Organizational Health and Wellness Are Business Relevant

The invitation to compile and edit this issue arrived unexpectedly during a visit to Google’s New York City offices on a Friday afternoon in 2013. Brian Welle, director of people analytics at Google and a member of a local organization of I-O Psychologists (the Friday Group), was hosting a visit. He had presented Google’s initiatives to “nudge” people into living longer. For my part, I had shared a few words about McKinsey’s Organizational Health Index business. Perhaps coincidentally, perhaps not, Anna Tavis, executive editor of the People & Strategy journal (and a Friday Group colleague), floated the idea of publishing a special issue of this journal focusing on organizational health and wellness.

This issue is the result.

One core belief informed the call for papers: Organizations need to measure and manage their health with the same rigor they apply to performance. Consequently, readers will find evidence of, well, evidence throughout the majority of our feature articles and in our lead Perspectives, Six Lessons on Leadership (p. 8), by Bob Hogan.

Another core belief informed the special editor’s decisions: Organizational health is one of the most powerful levers leaders have to drive performance in the short term and set up the organization for long-term success. Evidence abounds throughout—from the estimated $1.2 billion advantage in long-term shareholder value creation for the healthiest companies to the estimated $1,600 per employee advantage in health care savings for superior wellness initiatives, excluding other benefits, e.g., reduced sick days and health risks.

What is the evidence that organizational health helps Ford Motor Company turn itself around? A case study mined more than 160 structured interviews with managers and employees illustrates how Ford captured the value of organizational health. Their road from near-bankruptcy to profit leadership in the automotive industry is told in Regaining Organizational Health and Vitality: Ford Motor Company’s Positive Adaption to the Challenges of the Automotive Industry Crisis (p. 46).

What is the evidence that holistic well-being is related to leadership effectiveness and the engagement of employees? Tone at the Top: Leadership as a Foundation of Organizational Health and Wellness (p. 36) subjects Gallup’s and Healthy Company’s datasets of 360-degree ratings of leaders to multivariate statistical treatments (communicated in plain English) to make the case.

What is the evidence that employers can derive more value from their health and wellness programs—and how much? Data from three Towers Watson surveys is mined to address these questions in Capturing the Value of Health and Productivity Programs (p. 30).

The bottom line for CHROs and other readers in policy roles is that value propositions that make sense to line leaders are not only possible, but they are also happening and crystallizing a new expectation for the role: business relevance. In our experience, there are many capable HR leaders who get it, and are quite adept. (There are also some who do not, and aren’t.) Chris Gagnon, a solution partner at McKinsey reminds us of that in his first-person interview with executive editor Anna Tavis (p. 56).

Client experience, and the first-person interview with Professor Warner Burke of Columbia University Teachers College (p. 52), tell us that the proverbial “seat at the table,” once earned, is only as valuable as the respect HR leaders earn through relevance in the form of strategic change skills, evidence-based persuasion, and value-based ideas and initiatives.

Done well, impact with the senior team and the enterprise is sure to follow.

Dr. Michael N. Bazigos
strongly from the top down by analyzing external trends and developing a clear strategy for where the market is going.

The fourth and final recipe, **talent and knowledge core**, is found frequently among successful professional-services firms, professional sports teams, and entertainment businesses. Such organizations emphasize building competitive advantage by assembling and managing a high-quality talent and knowledge base. They typically focus on creating the right mix of financial and nonfinancial incentives to acquire the best talent and then focus on motivating their employees and giving them opportunities. In contrast to companies in the leader-driven group (whose value is created through teams directed by a strong leader), talent and knowledge-core organizations succeed thanks to highly skilled individual performers.

Implementing a Healthy Recipe

The case of a global chemical manufacturer we know highlights the power of the recipe approach. This company faced increasing energy costs, intensifying international competition, stricter environmental regulation, and the shutdown of one of its sites in an environmental permit dispute. It had to move quickly to reduce its costs, improve its maintenance productivity, and raise production.

This company’s mining operation had approximately 450 employees distributed in an area more than five times the size of Manhattan. A health-feedback session where the voice of the organization was “mirrored” back to it showed clearly that the appropriate recipe was execution edge. After an action-planning workshop, executives developed interventions to encourage the most important practices for this recipe: knowledge sharing, employee involvement, and a creative and entrepreneurial environment. Efforts were made to redefine the role of frontline supervisors (including retraining), to engage the frontline workforce, and to step up the impact of employee communication. These initiatives led to greater employee involvement in decisions and more bottom-up knowledge sharing.

While most organizations use career opportunities to motivate employees, companies in [the leader-driven] cluster use career opportunities as a leadership-development practice. Role modeling and real experience are more important than passing along sage lessons.

For example, the company introduced regular one-on-one visits between miners and supervisors to discuss productivity strategies, review progress meeting production targets, and engage in “micromine planning.” Supervisors became the bottom-up conduit for cross-fertilizing these ideas in daily shift-production meetings, weekly “step back” meetings, and monthly management meetings.

Other miners and supervisors, motivated no doubt by the continuing emphasis on accountability for production, voluntarily adopted the best solutions. Not unexpectedly, the miners and supervisors began to feel greater ownership of their work, and employee engagement increased by 20 percent.

As for the operational-performance goals, wrench time increased to 45 percent, from a baseline of 22 percent. Productivity, in turn, rose by 50 percent over a two-year period, generating additional profits of $350 million. Costs fell sharply, with annual run-rate savings of approximately $180 million.

It is worthwhile noting that the transformation blended health objectives with performance goals. Neither was treated in isolation. One reinforced the other, making each immediately relevant and maximizing the likelihood that the organization will sustain performance and respond successfully if challenged again by severe market disruption.

Building a Healthier Organization

What can be learned from the four healthy organizational clusters our latest research identified? How can companies adapt accordingly?

We certainly wouldn’t suggest that organizations blindly seek to replicate one of the cluster recipes, ingredient by ingredient or practice by practice. Just as great chefs don’t copy and paste the recipes of others, companies must take these general archetypes as inspiration and identify the pattern of healthy practices that best fits their own organizations and strategies. In the continuing search for a better-functioning organization, companies should consider the following issues.

The Imperative of Alignment Between Strategy and Health

Successful companies match their organizations to their aspirations. Once a company has identified the most appropriate organizational recipe for the chosen strategy, it should align the organization as far as possible with that mix of practices. If its most important day-to-day practices do not support its strategy, or are not consistent with the direction communicated by its leadership, the misalignment can often undermine both overall performance and health.

Such misalignments often happen in strategic shifts. A large technology company we know changed its product and service mix and rapidly accelerated its globalization strategy. It then realized that what it really needed was a new focus on developing high-potential leaders who could direct next-generation businesses and operate with a global mindset. Such moves would bring the company closer to the leader-driven recipe. Its old execution focus was no longer a powerful competitive weapon.
This company developed what it called “critical paths” for a ladder of opportunities available to high-potential leaders. These paths culminated in an important role, such as general manager for a large region, and promoted to prominence leaders who were visibly inspirational. When the company’s own research showed that trust accounted for 90 percent of its employees’ perceptions of how effective their managers were, it focused its development efforts accordingly. (Coincidentally, trust was one of its three core cultural values.)

The company ultimately avoided the “commodity hell” it feared. It reliably increases its margins every year, leads its industry in segments where it elects to compete, and is recognized by respected analysts as a leading “talent factory.”

The Importance of Selection

Our earlier research had already shown that to be in the top group of healthy organizations, companies must do better than bottom-quartile ones across the full suite of 37 management practices. But a better-than-bottom score is generally enough for practices that are not essential to a company’s recipe. The trick is to be truly great in a handful of practices—and not to worry a lot about the rest, which is just as well because no company has the capacity, resources, or management time to be great at all 37. The power of the four recipes our research unearthed is that they provide an indication of where to concentrate improvement efforts.

We discovered that 73 percent of the companies that strongly or very strongly follow one of the four recipes (and are not in the bottom quartile for any practice) enjoy top-quartile health. By contrast, only 7 percent of companies that have at least one broken practice and a less-than-strong embrace of any of the recipes are in the top quartile.

Taken together, this represents a better than 10:1 ratio of effectiveness. It also suggests that the right course is to fix all broken practices (by improving them enough so that a company escapes the bottom quartile) and to turn a targeted handful of practices into true strengths. Trying to exceed the median benchmark on a large number of practices is not effective.

The Danger of Recipe Killers

Our research also identified recipe killers—the management equivalent of baking a beautiful chocolate soufflé but then adding too much salt and rendering the dish inedible. The new data suggest that, just as concentrating on too many practices diminishes an organization’s odds of achieving top health and success, adding the wrong practices to the recipe can be extremely harmful.

One example is the overemphasis on command-and-control leadership styles in companies trying to follow the execution-edge recipe. Most people think execution requires that approach. Actually, execution requires tremendous on-the-ground energy, so the best execution-driven organizations employ internal competition and bottom-up innovation to empower the front line to excel. Overuse of top-down processes would kill that dynamic—and, indeed, in our data set the least healthy execution-edge organizations are those that have the authoritative-leadership practice in their top 10.

Building organizational health can be a powerful lever for improving the long-term performance of companies. Leaders can’t ignore this lever, given the accelerating pace of change facing most industries.

The journey to organizational health has several paths—the four best ones were identified here. But gratifying simplicity masks hidden risks. Choose well your recipes and ingredients, as the wrong mix may sour employees, executives, and investors alike.

References

2 These were the fortunate ones. Our global survey shows that only one-third achieve change goals.
3 The explanatory power rose to 56 percent when a single outlier was removed.
4 The full database includes many nonpublic companies and government organizations that were excluded for this analysis.
5 An indicator of maintenance performance: a measure of the amount of time that craft personnel spend actually carrying out their primary tasks (for instance, using tools to make a repair), as opposed to time spent traveling from project to project or sitting in meetings.

Dr. Michael Bazigos is an executive in McKinsey & Co.’s OHI Solution-based in the firm’s New York City office. He can be reached at michael_bazigos@mckinsey.com.

Dr. Aaron De Smet is a principal at McKinsey in Houston. He can be reached at aaron_desmet@mckinsey.com.

Dr. Bill Schaninger is a director, with global responsibility for organizational analytics in Philadelphia. He can be reached at bill_schaninger@mckinsey.com.

Scott Blackburn, Lili Duan, Chris Gagnon, Scott Rutherford, Matt Smith, and Ellen Viruleg contributed to this article.
Fostering Organizational Health and Wellness

A Conversation with Dr. W. Warner Burke

People & Strategy special editor, Michael Bazigos, Ph.D., recently had the opportunity to interview Dr. W. Warner Burke, Edward Lee Thorndike Professorship of Psychology and Education; education program coordinator for graduate programs in social–organizational psychology; and former chair of the Department of Organization and Leadership at Teachers College, Columbia University.

The interview was as wide ranging as the topic area, and touched on a variety of examples of healthy and unhealthy management—performance management, rewards and recognition, culture, climate and leadership—as well as the state of research linking organizational health to company performance and Dr. Burke’s view of a critical success factor in organizational transformations which CHROs will especially want to note.

Michael Bazigos: To begin, there are two terms in this special issue’s title: organizational health and wellness. How do you understand each of those terms, and how would you define them?

W. Warner Burke: I like the question because wellness is an outcome and health is a process, so that’s the fundamental difference between the two. Obviously, we are talking about the same domain of life, but I would think that from the standpoint of trying to understand those terms vis-à-vis an organization whose leaders’ ultimate objective is to make the organization as well as possible. So wellness is always a desired outcome and an objective. But to get there you have to focus on issues of health, and I don’t believe that most executives understand what that means, or are necessarily equipped to build and sustain the health of the organization. It’s interesting that people in organizations invoke the health metaphor, for example, “How sick can that decision process be?” or, “Well, last night when I got us into the wonderful land of wellbeing.” So, we do use the language. When I say “we,” I mean organizational members in general.

For example, here at Teachers College, we use language like that all the time. The word toxic is now in vogue, and has been for quite some time. We talk about toxic leaders; we talk about toxic organizations and so forth. And so the antidote to all that is health and wellness, but we’re focused on the negative. This obviously contravenes the literature on positive psychology which validates that we focus unduly on negative aspects of organization behavior and insufficiently on the positive aspects. We do need to focus much more on the positive.

Positive psychology research has shown unequivocally that when practiced, it leads to healthier organizations, and people feel better when they focus on positive things. Now, that can obviously go too far, and it can become tired and heavy. But it is nevertheless out of balance in most organizational life, meaning that negative aspects—toxic aspects take more of our time, energy, and effort than positive ones. To get the same benefits, we have to work almost two to three times harder under negative conditions than we do under positive ones.

MB: What would you describe as the characteristics of a healthy organization? Let’s take it from the positive side first.

WWB: I think that anything that helps people in the organization avoid paranoia can lead to much healthier situations. When others are closed and not open—when we don’t know what’s going on and why people are making decisions that we can’t make, and things of that nature—that leads to “what” thinking: “What am I doing that people are trying to get me for?” and so forth, and that can indeed lead to feelings of stress—the opposite of wellness. For example, I was just talking to a colleague yesterday who mentioned how stressed she felt and had, she said, one of the worst headaches she has ever had. So there is a direct connection between how we perceive what is going on in an organization and our feelings in terms of wellness.

That argues, from my point of view, for organizations to be far more open than they are and allow people to express themselves without fear of retribution. It argues for an open system on the broad sense of that term where people can feel that what is being discussed is actually honest. And it argues for a system where people use the word integrity more often than they use the word toxic.

MB: Let me pick up on the word system. You just talked about an open system and you were talking about an open and trusting climate. What can organizations do to foster that? What needs to go well at a systemic level?

WWB: We tend to talk about problems with respect to the culture. Well, you know, that means you are going to have to go into a huge effort of trying to change the culture, and that’s going to take years. So I think it is far better to concentrate at the local unit level in terms of the climate—how people are working together and how they feel about their boss and things of that nature. That’s the level within the system where you get the biggest and fastest payoff, the work-unit level.

There are such things as clarity: how it’s just so important for people to be clear about what’s expected of them; that’s a climate dimension. [And] standards: are people managed according to standards, or does the management process come across as purely arbitrary? The difference between those two has a major effect in terms of how people feel about their work situation. Recognition informally, you know, the pats on the back...
An effective leader has two primary objectives for effectiveness and one is selecting the right people and paying attention to heterogeneity in terms of the group that’s working with you. And then finding ways to help that group of people that work for you to work together. Those two things, selection and teamwork, are the two most important factors, I think, in terms of assessing the effectiveness of an executive or manager.

But I’m also talking about what can be rewarding and as I have always said being part of something that’s “bigger than I am” is rewarding. For example, my life here at the college includes six or seven different programs, all under the label of “social-organizational psychology,” and it’s that collective part that is the most satisfying for me. It’s what we all accomplish together to have a coherent look.

**MB:** That’s a good example. So many organizations assess individuals at the end of the year and reward individuals on what their unique contribution has been according to some guidelines. Do you see potential for any disconnects when we look increasingly for teams to do the work effectively, but then reward individuals?

**WWB:** Well, that’s a very good point. And disconnect is the right word in that what that practice does is reinforce individuality rather than teamwork; it works against what it is that you are trying to do with respect to having a healthy organization and people feeling like they are part of something that’s important in their lives. So, yes, big disconnect.

**MB:** I think we’re agreeing that performance management and the line of sight from strategy to behavior to reward are important aspects of organizational health. An overwhelming majority of companies surveyed are dissatisfied with the effectiveness of that process, yet they are unwilling to drop their existing processes without a viable alternative. I wonder if you have any thoughts about how that impacts health?

**WWB:** It’s the fundamental issue of the conflict between performance and development: organizations err on the side of performance and rarely pay attention to development. It’s development that gives you the biggest payoff, rather than focusing on the individual manager’s bottom line. In other words, has he or she grown people? The people who worked for this person, what’s happened to them? We just do not pay sufficient attention to developmental kinds of activity and reward them.

So, you may have produced some dynamite people for the last two years, but they have moved on—because you helped that process—but you don’t get anything for that. There’s a disconnect when some people say, “I’d like to work for Michael,” but then Michael gets no reward or recognition.

**MB:** Warner, let’s just switch gears a little bit and talk about the relationship between organizational health and organizational performance. At McKinsey, we’ve established a link between organizational health and long-term total return to shareholders. That’s just one example of a modest but growing body of research. Ben Schneider is a great example of academic researchers establishing linkages between soft things like culture and health on one hand, and hard outcomes like return on investment, return on net assets, and sales. I remember you introducing us to [J.P.] Kotter and [J. L.] Heskett’s book, Corporate Culture and Performance in the early 1990s. Donning your academy garb for a moment, what is the state of that linkage research today and what are we learning?

**WWB:** My impression is that the state of that research is dormant because I have not run across any lately. By the way, I don’t read every journal article that comes across my desk. But I do look at the contents of every journal.

You know, maybe we should look at the professional literature in Denmark and some other places where they are doing research like this.

**MB:** Specifically, Denmark or you’re just using Denmark as an example?

**WWB:** Well, they are enlightened people in that matter, that’s for sure, as they are in Sweden and the Nordic parts of the world in general. I don’t know specifically, but I’d speculate that’s a great place to look.

**MB:** Do you believe that there is a link between organizational health and performance?

**WWB:** Yes.

**MB:** What is the evidence base that you think of when you think about that linkage?

**WWB:** There is that study by Sonnenfeld and some others published in the Administrative Science Quarterly about the work of the top team—and how they worked together at the top had a direct influence on the bottom line. And the more they modeled, so to speak, working together and enjoying one another’s company rather than a big competitive process, the better and the higher performance. That’s about the only study I can think of that comes close to what you are talking about.
MB: What did you observe in your consulting and your own research with the Burke-Litwin Model of Organizational Performance and Change\(^4\) over the years?

WWB: I’m thinking of the SmithKline Beecham merger, and the degree of attention that was paid to representativeness of the two companies as they merged—in terms of positions of power and influence—with respect to appointments of people. I worked with the top team to get them to be more of a team, and I think that the objective of the merger—to make these two companies really become a global player together—was realized. That meant transcending the American part of it and the British part of it, and going beyond that. I was there for about three and a half years and did multiple surveys, using the Burke-Litwin Model for understanding what was going on. The data always seemed to point to leadership having a direct effect on how the other elements of the model worked.

I can’t point to many successes I’ve had with respect to culture change and mergers and acquisitions, but I had three successes, British Airways, SmithKline Beecham and Dime Savings Bank. Those were three that worked. And a common denominator across all three was the combination of the chief executive officer and their chief human resource officer working together. What I did in many respects was to facilitate that engagement of the HR head and the CEO and not get in between, because the CEO listened to what the chief human resource officer had to say, and what I would do is reinforce that as much as I could. Successful organization change has to be a combination of not so much the CEO or chief financial officer, but the CEO and the chief human resource officer also have to have a reasonable amount of savvy about organization change currently out there.

MB: And what do you think the state of that is?

WWB: I don’t think it’s great. There has almost been an antagonism between HR and OD (organizational development) in many organizations and where that is not the case, the companies seem better run or to operate better. The power of the HR position is so overlooked in terms of its potential. There hasn’t been a whole lot of competence in terms of organizational development, but where there is, it pays off.

The healthy organization is one where the chief executive officer and the chief human resource officer get along and work together absolutely. I think there is a direct effect in terms of that relationship and the health of the organization. Can I prove that? No. But would I put money on it? Yeah.

In each of the successes that I mentioned, the chief human resource officer was highly educated and knew a lot about change. The CHRO at Dime had gone through our Advanced OD/HRM Program. That’s how I knew him.

So, there is a contingency in terms of my statement and that contingency is that chief human resource officer needs to be pretty savvy about change.

References

1 For more on this finding, see feature article in this issue of the People & Strategy journal, Securing lasting value through organizational health, by Bazigos, De Smet and Schaninger, 36–41.
What if there was a way to measure and track the elements of organizational effectiveness directly related to financial and operational performance that also offers actionable insights into areas of improvement? Turns out, there is. People & Strategy executive editor Anna A. Tavis, Ph.D., interviews Chris Gagnon, M.B.A., solution partner at McKinsey & Co.’s Organizational Health Index, about healthy organizations.

In First Person: Leading Healthy Organizations

Anna Tavis, Ph.D., in conversation with Chris Gagnon, M.B.A.

Anna Tavis: How do you define “healthy organizations,” and why does it matter?

Chris Gagnon: Here’s the key thing: organizational health doesn’t just mean ensuring that “people are happy.” Nor is it about corporate culture for culture’s sake. The underlying concept is that performance and organizational health are inextricably linked. There is no lasting, long-term performance without real organizational health. It’s all about driving performance.

So I’ve said what it’s not. I should say what it is! We define organizational health as the ability to sustain performance over the long-term by having employees who continually demonstrate three key competencies. They understand where the organization is going and how it plans to get there—in other words, they “get” the vision and the strategy. They have the tools, capabilities and motivation to put those plans into action, helped by the fact that the organization has the right processes in place. Last but not least: they’re encouraged to innovate and adapt to change in order to keep the organization ahead of the game.

Let me push harder on the point about performance, and give you some numbers. Too often, the tendency is to look at financial performance only, but that’s only half the equation. You have to manage financial performance and long-term organizational health with equal rigor. Our research underscores that: the healthiest companies in our database have total returns to shareholders (TRS) that are nearly twice the TRS of companies in the middle of the pack.

AT: So, tell us how McKinsey came up with the idea of organizational health. What was the motivation?

CG: Well, over time, our consultants had been getting more and more questions from our clients about how they should tackle the nontechnical, “softer” aspects of their businesses. Increasingly, we were hearing CEOs and other business leaders say things like “We know there’s more to achieving and sustaining performance with our people, but we don’t know exactly what it is or how to make it better.”

In answering this quandary, McKinsey was really fortunate to have two people with Ph.D.s in management and organization as statisticians, each of them deeply trained in quantitative methodology. They set out to devise a tool that would help us talk about these issues in a way that top executives could relate to. They built the tool called the Organizational Health Index (OHI) that my Solutions team now runs. The first version was designed more than a decade ago; as we got more performance data from our clients, we refined the tool to get better and better at both describing the situation and predicting performance. We’re getting really good at knowing what organizational health looks like; we’re gathering more and more OHI data to help us deeply understand the linkage between performance and health, and to make it easier for companies to act on those findings. So far, OHI has helped literally thousands of companies to perform better, allowing them to see how they stack up against industry averages—and more importantly, how they compare with the healthiest organizations in the world.

Over time we came upon the realization that we could leverage big data, software and expertise, rather than capital, to help our clients make better decisions about that “soft” side of their businesses—and take more decisive action on those issues. That led to the formation of our Solutions offerings—which enables us to serve clients in a variety of ways with both McKinsey consulting teams and independent of them.

You can probably tell that measurement of organizational health is a real passion for me. You know, the only way to manage something like this is to measure it. So the Solution tool is not just a great way to do research, get insights, and understand an organization’s health, but also a way to manage and improve health so it helps to deliver sustained performance and competitive advantage. I’d go so far as to say we’re on a mission to get organizational health measures widely accepted as drivers of long-term performance.

AT: Could you please say more about the Organizational Health Index and how you use it?

CG: The OHI has four elements to it. First, we’re able to give a single score for how healthy an organization is. This is a single number that boards, management teams, and financial markets can all look at—a measure that quantifies the overall performance capability that an organization is building for the long term.

This is a really crucial point. As I said, anyone who’s looking only at the raw financial metrics is getting only half the equation. Dominic Barton, McKinsey’s worldwide managing
Using a Positive Lens to Explore Social Change and Organizations: Building a Theoretical and Research Foundation

Authors: Jane E. Dutton and Karen Golden-Biddle
Publisher: Routledge, 2012

Reviewer: David Bright, Ph.D., professor of organizational behavior and organization development at Wright State University.

Using a Positive Lens to Explore Social Changes and Organizations: Building a Theoretical and Research Foundation is a contribution from the movement of positive social science. The “positive lens” highlighted in the title refers to a research orientation in which scholars “focus on understanding the elements in the change process in and of organizations that build up, increase, enable, and foster beneficial outcomes associated with social change.” The “social change” aspect of this book refers to the study of changes that come from social movements or from other attempts to create shifts in society.

At first, it may be hard to see the relevance of social change theory to the HR professional. Yet social movements can be a powerful source of positive energy, and social change theory provides insight into the practices that can be used to engage employees and encourage them to participate in the design of organizational change.

The book has four main sections that explore various areas of social change: change agency, environment and sustainability, health care, and poverty and low-wage work. Each section includes several papers on a focused topic, followed by an analytical chapter that summarizes key themes and patterns. Most of the chapters include interesting, relevant cases that provide an effective illustration of the key ideas.

The most interesting insights in this book all provide perspective on the conditions for creating change:

- The opening chapters highlight examples of both bottom-up (self-organizing) and top-down (directed organizing) approaches to change. Successful changes come about when leaders provide general direction while inviting employees to participate, to have voice, and to be engaged.
- A handful of competencies seem to be particularly important to positive social change: overcoming adversity, discerning alternate possibilities, and managing tensions.
- An environment of hope activates both the cognitive and emotional resources that can become a guiding force for change.
- Leaders can encourage social change by amplifying resources (time, funding, team development, and so forth.) and buffering demands (limiting distractions, managing the scope continued on page 64

The Advantage: Why Organizational Health Trumps Everything Else in Business

Author: Patrick Lencioni
Publisher: Jossey-Bass, 2010
Reviewer: Michael N. Bazigos, Ph.D., global head of product development, data analytics, and research at McKinsey & Company’s Organizational Health Solution

In the fog of war that is contemporary corporate life, soldiers move silently through shadows, glimpsed as fleeting silhouettes while re-enacting scripts they inherited from corporate predecessors. They may or may not know the terrain, nor how close they are to the last frontier of competitive advantage: organizational health.

A senior leader enjoys a close relationship with Fred, a member of his team, and creates tension in the group by giving Fred a free pass for “destructive behavior.” The leader confesses to a consultant that he is afraid Fred will quit if he holds him accountable, and lose that technical expertise. It is possible that he was re-enacting the “results trump all” script passed down through the ages.

The leader is subsequently confronted by his team in a meeting facilitated by the same consultant. After the team discussion, the leader and his team begin to hold Fred (and one another) accountable for their mutual commitments. But a short time later, the leader’s worst fears come true when Fred leaves.

But something curious follows, perhaps unexpected by our leader. Fred’s leaving invigorates the team, and their performance improves—a result the leader attributes to the new culture of real, not espoused, accountability the team embraced. The vignette ends here, but we can reasonably assume that more junior managers, perceiving alignment between their senior leaders, embrace the same norm, improving execution and results. continued on page 63
Moral: By holding even favored colleagues to their agreed responsibilities, the leader gained credibility, which fostered alignment around a cultural norm of peer accountability. The ensuing clarity became contagious, prompting healthier interactions and better performance.

In his tour de force, The Advantage: Why Organizational Health Trumps Everything Else in Business, Patrick Lencioni makes the case for effective organizational functioning in compelling style. Drawing on critical “moments of truth” from his consulting career, like the story of Fred, Lencioni illustrates the principles that drive organizational health using accessible, plain English anecdotes.

Lencioni does not equivocate, stating, “The single greatest advantage any company can achieve is organizational health. Yet it is ignored by most leaders even though it is simple, free, and available to anybody who wants it.”

To achieve health, there are five success factors he holds as critical. These define the chapter structure: building a cohesive leadership team; creating clarity; over communicating that clarity; then, reinforcing that clarity. The fifth chapter puts forward a framework for meetings to support alignment, including their function, participants, timing, cadence, and rationale.

As with most research and writing around organizational development, it’s easy to dismiss any such list as obvious, and even trite. But understanding the items is far different than actually performing them. The latter can be challenging because of the personal discomfort they prompt.

For example, on the topic of building a cohesive leadership team, five behaviors are put forward as critical: building trust; mastering conflict; achieving commitment; embracing accountability; and focusing on results.

While the book, by design, favors anecdotes to quantitative evidence, the latter is brought forward in the tea-building chapter to make a strong point. Based on 12,000 responses to his online group effectiveness survey of teams, peer accountability—the focus of this review’s opening parable—is the hardest. Lencioni writes, “… a full 65% of teams scored ‘red’ on accountability—or lowest on [the] three-tiered rating scale of green-yellow-red. Other red scores for the remaining four behaviors include trust (40%), conflict (36%), commitment (22%), and results (27%).”

It may well be that the culture of accountability at the top of the house sets the tone for the wider organization. Analysis of McKinsey & Co.’s Organizational Health Index (OHI) conducting more than 1,800 organizational surveys with nearly 2 million responses shows that management practices that drive accountability, like role clarity and personal ownership—combine to predict 90% of the health score, which in turn has been linked to long-term total shareholder return (TRS). Considered together with Lencioni’s finding that 65% of teams have trouble with peer accountability, the business benefit of achieving that alone, as a reliable and repetitive way of working, may draw the senior leader’s interest as a hidden performance differentiator. (It is likely a necessary but insufficient condition for sustained health over the long term, though, because although perhaps less challenging, the other factors are important, too.)

When leaders struggle with confronting peers and direct reports on behavioral issues, the book notes, they rationalize it with their desire to be kind. “But an honest reassessment of motivation will allow them to admit that they are the ones who don’t want to feel bad and that failing to hold someone accountable is ultimately an act of selfishness.”

Resonant quotes like this suffuse the book. For example, on the topic of performance management systems, a well-documented source of pain in many organizations (and what senior leaders often admit are completely ineffective), “That’s why a one-page, customized performance review form that managers embrace and take seriously is always better than a seven-page, sophisticated one designed by an organizational psychologist from the National Institute for Human Transformation and Bureaucracy (there is no such thing).”

Quotes like this, and narrative descriptions that take the reader into the executive suite, make this a page-turner in a genre not renowned for easy reading. Every senior leader will benefit from what Lencioni calls “the Playbook” which is essentially a short document (a few pages) that codifies the otherwise “invisible” shared assumptions of the leadership team around the matter of why they exist at all, the methods by which they believe they will succeed, and the three priorities they commit to apply as criteria in any major decision. It is the hard discussions that create the document—not the document itself—that move teams to health. A checklist at the book’s end makes important considerations easy to review, depending on where the team is on its health journey.

Readers should be cautioned that leading exercises like the ones described in The Advantage is not for everyone. Serious group dynamics training and senior-level facilitation skills and experience are required to move smart, driven executives out of their comfort zones and achieve a constructive outcome. For example, a truth-telling exercise described in a chapter on trust building could go seriously awry in inexperienced hands. For another, the practitioner who is uncomfortable with pregnant pauses at critical points in a team conflict may squander real opportunities to get the team to a different (and better) place.

Finally, the book is packed with practical examples of principles applied with real teams. As such, it is nine parts recipe, but it is also one part credo. Practicality does not obviate a crystal-clear viewpoint about the activities’ rationale: “As more and more leaders come to the realization that the last frontier of competitive advantage will be the transformation of unhealthy organizations into healthy ones, there will be a shift in the mindset of executives away from more technical pursuits that can be delegated to others and toward the disciplines outlined in this book. Whether that takes place over the next five, 10, or 20 years, I don’t know. But it’s coming.

For the early adopters of organizational health, the advantages that they will reap will be amplified as they achieve even greater differentiation from their lagging competitors.”