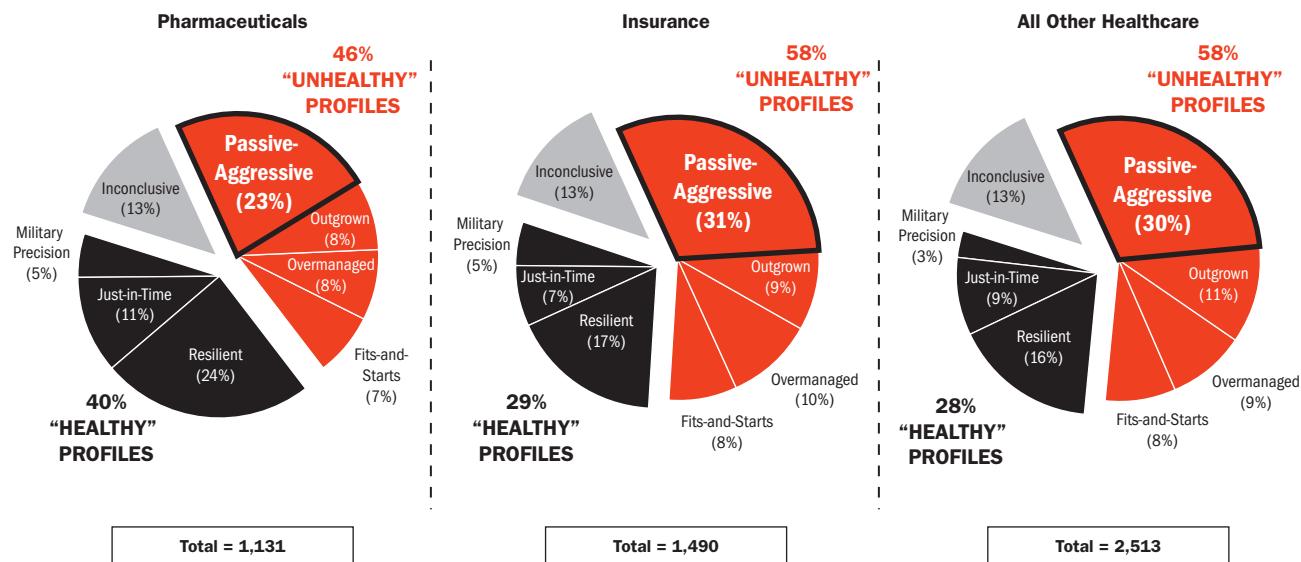
Exhibit 3
Unhealthy Profiles Outnumber Healthy Almost 2 to 1



Source: *Org DNA Profiler*® data collected from www.orgdna.com, based on 50,000 responses; Booz Allen analysis

Exhibit 4

Health Sector Is Predominantly Passive-Aggressive

Source: *Org DNA Profiler*® data collected from www.orgdna.com, based on 5,134 health sector responses; Booz Allen analysis

Of course, breaking the health sector sample down further reveals subtle distinctions among its constituent industries. Insurance and general healthcare companies report slightly more unhealthy profiles (58%) than the sector average, whereas pharmaceutical companies report significantly fewer (46%). Still, in all three subsectors, the Passive-Aggressive type predominates (see Exhibit 4).

Healthy Companies Get Better Results

Not surprisingly, organizational health and financial success are correlated. Healthy organizations are more likely than their unhealthy peers to report better-than-industry-average profitability, and, again, the health sector is no exception.² Specifically, 80% of respondents who generated healthy profiles reported average or better-than-average profitability compared with 67% of those who described their organizations as unhealthy (see Exhibit 5).

However, there were some differences between health sector responses and those from other sectors. For example, compared with organizations across industries who reported better-than-average profitability, health sector respondents appeared to suffer from

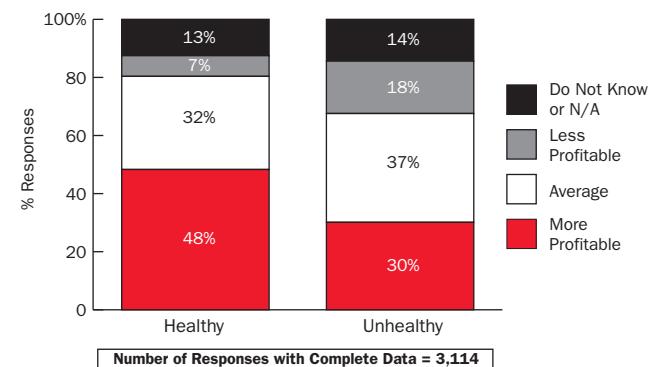
poor information flows. In particular, health sector respondents were significantly more likely to report that their line managers lack the metrics they need to measure the key drivers of their business and were much less successful in dealing with discontinuous change than were respondents from all industries who report above-average profitability.

Organizations Evolve As They Grow

While our overall data are cross-sectional (not time-series), they suggest that “healthy” growth is hard to

Exhibit 5

Healthy Organizations Report Greater Profitability

Source: *Org DNA Profiler*® data collected from www.orgdna.com, based on 3,114 health sector responses with complete data; Booz Allen analysis

² After the *Org DNA Profiler*® had been online for a few months, we added a question asking respondents to indicate whether their companies were: “more profitable” than their industry’s average, “less profitable,” “about the same,” or “unknown/inapplicable.” These data enable us to show that organizational health, as we have defined it, does correlate with self-reported financial success.

Passive-Aggressive Predominates

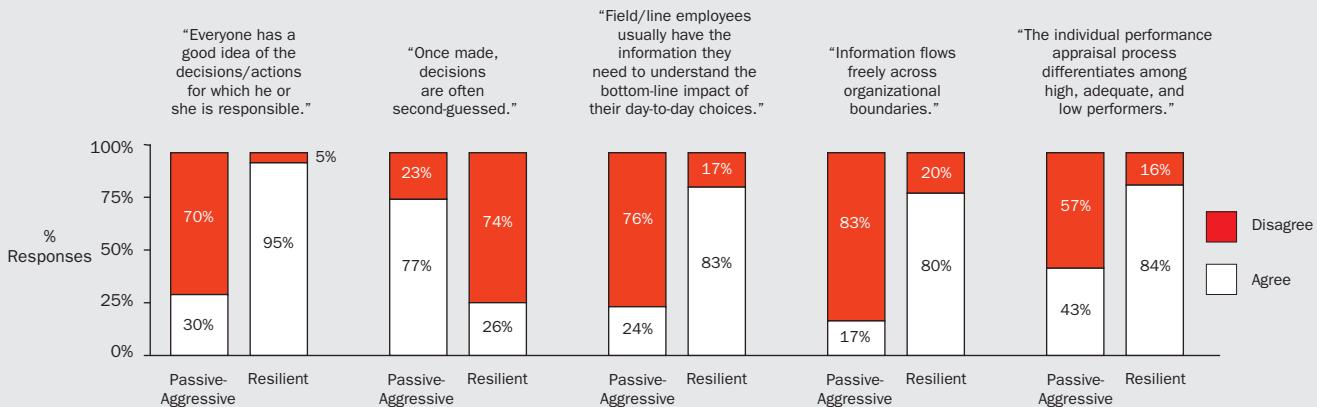
More than one in four *Org DNA Profiler*® respondents in the health sector characterized their organization as suffering from a cluster of pathologies we place under the label “Passive-Aggressive” (see Exhibit 3). This category takes its name from the organization’s quiet but tenacious resistance, in every way but openly, to corporate directives.

In Passive-Aggressive organizations, people pay those directives lip service, making just enough effort to appear compliant. Looking more closely at *Org DNA Profiler*® question-level results, however, it is clear that execution is far from their highest priority. In contrast to responses from the healthiest, Resilient, organizations, people working in Passive-Aggressive organizations feel strongly that they don’t know which decisions they’re responsible for, no decision is ever final, good information is hard

to obtain, and their performance is not accurately appraised (see exhibit below).

That said, the Passive-Aggressive organization is not one in which bad outcomes can be attributed to individuals’ hostile or perverse intentions. It is, in fact, a place where mostly well-intentioned people are the victims of flawed processes and policies. Passive-Aggressive organizations are the result of entropy and expediency and historical accident, laced with the occasional bout of bad behavior left uncorrected. Ultimately, an organization becomes Passive-Aggressive because that is the path of least resistance: it is a collective decision made by the individuals in an organization, most of them well-meaning, to *not* fight what they believe they cannot change.

The Root Causes of Passive-Aggressive Behavior in the Health Sector



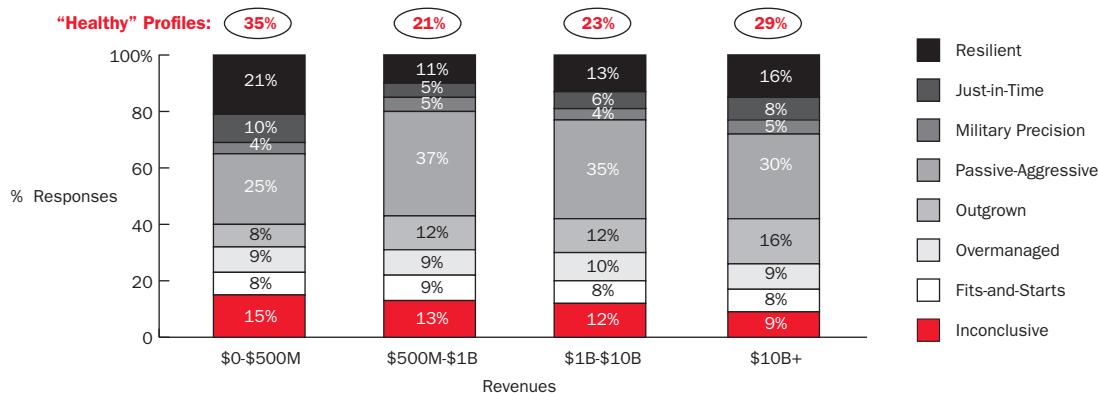
Source: *Org DNA Profiler*® data collected from www.orgdna.com, based on 5,134 health sector responses; Booz Allen analysis

achieve. Specifically, examining profile distributions by organization size (measured by revenues) shows that small organizations are more likely than larger ones to have a healthy profile. That general finding holds true for health and non-health companies alike. In short, smaller organizations are generally the most effective at executing. As organizations grow, they are more likely to manifest dysfunctional traits and behaviors and to report unhealthy profiles.

Interestingly, however, in the health sector, this trend appears to reverse itself as firms cross the \$1 billion revenue threshold—although it never really returns to the same level of health as the smaller firms.

Exhibit 6

Mid-Sized Health Sector Companies are the Most Unhealthy

Source: *Org DNA Profiler®* data collected from www.orgdna.com, based on 4,801 health sector responses with complete data; Booz Allen analysis

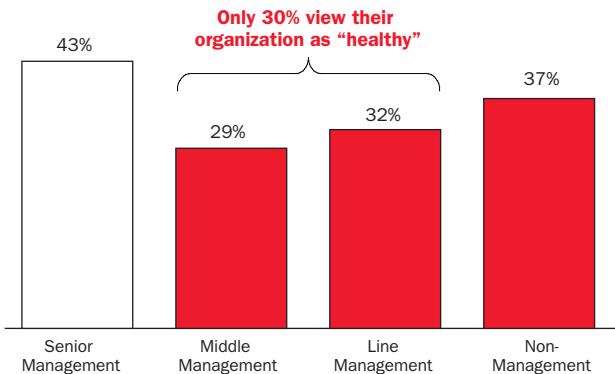
Nevertheless, as Exhibit 6 illustrates, the incidence of healthy Resilient, Just-in-Time, and Military Precision profiles increases as health companies grow.

Altitude Determines Attitude

The *Org DNA Profiler®* has generated interest at every management level in the health sector, as it has in every other sector of the global economy. Responses are fairly evenly distributed among senior management, middle management, line management, and non-management (business unit and corporate staff). More than any other group in the organization, senior executives responding to the survey perceive their firms as high-functioning, reporting healthy profiles 43% of the time (see Exhibit 7).

Exhibit 7

The View From the Middle Is Dim in the Health Sector

Source: *Org DNA Profiler®* data collected from www.orgdna.com, based on 5,001 health sector responses with complete data; Booz Allen analysis

In contrast, line and mid-level managers are unreservedly and consistently pessimistic in their assessment of organizational effectiveness. Their responses result in unhealthy profiles 70% of the time.

How Healthy Is My Company?

To date, Booz Allen has set up company-specific *Org DNA Profiler®* sites for nearly 50 clients around the globe in both private and public sectors. These custom sites are password-protected so that only invited employees (anywhere from a few to several thousand) can complete a profile, anonymously.

We then collect and analyze the data, cutting it many ways to yield a robust diagnosis. First, we look at the breakdown of employee responses by profile and compare it to responses from peer organizations (e.g., in the same industry, of similar size, in the same country) and to the global dataset. We also examine the answers to specific questions to identify where breakdowns are occurring in, between, and among the various organizational building blocks—decision rights, information, motivators, and structure—and how, again, those results compare with those of peers and the overall dataset. We also frequently analyze the data by department or unit and by management level to tease out distinctions (i.e., best and worst practices, differences in perspective), as well as other dimensions relevant to a particular client.

Not every employee in a given company will generate the same profile: each organization is a mosaic of different perspectives. However there is invariably a strong center of gravity around which responses cluster. On average, the most common profile generated at a single company, whether it be Passive-Aggressive, Fits-and-Starts, Military Precision, or another type, will account for close to 40% of all responses in that company. The two most common profiles will account for more than 60% of responses, on average.

This broad consistency in responses holds true down to the question level. For an average of 7 of the 19 questions, more than 70% of company respondents will choose the same response. We don't see that high a level of agreement on *any* question in the public dataset.

Of course, the real power of the *Org DNA Profiler*® information is what organizations do with it. Many clients have used it to great benefit to drive results. For instance, a leading healthcare company we've worked with identified a number of organizational obstacles to its performance using the *Org DNA Profiler*®, including unclear decision rights, a complex and over-layered management structure, poor information flows across organizational units, and insufficient emphasis on performance differentiation and accountability. This company is now clarifying key decision rights, simplifying its management structure, and renewing the performance appraisal process's focus on personal accountability for superior results (see "Organizational DNA at Work in the Health Sector" sidebar).

Organizational DNA At Work in the Health Sector

Problem:

The senior management of a regional health insurance plan saw the handwriting on the wall. The ever-escalating costs of healthcare were transforming customer needs and satisfaction levels. Meanwhile, the entry of new national competitors with deep pockets threatened the plan's historical position as market leader. Management needed to unleash the full potential of the organization to implement a new long-term strategy.

Diagnosis:

This health insurer used a customized version of the *Org DNA Profiler*® to collect data from more than 5,000 employees over a 1-week period. Booz Allen supplemented this effort with approximately 50 in-depth interviews with management to gain further insight into the organizational challenges to implementing the new strategy.

This research identified a number of impediments to execution. First, decisions were not being quickly translated into action, possibly because information flows and communication channels had been compromised. The company needed better metrics

to evaluate and manage performance, and a performance appraisal process that more accurately distinguished top performers. Finally, the company needed to institutionalize mechanisms to foster lateral integration and collaboration while expanding spans of control.

Remedy:

This broad baseline assessment—together with a focused analysis of question-level data—helped senior management set up an effective enterprise-wide change program targeted on four critical objectives:

1. Redesign annual planning processes and supporting metrics
2. Institutionalize new decision making and information sharing forums
3. Overhaul performance and talent management processes
4. Create mechanisms to drive end-to-end process focus and accountability

In addition to serving as a useful diagnostic tool, the *Org DNA Profiler*® is a springboard to action. It initiates a dialogue within organizations—among regions, divisions, management levels—that starts with a common understanding and ends with improved results.

Curing What Ails You: Organizing to Execute

Results from the *Org DNA Profiler*® overwhelmingly support the hypothesis that most companies today suffer the ill-effects of unhealthy organizational traits and behaviors. In other words, they are being thwarted from within. But our research goes beyond discriminating between “healthy” and “unhealthy.” Each individual respondent generates a profile that 85% of the time falls into one of seven specific organizational types, each with a distinct personality and set of distinguishing characteristics (see “Seven Types of Organization” sidebar).³

Four of these profiles—Passive-Aggressive, Overmanaged, Outgrown, Fits-and-Starts—are “unhealthy,” but each is unhealthy in a different way. Each exhibits a specific combination of dysfunctional traits and counterproductive behaviors. The first step in fixing these problems is to identify and isolate them.

That is the purpose of the *Org DNA Profiler*®. Using a framework that examines all aspects of a company’s architecture, resources, and relationships, the tool enables management to see what is working and what isn’t, deep inside a highly complex organization. Moreover, it serves as a search engine, directing management to practical and actionable information about the remedies most relevant to their situation.

Think of it this way: Organizational DNA gives you a way to fix your corporate culture. Instead of tackling “soft” organizational issues by focusing on the symptoms of dysfunction (e.g., pointless and overcrowded meetings, endless analysis, managers’ second-guessing every decision), one can now identify the underlying root causes (e.g., unclear decision-making authority, failure to marry decision making with the requisite information, performance appraisals that don’t distinguish the best from the rest) and adjust the appropriate elements of the organization’s DNA to remedy the problem. This sort of specific, actionable approach to organizational change is rare and represents an opportunity to create enduring competitive advantage.

³ The 15% of respondents who generated an “inconclusive” response reported traits and behaviors that either matched multiple profiles or displayed uncommon patterns. They are the exceptions rather than the rule.

What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Integrating the full range of consulting capabilities, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

With 17,000 employees on six continents, the firm generates annual sales that exceed \$3.5 billion. Booz Allen has been recognized as a consultant and an

employer of choice. In 2005 and in 2006, Fortune magazine named Booz Allen one of "The 100 Best Companies to Work For," and for the past seven years, Working Mother has ranked the firm among its "100 Best Companies for Working Mothers."

To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.

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