

Healthcare Systems and Services Practice

# Why agility is imperative for healthcare organizations

Gretchen Berlin, Aaron De Smet, and Maria Sodini



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*A new concept, organizational agility, can help healthcare companies adapt more quickly to changing customer needs, competitor responses, and regulatory guidelines—without requiring a full-scale restructuring.*

*Imagine this scenario: your organization needs to adhere to new regulatory requirements, and you have been asked to join a meeting to discuss immediate action plans. Soon after the meeting begins, you sense it will be similar to a conversation many of you have had before—yet key perspectives are missing from the room, and there is no clarity on who is driving the decision making or who will be responsible for implementation. Even worse, you anticipate having a similar discussion in a different meeting with another group (with some overlap of members) in the near future.*

*Now imagine walking into a meeting where all relevant stakeholders are present. As you sit down, you are confident that all prior decisions will be considered and built upon. You are also sure that all participants will know from the outset which decisions the group can make, who specifically will be driving decision making, who has accountability for the overall project, and which individuals across the organization will be responsible for implementing key near-term actions.*

*The contrast between these scenarios demonstrates the power of agility, an approach that enables organizations to be responsive, nimble, and better able to seize opportunities in a rapidly changing external environment. While few healthcare organizations are truly agile today, agility will be an increasingly*

*critical capability moving forward, given the industry's turbulence, complexity, and accelerating speed of change. In this environment, healthcare leaders must choose: spearhead the pursuit of greater agility or risk being left behind.*



Many payors and providers have struggled to keep pace with an ever-changing business landscape. Thus, the pursuit of agility—an organization's ability to adapt quickly and successfully in the face of rapid change—has taken on increased importance.<sup>1</sup> In numerous industries, the companies thriving most have managed to crack the paradox of agility, balancing a stable foundation of core processes and capabilities with the ability to dynamically redeploy those capabilities to address emerging challenges and opportunities. Both stability and dynamism are needed to excel—companies that get the mix wrong can find themselves either drowning in chaos or saddled with a bureaucracy that leaves them unable to respond to changing market conditions.

The concept of agility is especially relevant to healthcare, which has endured tremendous upheaval in recent years. The industry continues to see strong growth in M&A, the ownership of physician practices by healthcare organizations, and the adoption of value-based care arrangements. Consumers have become increasingly empowered in making care

**Gretchen Berlin,  
Aaron De Smet,  
and Maria Sodini**

<sup>1</sup>For more information about agility and how businesses are adapting their organizations to become more agile, see these two articles: Aghina W, De Smet A, Weerda K. Agility: It rhymes with stability. McKinsey Quarterly. December 2015. Bazigos M, De Smet A, Gagnon C. Why agility pays. McKinsey Quarterly. December 2015.

## *Although the healthcare industry has been slower than many of its counterparts to embrace agility, payors and providers are particularly well suited to benefit from it.*

decisions. Financial and regulatory pressures have grown. And further changes are likely given the outcome of the 2016 election.

Although the healthcare industry has been slower than many of its counterparts to embrace agility, payors and providers are particularly well suited to benefit from it. An examination of how companies in other industries have transformed their operations demonstrates the far-reaching advantages. Healthcare organizations can begin unlocking this potential by assessing their current degree of agility and then creating a road map to integrate agility throughout their enterprise. By building the capacity to respond to change more effectively, both payors and providers will be better positioned to survive in the years ahead.

### Why agility is critical for healthcare

The concept of agility stretches back more than a century, with organizations from the US military to Japanese manufacturers serving as evangelists. More recently, the software development industry grasped the power of agility, and the concept has spread to application development functions within more traditional industries. In some companies, bureaucracy had so slowed product development cycles that businesses were investing hundreds of millions on major IT applications only to find that evolving cus-

tomers had rendered the applications obsolete by the time of release. An agile development process, as espoused by Jim Highsmith in his 2000 book *Adaptive Software Development*, has enabled companies to work faster and more collaboratively to reduce the time to market for new products.<sup>2</sup>

Research by McKinsey's Organization Practice has shown that agility combines a stable backbone with dynamism. Truly agile companies (those in the upper right quadrant in Exhibit 1) are characterized by resilience, quick decision making, and empowerment to act. The other three quadrants reflect varying imbalances between stability and dynamism. Companies that are weak on both attributes typically lack the coordination and leadership to seize opportunities. Bureaucratic organizations are often so slow to adapt to changes that they find they must pursue a fairly disruptive organizational restructuring every two or three years, just to keep up with changes in the market.<sup>3</sup>

Agility can help payors and providers take on not only the industry's ongoing uncertainties, but also more tactical challenges, such as:

- Pursuing new alignment models and innovative partnerships to foster growth
- Investing in functions or products that enable market differentiation
- Increasing efficiency and reducing costs by improving productivity, without losing local responsiveness to customer needs

<sup>2</sup>Highsmith J. *Adaptive Software Development: A Collaborative Approach to Managing Complex Systems*. Dorset House Publishing, 2000.

<sup>3</sup>Aronowitz S, De Smet A, McGinty D. Getting organizational redesign right. *McKinsey Quarterly*. June 2015.

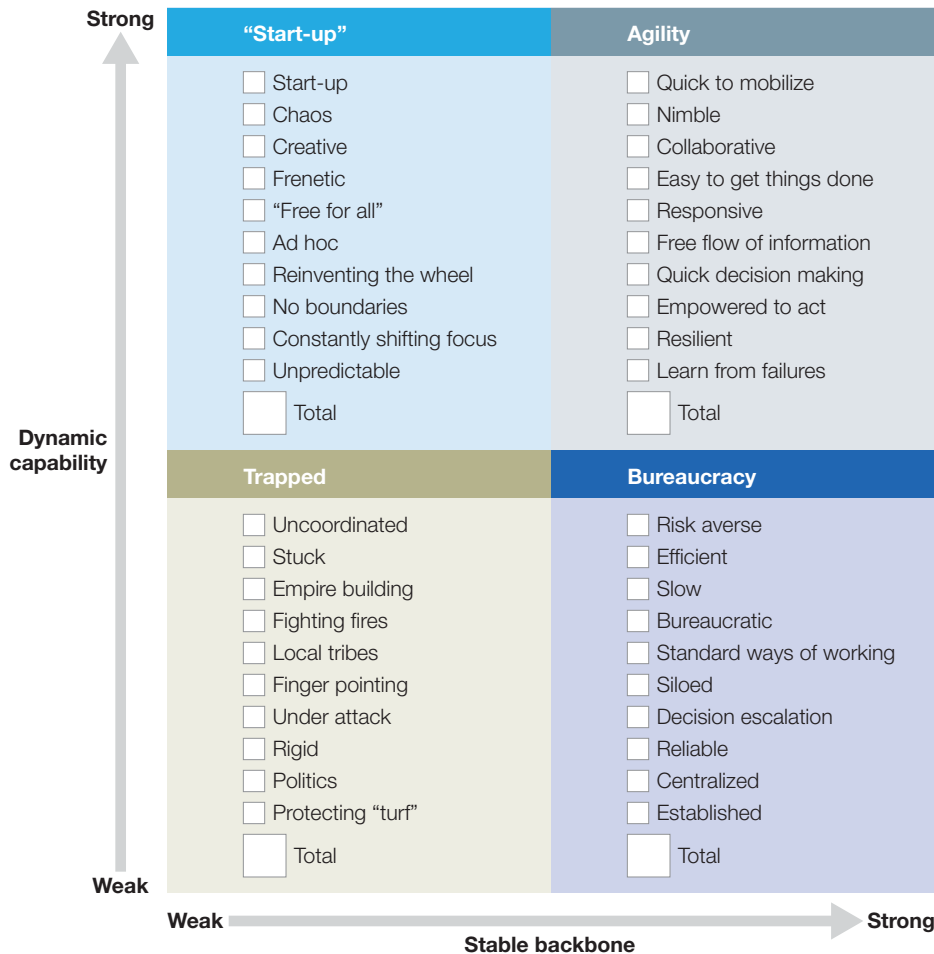
- Improving performance transparency in both clinical and nonclinical areas
- Empowering frontline staff to meet evolving consumer preferences and needs more readily

In short, agility can enable healthcare companies to adapt quickly without requiring a full-scale redesign. Change becomes part

of the norm (rather than a disruption that seems to crop up randomly every other year), and it evolves fluidly and naturally—often bottom-up, without intervention from the top. By developing the ongoing capacity to change, healthcare companies can acquire the flexibility and dynamism needed to respond as the landscape shifts.

**EXHIBIT 1 Organizational agility is the right balance of stable backbone and dynamic capabilities**

Place a check mark by every word that describes how it currently feels to work at your company. Total the number checked in each quadrant to see where your company falls.



Source: McKinsey Organization Practice

## What healthcare can learn from other industries

Truly agile organizations have a core set of processes and capabilities (e.g., working norms, centers of excellence) that are located centrally and managed consistently throughout the organization. However, they are able to adapt those processes and capabilities quickly so they can respond to a wide range of new challenges, often through a cross-functional approach. To accomplish this, some companies have “de-coupled” the managerial hierarchy from how day-to-day work is directed. For instance, a strong functional group might hire, train, evaluate, and promote a large team of people, but team members may be “rented” to businesses or projects, often on a temporary basis. By creating efficient internal talent markets, the organizations ensure that people can then be quickly redeployed to new challenges and opportunities. With this approach, a key enabler of agility is the fact that the business/project leaders set priorities and direct day-to-day work, but may not be “the boss” according to the organizational chart.

Similarly, in an agile organization, objectives, metrics, targets, and decision rights tend to be organized horizontally across end-to-end processes focused on value creation and customer experience. In non-agile organizations, by contrast, these activities strictly follow the managerial hierarchy, with targets cascaded down and decision making escalating up the formal chain of command.

In an agile organization, the end-to-end processes tend to be stable, as are the functional “homes” where most people

officially report on the org chart. Similarly, at least some of the cultural norms required to empower the flexible, cross-functional teams are stable. These features undergo only slow, incremental changes over time. However, decision making, daily priorities, the allocation and re-allocation of resources, and the company’s collective response to customers and market demands are set up to be extremely fast, fluid, and dynamic.

Most healthcare organizations have a stable set of processes and capabilities because such a backbone is essential for effective operations. Payors, for example, must be able to execute a range of core operational processes, such as claims handling, provider contract negotiations, and regulatory compliance. Providers must follow formal procedures to promote high-quality patient care, handle patient data properly, ensure compliance with health information requirements, and execute timely claims submissions. The few healthcare organizations that lack a stable backbone typically experience calamitous results.

However, few payors and providers are agile. At most of these organizations, agility exists in pockets of the enterprise but is not a foundational element of the whole. Payors and providers that want to become agile must learn how to build on their backbone so they can shift from practices that inadvertently promote undesired behavior (e.g., siloed decision making) to those that enhance their organization’s dynamic capabilities.

Two recent examples of agility adoption, in banking and home nursing, illustrate its potential benefits for payors and providers.

### **ING: Cross-functional teams and increased collaboration**

The financial company ING restructured several of its head office departments, moving away from hierarchical silos to cross-functional teams, which it calls squads.<sup>4</sup> The squads are autonomous, dynamic groups responsible for the end-to-end execution of specific customer-related missions, such as streamlining mortgage applications. A designated product owner (a member of the squad) is responsible for the squad's activities and for managing backlog and priorities. Squads are composed of colleagues with different areas of expertise and disciplines, such as marketing, product management, and IT, depending on the mission. The squads are inherently small and fully empowered within their scope of accountability. They are co-located to maximize collaboration and can be ramped up, ramped down, added to, or reconfigured quickly based on the needs of the moment.

The concept of “squads” borrows the idea of a “sprint” in software development; it is also similar to the agile “scrum” methods often used in application development. The cross-functional resources are 100% dedicated to a specific objective or project, and must deliver it within short period of time (often, a fraction of traditional timetables, perhaps two or three weeks rather than five or six months). It is important to note that not *all* resources are organized this way—some people perform more predictable work in more traditional, less dynamic contexts. However, some agile models can be used for work that is more repetitive and less project-based (these models are similar to the self-managed, high-performing work teams used in lean manufacturing) or for highly dynamic but less cross-functional work (the “flow-to-the-work” models for applying

deep technical or functional expertise are examples of the latter approach).

At ING, squads with similar missions are connected and coordinated through “tribes” (e.g., mortgage services)—essentially, focused performance cells within a business unit that often include up to a dozen squads. The tribe leader is responsible for budget allocation, coordination, and best-practice sharing. A set of rules (e.g., squads have a limit of nine people, and a tribe can include no more than 150 people) supports this structure.

Employees within the same function coordinate with each other through “chapters”—functional competence groups that form the company's stable backbone. A chapter leader decides how jobs should be tackled, represents to hierarchy for squad members, and is responsible for coaching, development, and performance management.

Companies like ING that successfully adopt these approaches often find that product release cycle times shrink by 50% to 80% and costs decrease by 20% or more. In addition, organizational capabilities improve. Since summer of 2015, ING's adoption of agility has increased employee engagement by 20 points even as the company cut its total full-time equivalents by 30%. What's more, the company reduced its time to market for new products by nearly tenfold, and its customer satisfaction has risen significantly.

### **Buurtzorg: Greater agility through a flat organizational structure**

Buurtzorg, a home health nursing organization headquartered in the Netherlands, uses a rather extreme form of agility.<sup>5</sup> The organization is completely flat: every employee—

<sup>4</sup>Jacobs P, Schlattmann B. ING's agile transformation. McKinsey Quarterly. January 2017.

<sup>5</sup>Interviews with company executives.

including approximately 9,000 nurses and 40 central office staff—“reports” directly to the CEO. Most employees are grouped into pods, which are self-managing teams of 12 or fewer nurses; each pod covers a defined geographic area and set of patients. This approach enables flexible working hours for nurses, supports the sharing of best practices among teams (organically and through an online forum), and produces innovative patient solutions (such as better approaches for teaching patients how to conduct basic tasks). Pods even manage all of their own hiring. In addition, coaches (not managers) are available to help the pods solve problems and function optimally, as well as spread best practices.

Within the company, a set of defined processes form a limited but effective stable backbone. Pods have a minimum utilization rate of 60%, and all nurses are expected to participate in team decision making and meetings. Pods can also request the help of their coach from the central office, with one coach employed for every 40 teams.

This agile model has enabled Buurtzorg to improve the efficiency of its service delivery so that patients are able to regain autonomy more quickly and has helped the company capture 70% of the Dutch market over the past ten years.

## How healthcare organizations can become more agile

As payors and providers embark on the journey to become agile, they will need to communicate their vision to all managers and employees throughout the enterprise. Our Organization Practice colleagues have found that a useful method is to liken the company to a smartphone. The company’s structure, core processes, culture, and basic capabilities are, in essence, the smartphone’s hardware and operating system<sup>6</sup>—a platform upon which a more dynamic set of capabilities (the organizational version of “apps”) can be built. The platform provides the foundation, framework, and skills needed to permit employees to perform effectively, and to move quickly as the business environment changes. However, the company’s core processes and basic capabilities must be sufficiently open and flexible so that the “apps” (the tailored, dynamic capabilities needed for a given initiative) can easily and quickly be added or reconfigured.

A common approach used by companies seeking agility is to move some of their employees into centralized functions designed to serve and support the organization as a whole. The business lines are left “owning” fewer people, but they retain budget

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<sup>6</sup>Aghina W, De Smet A, Weerda K. Agility: It rhymes with stability. McKinsey Quarterly. December 2015.

**EXHIBIT 2 A five-step journey can allow companies to achieve greater agility**

<b>Define where you want to be</b>	<ul style="list-style-type: none"> <li>• Agree on your strategic objectives and how agility can help you get there (e.g., targeted segment/market growth, enhanced value-based care models and reimbursement capabilities)</li> </ul>
<b>Understand where you are today</b>	<ul style="list-style-type: none"> <li>• Assess where pockets of agility may exist within your current organization (e.g., discrete business units focused on healthcare innovation, IT departments)</li> <li>• Chart the proposed journey and two-pronged approach (i.e., identify pilots for agility concept, as well as system-wide priorities to build agility capabilities)</li> </ul>
<b>Draft the new model</b>	<ul style="list-style-type: none"> <li>• Define and detail the specific aspects of the stable backbone for your organization (e.g., decision-making processes and rights, core functions that can be drawn upon as needed)</li> <li>• Overlay the dynamic capabilities and model for agile units and teams</li> </ul>
<b>Use agile to become agile</b>	<ul style="list-style-type: none"> <li>• Launch agile prototypes, then iterate and refine via defined feedback loops</li> <li>• Allow learning and local adaptation in the dynamic elements; transformation happens most effectively by moving quickly toward an agile model in selected areas for the business</li> <li>• Build scale by shifting targeted areas to a more fully agile model, rather than attempting to shift a broad set of teams at once</li> </ul>
<b>Use agile as a source to learn and improve</b>	<ul style="list-style-type: none"> <li>• Scale agility and formalize the new model</li> <li>• By moving area by area to implement agility, your organization can reach a tipping point at which the model becomes self-sustaining</li> </ul>

Source: McKinsey Organization Practice

authority and, when necessary, can rent the resources they need from the functions. The result is more nimble allocation of resources to high-priority areas, the ability to operate more dynamically, and often the creation of centers of excellence in different skill areas.

Although an agile organization may still have a matrix-like feel with dotted-line reporting, the approach to work and collaboration is typically much less disruptive, for two reasons. First, the reporting line to the core function is stable. Second, the dynamic aspects of objective setting and decision making are largely de-coupled from the hierarchy, allowing much greater flexibility and speed (assuming that senior leaders can learn to give up control of their fiefdoms).

This structure is similar to the one used by many project-based organizations that seek to avoid the disruption that can result from a continuously evolving portfolio of initiatives.

Because agility is still a new concept, there are only a few examples of truly agile health-care organizations to date (see the sidebar for two examples). However, the concept is taking hold quickly in other turbulent and complex industries, and it is up to healthcare leaders to decide if they want to lead in this space or risk falling behind.

Based on our experience and what we have learned from other industries, we propose a five-step journey that payors and providers



## Organizational health, agility, and healthcare

To gauge the level of agility within the healthcare industry, as well as how it relates to overall organizational health, we conducted an outside-in assessment of nine payors and providers. In each case, we evaluated the organization based on both its level of overall agility and the presence of agile components within parts of the enterprise. This proprietary research has helped us identify effective strategies that healthcare companies can use to gain speed without losing stability.<sup>1</sup>

Our analysis found that the more agile healthcare companies demonstrate better organizational health, as measured by McKinsey's Organizational Health Index, and stronger performance, as reflected in higher patient satisfaction scores, better outcomes, and healthier financial results. Two companies, one that has already achieved a high degree of agility and one that is still in transition, shed light on the impact of becoming more agile.

### **Harnessing agility to optimize clinical quality and innovation**

Company A, a regional healthcare provider, embarked on its agility journey about a decade ago. As part of this process, the company transformed its operating model from a decentralized, nonstandardized

structure to one with substantial stability and consistency. In particular, it instituted rigorous standards for patient care, as well as a system to measure and track performance against those standards. As a result, Company A now has a stable backbone centered on clinical quality, which has enabled it to pursue more innovative care delivery and payment models.

The journey began when the company's CEO said to the CMO, "Deliver a plan for clinical excellence, and I'll give you the resources you need." Once the plan was approved, the CMO put in place a number of teams, each of which was tasked with building stable, translatable processes to establish consistent clinical standards across the organization.

The teams consist of self-directed physicians who choose the areas they want to focus on based on their expertise and interests. The teams are supported by a centralized group of permanent, dedicated resources, including a research team (to help gather data and identify best practices) and an implementation team (to assist with putting the standards into practice and then measuring and tracking results).

<sup>1</sup>McKinsey's Organizational Health Index (OHI) includes a series of specific questions that assess an organization's speed (its ability to act quickly in the face of challenges and adapt to new ways of doing things) and stability (baseline structures, processes, and systems in place to simplify day-to-day work and eliminate reinvention).

Today, Company A has more than 20 of these clinical excellence groups in place. Each develops new standards and processes for quality and innovation annually, along with corresponding measurement and tracking systems. For example, if an employee came across an aspect of clinical practice that isn't adequately addressed, a clinical excellence team is deployed against this area. Although the initial clinical excellence teams focused on acute care, the company is currently extending the teams' scope to consider ambulatory care settings as well.

This infrastructure—the combination of a stable backbone and the ability to react dynamically as the need arises—has instilled a company-wide ethic of high clinical standards and evidence-based practice. It also helps ensure that the company's core business is preserved and runs smoothly as the organization begins to implement different care delivery and payment models. In addition, it has enabled the company to achieve top-decile clinical outcomes and solid financial performance.

#### **Using centers of excellence to scale agility**

Company B, a national payor organization, is shifting toward an agile matrix structure

by establishing several shared services for functional areas (e.g., HR, claims) and “centers of excellence” in specialized areas (e.g., quality, compliance). The business lines can draw on these shared services as necessary for resource-intensive but infrequent efforts, and then set priorities and direct activities for the shared staff assigned to their projects. (An example of such an effort would be the need to develop the approach for responding to a large request for proposal.) This agile setup allows the company to quickly develop and scale capabilities that can then be rapidly deployed as needed.

Company B is in the process of expanding this approach to tackle a wider range of business issues beyond resource-intensive, one-off efforts. For example, the business lines can now call on a central team when they need to answer particularly challenging or time-sensitive analytics questions. The company is also experimenting with expanding agility in a few areas with high strategic priority by creating working teams staffed with dedicated employees from a range of functional homes, such as IT and medical management.

could use to pursue agility (Exhibit 2). As with any strategic road map, the starting point is a clear definition of objectives and an evaluation of the organization's existing capabilities.

As the organization begins to implement agility, it should do two things simultaneously: conduct discrete pilots to test and prove the agility concept within the organization, and solidify the stable backbone (e.g., core processes and reporting structures) to lay the foundation for broader implementation. This method is analogous to the approach ING took when it embarked on its agility journey. It ensures that the pilots can show what is possible and the organization will be able to support and scale up the successful pilots. Continuous learning and follow-on improvements are vital characteristics of agility—the key to embedding the concept into an organization's DNA.



The healthcare landscape has changed meaningfully in the past several years, and more changes are ahead. Both payors and providers need to better organize themselves

so they can respond effectively. Many health-care organizations have struggled in this regard; too often, they either continue to operate with an antiquated organizational structure or undergo frequent “transformations” that are obsolete before they are fully implemented.

Agility can help payors and providers adapt more quickly to changing customer needs, competitor responses, and regulatory guidelines without requiring a full-scale restructuring and reallocation of resources. Moreover, agility can enable healthcare organizations to innovate and lead, and not be confined to reactive responses. These capabilities are likely to prove even more crucial in the coming years. ○

**Gretchen Berlin** ([Gretchen\\_Berlin@mckinsey.com](mailto:Gretchen_Berlin@mckinsey.com)) is a partner in McKinsey's Washington, DC, office. **Aaron De Smet** ([Aaron\\_De\\_Smet@mckinsey.com](mailto:Aaron_De_Smet@mckinsey.com)) is a senior partner in the Houston office. **Maria Sodini** ([Maria\\_Sodini@mckinsey.com](mailto:Maria_Sodini@mckinsey.com)) is an associate partner in the New York office.

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Editor: Ellen Rosen ([Ellen\\_Rosen@mckinsey.com](mailto:Ellen_Rosen@mckinsey.com))

For media inquiries, contact Julie Lane ([Julie\\_Lane@mckinsey.com](mailto:Julie_Lane@mckinsey.com))

For non-media inquiries, contact Pam Keller ([Pam\\_Keller@mckinsey.com](mailto:Pam_Keller@mckinsey.com))

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