

3 Attributes to Diagnose Organizational Health (Performance Isn't One of Them)

By Scott Keller and Colin Price - August 4, 2011

When we ask CEOs if they have ways of measuring their company's performance, they say "Yes, of course." When we ask if they put competitive benchmarks and targets against these measures, we get the same reply. But when we ask if they have ways of measuring their organization's health, we hear a hesitant "We have an employee opinion survey..." And when we ask about benchmarks and targets for health, we usually get a blank stare.

The trouble is, there is no consensus about what health actually means for an organization. Some CEOs equate it with culture, others with effectiveness, yet others with employee engagement. Many assume they can't set targets for health or take steps to improve it because it is simply too "soft" to manage.

That may have been true once, but not any more. Managers can now make use of a robust toolkit that does for organizational health what accountancy does for financial health—that is, establishes a reliable, consistent method of measuring the dimensions that drive business results.

Defining health

Our efforts to measure health began a decade ago and turned into one of the biggest research projects ever undertaken in the field of management. It involved surveys of 7,000 senior leaders and 600,000 employees, reviews of 900 books and articles, and extensive hands-on work with clients.

The analysis uncovered three key attributes of organizational health—internal alignment, quality of execution, and capacity for renewal—and nine elements that combine in different ways to support them (see exhibit). In turn, the nine elements are underpinned by 37 management practices (for instance, one of the practices that underpins "direction" is "Articulating a clear direction and strategy for winning, and translating it into specific goals and targets").

What the 37 practices do is make the elements of health tangible, observable, and above all actionable. They are at the heart of the organizational health index (OHI), the survey tool that we developed to make measuring health less of an art and more of a science. The best way for any organization to do a health check is to use the OHI with a large group of employees from all areas and levels, and then augment the findings with fact-based analyses to confirm that perceptions are rooted in reality. If they are not, the solution may lie in improving transparency and communication rather than changing practices.

Deciding what matters most

Measuring health is one thing, but how do you decide which aspects of health you need to focus on? Our research indicates that all organizations need to achieve a threshold level of health—above the bottom quartile—for each of the 37 practices.

After all, leaders can't neglect to ensure that targets are set, strategies are developed, budgets are allocated, and so on.

Yet while all these things must be done, they don't all require the same emphasis. Deeper analysis revealed that a company that is in the top quartile for just six practices has an 80 percent likelihood of being in the top quartile for health overall, which in turn drives superior business performance. That's good news for leaders, since no company can hope to achieve a peak level of health across the board.

Finding your recipe for health

So how do you decide which practices your organization should excel at? When we analyzed how different practices complement one another, we identified four archetypes that are followed by most healthy organizations. Each archetype is characterized by a particular combination of practices that promote the health attributes of alignment, execution, and renewal. The right archetype for you is the one that plays to your greatest strengths and supports your performance aspirations best.

- In the **leadership-driven archetype**, leaders are the catalysts for performance, setting high expectations and supporting the organization in achieving them.
- In the **execution-edge archetype**, discipline, sound execution, and continuous improvement are the foundation for great performance.
- In the **market-focus archetype**, shaping market trends and building a portfolio of strong and innovative brands keep the business ahead of the pack.
- In the **knowledge-core archetype**, talent and knowledge are the organization's most important assets, and it develops and deploys them effectively.

Making it happen

The OHI tells you your baseline health, and the four archetypes help you decide the level of health you need to deliver your strategy. But how do you get from A to B?

That's the billion-dollar question. Our research indicates that two-thirds of executives feel ill equipped to strengthen their company's health. To answer this need, we've developed a process, the 5As, that organizations can follow to transform their performance and their health at the same time. Each part of the process is like a stage in a journey:

- **Aspire (where do we want to go?)** is about setting overall performance goals and the health aspirations that will enable them to be achieved.
- **Assess (how ready are we to make the journey?)** is about determining what capabilities and shifts in underlying mindsets are needed to reach the aspirations.
- **Architect (what do we need to do to get there?)** is about developing a portfolio of initiatives to improve performance and planning how to implement them to shape the desired mindsets and behaviors.
- **Act (how do we manage the journey?)** is about adopting the right scaling-up model, using governance to ensure broad ownership, and measuring performance and health rigorously throughout.
- **Advance (how do we keep moving forward?)** is about establishing the mechanisms and building the leadership capacity to drive continuous improvement.

At each stage a comprehensive toolkit of proven methods is available to help leaders determine exactly what needs to be done.

Learning from success

One leader who has helped his company transform its performance and health is Alejandro Baillères of Grupo Nacional Provincial.

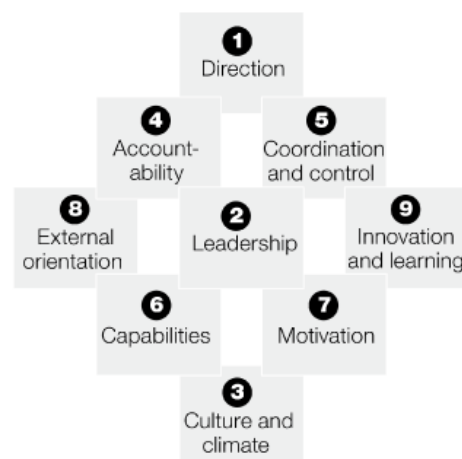
Founded in 1901, GNP was the first life insurer in Mexico, and became a universal insurer in 1969. It prospered for decades under regulation that favored domestic players, but as the twenty-first century dawned it faced mounting competition. Market share eroded, employee satisfaction declined, and profits evaporated. When Alejandro Baillères became CEO in 2006, the company had been losing money for two years.

The new leader's first task was to face the facts. Market share, profitability, and cost structures were compared with competitive benchmarks, and health was measured with the OHI. The results told hard truths about a company that scored in the low to mid quartiles on most aspects of health and had a culture of complacency. So the CEO and his team decided to pursue the execution-edge archetype and adopt the 5As approach to restore good health and strong performance.

By 2010, GNP's return on invested capital had improved from a negative number to a strong double-digit positive return. Performance gains were mirrored by advances in health: employee motivation had soared and the company's overall health had risen from a bottom- to a top-quartile ranking.

Improving performance and health takes time and effort. Fortunately, it's possible to tackle both at once, and with equal rigor. Evidence shows that's the best way for an organization to achieve high performance today and sustain it tomorrow.

Exhibit 2.2 Nine Elements of Organizational Health



...in three clusters

Internal alignment

The organization has a compelling vision and a well-articulated strategy that is supported by its culture and climate

Quality of execution

The organization demonstrates excellence in executing its strategy and delivering its services

Capacity for renewal

The organization is effective at understanding, interacting with, adapting to, and shaping its situation and external environment

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