WHAT SEPARATES ORGANIZATIONS THAT OUTPERFORM THEIR COMPETITORS OVER THE LONG RUN FROM THOSE THAT STRUGGLE TO MAINTAIN PERFORMANCE?

McKinsey believes the answer is “organizational health”—aligning the goals of managers and employees, executing and achieving those goals, and then continually learning and renewing to avoid getting stuck in the past. Healthy organizations “click” because leaders “run the place” in ways that are functional, integrated, and consistent.

UNFORTUNATELY, RELATIVELY FEW ORGANIZATIONS REACH A HIGH LEVEL OF ORGANIZATIONAL HEALTH

Traditionally, most focus on financial performance—hard metrics such as cash flow, productivity, and share price—to evaluate their overall success, and the individuals who work for them. Today, however, there is a growing body of knowledge suggesting that organizations should track and manage with equal rigor, the metrics around culture, values, and employee commitment. These are the metrics that help diagnose organizational health. These are the metrics that show whether an organization is aligned, able to execute, and invested in renewing itself over time—so it can learn from the past, and innovate for the future.

WHY DOES ORGANIZATIONAL HEALTH MATTER?

McKinsey has devoted a decade of research to help organizations measure, manage, and improve their health. It is one of the most extensive efforts ever undertaken in this area. Our data proves consistently that a healthy organization is much more likely than an unhealthy one to perform well on the traditional measurements of success. This correlation applies at an overall enterprise level, as well as across individual units. For example, the healthier refineries in an oil company have a much lower cost per unit than their less-healthy counterparts. Healthier hospitals within a system have far greater patient satisfaction rates than unhealthy ones. In service businesses such as insurance, healthier call centers are more efficient. Add it all up, and we have found that the healthiest “organizations in our database—i.e. those in the top quartile—enjoy a total return to shareholders three times higher than those in the bottom quartile.

HOW DO WE MEASURE HEALTH?

Our core tool to help organizations measure, manage, and improve their health is the Organizational Health Index (OHI)—a survey that relies on individual employees at all levels to provide feedback on two fronts:

• How the organization performs on nine business outcomes—direction, accountability, coordination and control, external orientation, leadership, innovation and learning, capabilities, motivation, and culture and climate
• How it applies 37 different management practices—the things that managers either do or do not spend time doing—that drive the nine outcomes.

We have conducted our OHI survey nearly 1,500 times, with 1.5 million respondents in 30 languages, across more than 800 companies. Equipped with this rich set of data, we provide client organizations with robust benchmarks that they can use to compare their own health strengths and weaknesses against peers, across the globe, in their own region, and in their industry. see Exhibit 2 on back...
WHAT DOES A HEALTHY ORGANIZATION LOOK LIKE?
Rather than trying to be great at everything, we have found that healthy organizations focus on specific management practices to improve their organizational health and performance. For example, to strengthen the “direction” business outcome, leaders and managers might focus on creating a shared vision, strategic clarity, and employee involvement. Looking at organizations as a whole, we have identified four main recipes for success (see Exhibit 3). These recipes represent different beliefs on how to create value, whether an organization wants to lead the market through industry shaping innovation like Apple, or outperform the competition through superior execution and continuous improvement like Wal-Mart.

HOW IS McKINSEY’S ORGANIZATIONAL HEALTH INDEX DIFFERENT?
Many survey tools help organizations assess individual elements of their health. OHI tells you as a leader how healthy your organization is overall, and what managers are doing, or not doing, to influence your health. Most importantly, the OHI output provides a tailored roadmap for what you can do to improve your organization’s health. We identify priorities that fit your organization and help you turn these into actions. As you improve your health, we help you monitor progress and course correct, integrating health and performance management. We create changes that are practical and lasting.

Exhibit 2 — The OHI benchmarking database includes 1.5 million respondents from over 1,500 studies in a variety of sectors and geographies

Exhibit 3 — The organizations we have surveyed are clustered in four clear patterns

Leadership Driven
Leaders are the performance catalyst; they set high expectations and help the organization achieve them.

Market Focus
Shaping market trends and building a portfolio of solid, innovative brands keeps us ahead of the competition.

Execution Edge
We leverage our people and know-how at all levels of the organization to outperform the competition through superior execution and continuous improvement.

Talent/Knowledge Core
Our collective talent and knowledge is our most important asset; our success depends on developing this effectively.

FOR MORE INFORMATION ABOUT USING OHI TO IMPROVE YOUR ORGANIZATION’S HEALTH, PLEASE REACH OUT TO US AT OHI@McKinsey.com