Introducing our team

Chris Gagnon
Head of OHI Solution
OHI Solution, a McKinsey Solution

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Global Head, Market Outreach
OHI Solution, a McKinsey Solution

OHI Solution team
22 Organizational Health Experts globally

McKinsey’s Organization Practice
More than 450 consultants globally

SOURCE: McKinsey’s OHI Solution
We have three core beliefs on Organizational Health

1. 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.

2. Organizations need to measure and manage health with the same rigor as performance to achieve and maintain a long-term sustainable competitive advantage.

3. There is more than one way for an organization to be healthy – leaders need to choose ‘how to manage the place’ and align their organization to achieve this goal.

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Healthy companies deliver three times higher shareholder returns over time

Company 9-year average TRS by health category, Percent

- Top quartile: 26%
- Middle quartiles: 16%
- Bottom quartile: 9%

This translates into a ~ USD 1.2 bn difference in value for the average-sized company in our dataset

1 n=272 companies

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI) Research
This relationship also holds at the site level

Performance ranked against the best in industry
USD per unit produced

R² = 0.54

High

Weak

Unit 2

Unit 1

Unit 3

Unit 4

Unit 5

Unit 6

Unit 7

Unit 8

Unit 9

Unit 10

Unit 11

Unit 12

Unit 13

Unit 14

Unit 15

Unit 16

Low

Strong

Health

SOURCE: Managing your organization by the evidence
Organizational health fluctuates, as leaders we need to measure and manage it over time - just like we do performance.

<table>
<thead>
<tr>
<th>Company Description</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>$70+ billion Asian oil and gas player</td>
<td>59</td>
<td>69</td>
<td>+10</td>
<td>69</td>
</tr>
<tr>
<td>Aluminum subsidiary of $50+ billion conglomerate</td>
<td>59</td>
<td>55</td>
<td>-4</td>
<td>55</td>
</tr>
<tr>
<td>Top 20 Oil and gas player with over $120 billion in revenues</td>
<td>69</td>
<td>64</td>
<td>-5</td>
<td>64</td>
</tr>
<tr>
<td>Retail division of European telecom giant</td>
<td>62</td>
<td>66</td>
<td>+4</td>
<td>66</td>
</tr>
</tbody>
</table>

1 OHI global database (1,330 surveys, n = 1,080,706)

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
## Organizations that measure and manage their health actively see a positive impact

<table>
<thead>
<tr>
<th>Context</th>
<th>OHI at energy client revealed bottom quartile health. Organization prioritized practices around Accountability, Capabilities, Motivation and Innovation &amp; Learning</th>
</tr>
</thead>
</table>
| Actions | Formed Centers of Excellence  
Involved high performers in continuous improvement team  
Implemented 360 degree feedback and capability building programs |
| Health management | Established rhythm of Pulse checks every ~6 months and OHI surveys ~12 months every to monitor health trajectory |
| Impact | Positive trajectory in OHI scores over 3 years |

### Global Benchmark

<table>
<thead>
<tr>
<th></th>
<th>Top quartile</th>
<th>3rd quartile</th>
<th>2nd quartile</th>
<th>Bottom quartile</th>
</tr>
</thead>
</table>

**SOURCE:** McKinsey Organization Practice; Organizational Health Index (OHI)
As with Olympic athletes, there is more than one way to be healthy.

Olympic athletes across different sports are equally healthy, but have unique strengths and training regimens.

Olympians excel in the sport that aligns with their own capabilities and aspirations.

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Our research found 4 patterns of management practices – or "archetypes" – among healthy organizations.

Most organizations manifest a dominant archetype, but few deliver on the optimal recipe of strengths.

Delivering on the winning recipe greatly increases health and therefore sustainable performance.

There is no one "best" archetype – these four minimize the ‘guessing game’ on culture and give you clear priorities to manage the business.

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI) Research
Four archetypes for organizational health that can minimize the “guessing game” on how you run the place.

- Leadership driven
- Market focus
- Execution edge
- Talent/knowledge core

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI) Research; Press releases
Poll: How much time does your leadership team spend on organizational health? (Pick one)

A  None

B  Some “it comes up a couple of times a year”

C  Quite a bit – “we talk about it quarterly”

D  Lots – “we actively measure & manage it”
Our objectives for today

- Discuss core beliefs on why organizational health matters
- Share our perspective on organizational health
- Walk through real life examples of Org Health in action
- Preview industry insights
- Questions
What you may be thinking at this point

"Health" sounds a bit "squishy" – what do you really mean?

This sounds great – but I can't manage what I can't measure!

Where do I even start? We have so many problems!

I think we're doing OK today – but how can we make even more progress?

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Leaders manage what they can measure and track

**Time to market**
- On-time delivery
- Right first time
- Days on hand
- CpK
- OEE
- Cycle time
- CAPA

**Performance metrics**

**Health metrics**

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
We measure organizational health via the Organizational Health Index (OHI) which has 4 components:

1. Health score: 72
2. Outcomes: 9
3. Management practices: 37
4. Archetypes: 4

SOURCE: Source
The OHI score provides a benchmark for overall health using a normative, predictive measure.

**Global Benchmark**

<table>
<thead>
<tr>
<th>OHI Score</th>
<th>Top quartile</th>
<th>3rd quartile</th>
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<tr>
<td>72</td>
<td></td>
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**Top quartile**

The best available predictor of an organization's future capacity to perform.

Companies with top quartile health deliver on average 3x greater TRS, over time.

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Nine critical organizational outcomes measure degree of internal alignment, quality of execution and capacity for renewal

**Internal alignment**
The organization has a compelling vision and well-articulated strategy, which is supported by its culture and values

**Quality of execution**
The organization demonstrates executional excellence against its strategy and in delivering its services

**Capacity for renewal**
The organization effectively understands, interacts, responds, and adapts to its situation as well as external environment

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Management practices assess the frequency with which management/leaders perform certain activities to drive health.

### Accountability
- **Role clarity**: 67
- **Performance contracts**: 58
- **Consequence management**: 38
- **Personal ownership**: 28

### Direction
- **Strategic clarity**: 4
- **Employee involvement**: 49

### Coordination and Control
- **People performance review**: 65
- **Operational mgmt.**: 55
- **Financial mgmt.**: 59
- **Professional standards**: 62
- **Risk management**: 58

### External Orientation
- **Customer focus**: 69
- **Competitive Insights**: 60
- **Business partnerships**: 57
- **Gov. & community relations**: 57

### Leadership
- **Authoritative leadership**: 57
- **Consultative leadership**: 60
- **Supportive leadership**: 63
- **Challenging leadership**: 66

### Innovation and Learning
- **Top-down innovation**: 67
- **Bottom-up innovation**: 47
- **Knowledge sharing**: 45
- **Capturing external ideas**: 45

### Capabilities
- **Talent acquisition**: 78
- **Talent development**: 41
- **Process based capabilities**: 47
- **Out-sourced expertise**: 57

### Culture and Climate
- **Open and trusting**: 65
- **Internally competitive**: 39
- **Operationally disciplined**: 73
- **Creative & entrepreneurial**: 49

### Motivation
- **Meaningful values**: 51
- **Inspirational leaders**: 62
- **Career opportunities**: 58
- **Financial incentives**: 41
- **Rewards & recognition**: 56

**SOURCE:** McKinsey Organization Practice; Organizational Health Index (OHI)
Management practices provide deep insight and action orientation

**Personal ownership**

ACME recognizes performance results that exceed an employee’s personal obligation to the company

- At ACME managers create a sense of ownership or belonging to the company
- At ACME managers promote a sense of personal ownership to deliver beyond the formal role (i.e., ‘do the right thing’)
- At ACME managers drive accountability by creating a sense of individual ownership and personal responsibility

**SOURCE:** McKinsey Organization Practice; Organizational Health Index (OHI)
Organizations don’t need to be good at all 37 practices - Leaders can select the recipe that enables them to drive health in a way that reflects their core beliefs about value creation.

<table>
<thead>
<tr>
<th>LEADERSHIP DRIVEN</th>
<th>MARKET FOCUS</th>
<th>EXECUTION EDGE</th>
<th>TALENT/KNOWLEDGE CORE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaders are the performance catalyst; they set high expectations and help the organization achieve them</td>
<td>Shaping market trends and building a portfolio of solid, innovative brands keeps us ahead of the competition</td>
<td>Discipline, sound execution, and continuous improvement are the foundations of great performance</td>
<td>Our collective talent and knowledge is our most important asset; our success depends on developing this effectively</td>
</tr>
</tbody>
</table>

1. Career opportunities  
   Customer focus  
   Knowledge sharing  
   Rewards & recognition  

2. Inspirational leaders  
   Competitive insights  
   Employee involvement  
   Talent acquisition  

3. Open and trusting  
   Business partnerships  
   Creative & entrepreneurial  
   Financial incentives  

4. Financial Incentives  
   Financial management  
   Bottom-up innovation  
   Career opportunities  

5. Risk management  
   Govt & community relations  
   Talent development  
   Personal ownership  

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI) Research
Poll: Which of the four archetypes seems most appropriate for your organization? (choose one)

Leadership driven

Market focus

Execution edge

Talent/ knowledge core

A  B  C  D

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Digging into the Execution Edge recipe

Learning organizations where frontline employees are continuously striving to improve the way work is executed every day.

A continuous improvement engine that constantly increases quality and productivity.

An organization where employees are constantly eliminating waste and inefficiency as well as improving overall performance.

A place where employees are highly involved in sharing knowledge with each other and receive many different forms of training, from simulations to on-the-job coaching.

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
Moving to action is a two-step process - align on the best-fit archetype and identify priority practices to close the gap

Select best-fit archetype

1. Competitive strategy
2. Industry context
3. Current archetype alignment
4. Leadership preference

Define a signature combination of priority practices based on comparison of current state to the ideal recipe

FIX
Capturing external ideas
Customer focus
Outsourced expertise

STRENGTHEN
Talent development
Employee involvement
Knowledge sharing

DE-EMPHASIZE
Authoritative leadership
Operationally disciplined
Financial management

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI)
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OHI in Claims Organizations

Situation and themes

Situation
- In the last 12 months, OHI has been implemented in 8 of the 15 largest US P&C carriers
- ~21,000 claims individuals have completed the survey (ranging from the CCO to the frontline adjuster)

Example Themes
- Weak innovation & continuous improvement capability, practices and mindsets
- Significant disconnects on health perception from senior team down to the frontline
- Overuse of authoritative leadership, performance contracts, professional standards and people performance reviews
- Lagging talent and leadership development programs (and focus)

Insights
- Quantified the relationship between performance and health across branches or units
- Unique benchmarks of “claims” only companies showed severity of scores, table-stakes areas and differentiators

Actions

Depending on the OHI results, claims organizations are working on unique things including:

Redefine and redesign the Frontline Manager role
- For key pivotal role in Claims organization, develop ‘gold standard’ Frontline Manager role and improve capabilities to distinctive performance levels

Improve talent acquisition and acceleration
- Focus on developing career opportunities for high potential employees while also acquiring top level external talent

Build an innovation and continuous improvement engine
- Develop initiatives to enhance knowledge sharing, foster bottom-up innovation, while building an open, trusting, entrepreneurial environment

SOURCE: Sanitized Client Examples
OHI deployed at power utility to measure and manage health over the long-term

**CONTEXT:**
- After a large environmental pollution incident, an independent inquiry named cultural health deficits as the major root causes.
  - Needed to understand cultural health deficits to address challenges and help turnaround the business

**INSIGHT:**
- The client was fundamentally unhealthy; their OHI scores were very low relative to our database
- 8 of the 9 Outcomes were below average
- Accountability, Coordination & Control, Motivation and External Orientation had multiple bottom quartile practices suggesting they could be key areas for improvement
- Many practices that should be present in an “execution edge” environment were completely absent

**ACTION:**
- Priority management practices were targeted based upon the Execution Edge archetype
- Aligned the client’s performance aspirations, strategic initiatives, and priority management practices
- Routine pulse surveys were deployed to measure progress on priority practices
- Added health targets to executive scorecards and linked health scores to compensation

**PERFORMANCE RESULTS**
- Identified ~$1+ billion in costs savings across the organization
- OHI score increased from near bottom quartile to 2nd quartile

**HEALTH RESULTS**
- OHI score increased from near bottom quartile to 2nd quartile

**SOURCE:** Sanitized Client Example
Our objectives for today

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Organizational health as a lever to overcome change fatigue in the pharmaceutical industry
Pharma industry average (n = 17,286)

- The pharmaceutical industry is going through a continued period of transformation
- The industry has been slow to transform and is now experiencing change fatigue. Impact on org health includes
  - Declining clarity of direction
  - Overemphasis on performance management
- Healthy pharmaceuticals that have invested in their organizational health have shown more resilience in light of these challenges
  - Remaining outwardly focused - not losing sight of the customer
  - Investing in renewal - learning from others and empowering employees

SOURCE: McKinsey Organization Practice; Organizational Health Index (OHI) Pharma Industry Research
Despite major challenges in the industry, **overall health in banking is generally strong**

However, the industry displays **early indications of a reduced capacity for renewal with weak**
- external orientation (customers, business partners, government & community)
- innovation (primarily led from the top)
- motivation, despite use of financial incentives and rewards

**Industry winners appear best equipped for future change**, investing in **continuous improvement** and engaging and empowering employees.
What to do tomorrow?

Discuss
your current level of organizational health
with your leadership team

Identify
your top 3 most important health concerns
given your performance goals

Assess
whether "health management" is the right
answer for your organization