

A BETTER MEASURE



ORGANIZATIONAL
HEALTH
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This material was used for a webinar session.



ORGANIZATIONAL
HEALTH
INDEX

McKinsey Solutions



Introducing our team



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Head of OHI Solution
OHI Solution, a McKinsey Solution



Carla Arellano

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

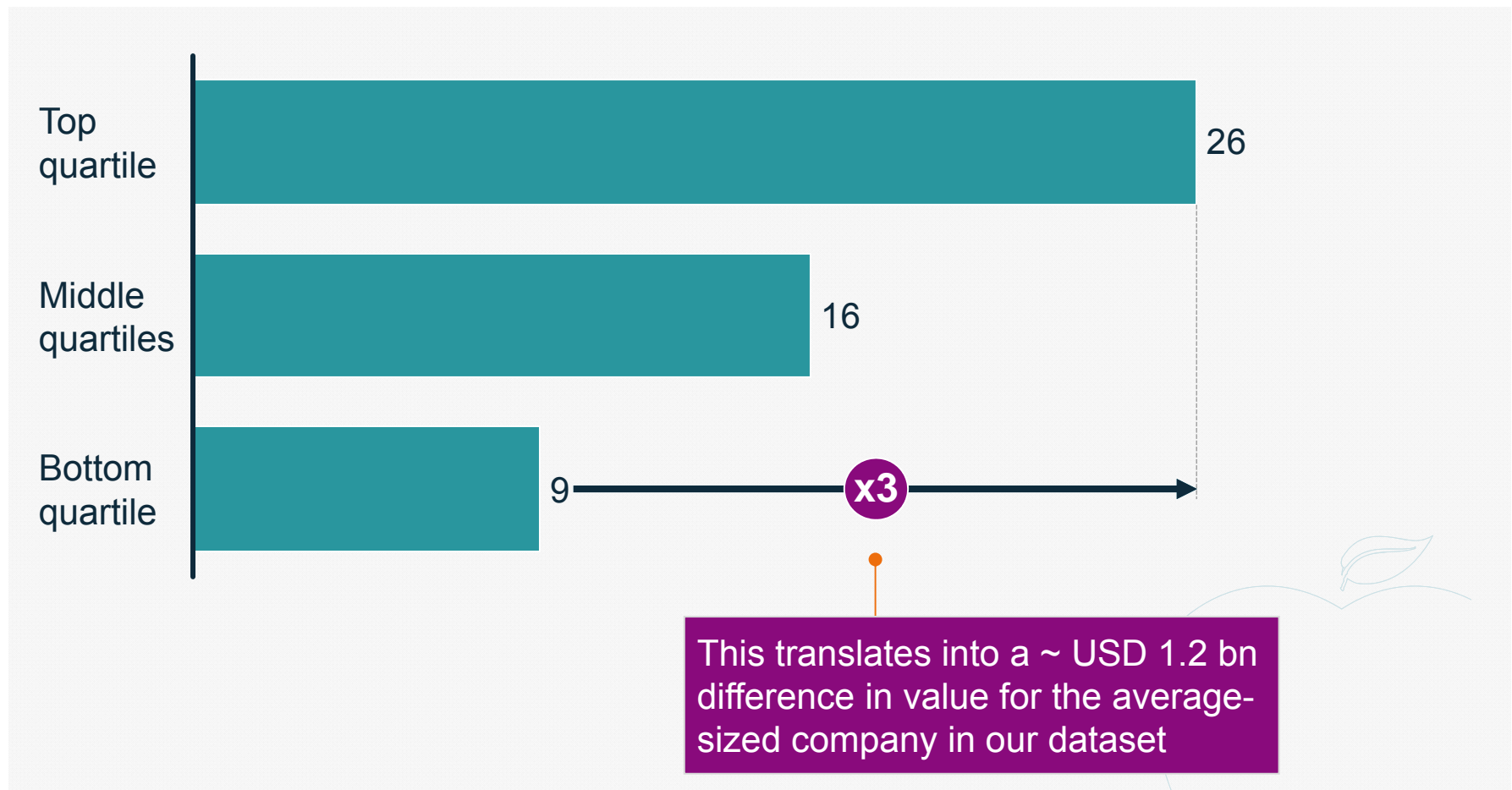
We have three core beliefs on Organizational Health



- 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

1 Healthy companies deliver three times higher shareholder returns over time

Company 9-year average TRS by health category¹, Percent



¹ n=272 companies

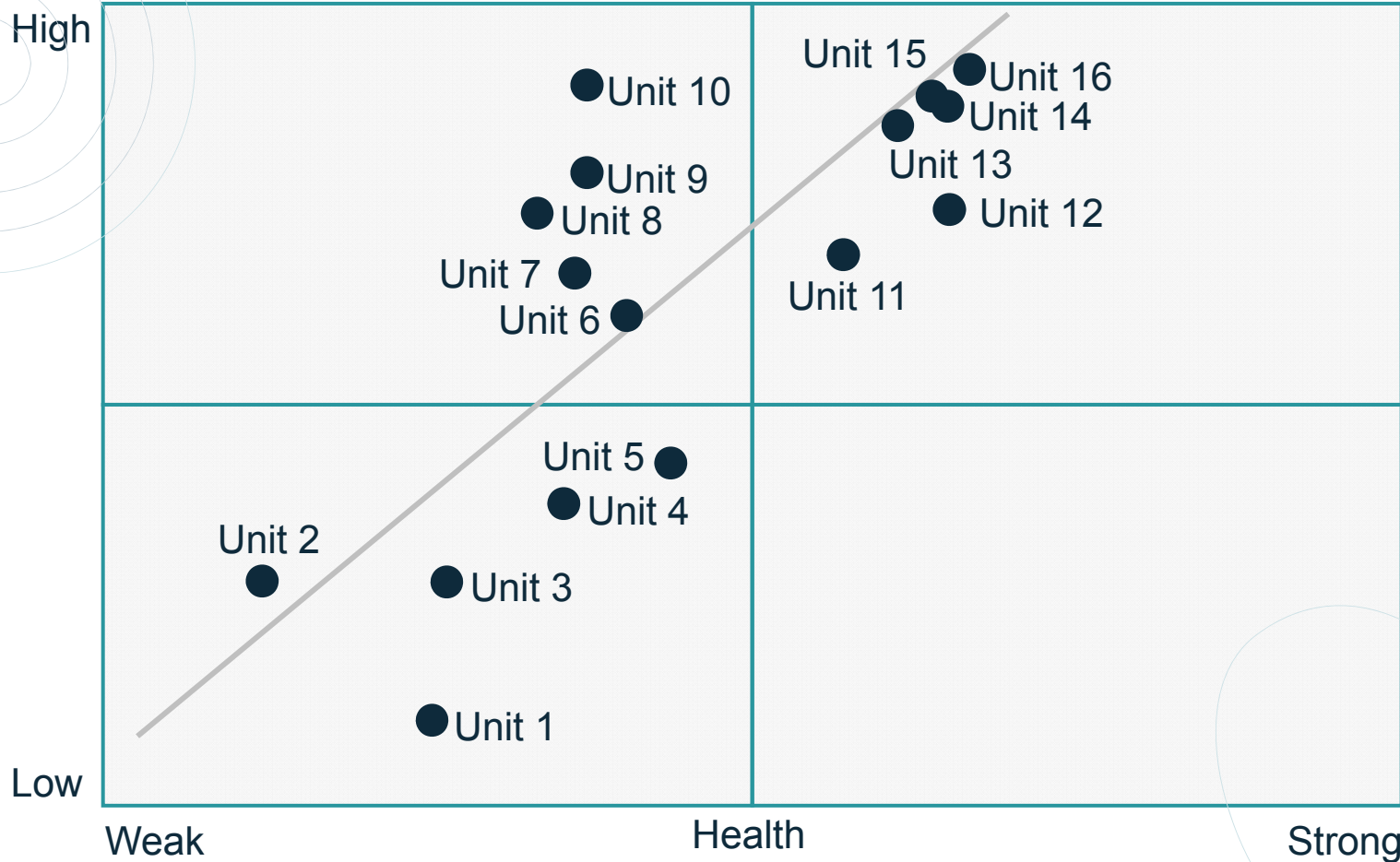


1 This relationship also holds at the site level

OIL REFINERY EXAMPLE

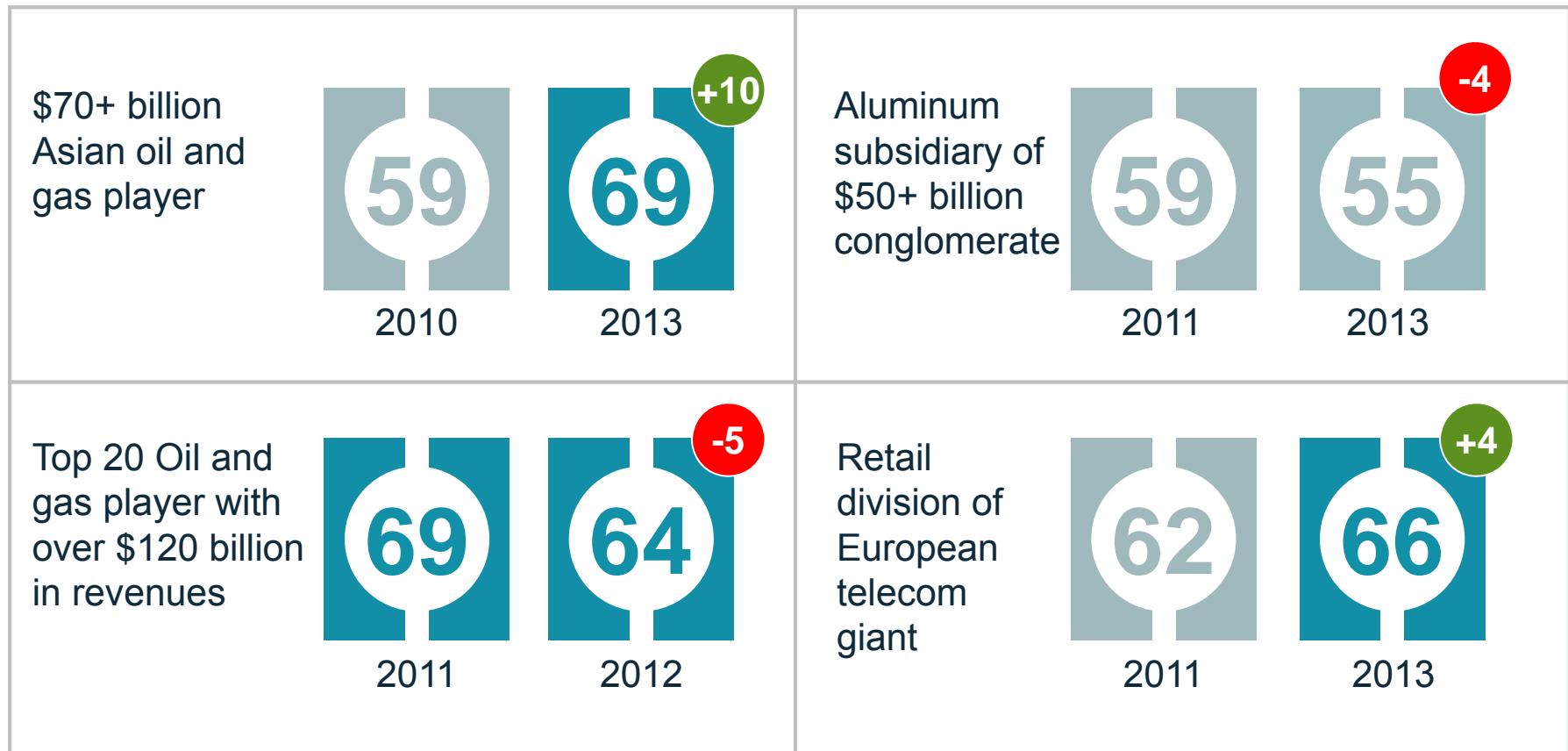
Performance ranked against the best in industry
USD per unit produced

$R^2 = 0.54$



2 Organizational health fluctuates, as leaders we need to measure and manage it over time - just like we do performance

Global Benchmark¹



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

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



2 Organizations that measure and manage their health actively see a positive impact

Global Benchmark



Context

OHI at energy client revealed bottom quartile health. Organization prioritized practices around Accountability, Capabilities, Motivation and Innovation & Learning

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



3 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

3 Our research found 4 patterns of management practices – or "archetypes" – among healthy organizations

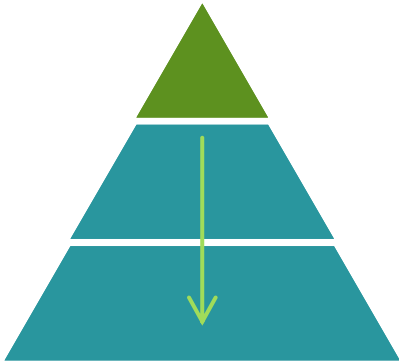
Most organizations manifest a dominant archetype, but few deliver on the optimal recipe of strengths

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

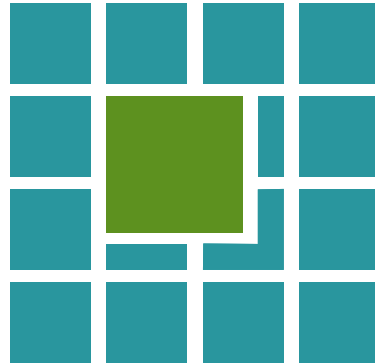
There is no one "best" archetype – these four minimize the 'guessing game' on culture and give you clear priorities to manage the business



3 Four archetypes for organizational health that can minimize the “guessing game” on how you run the place



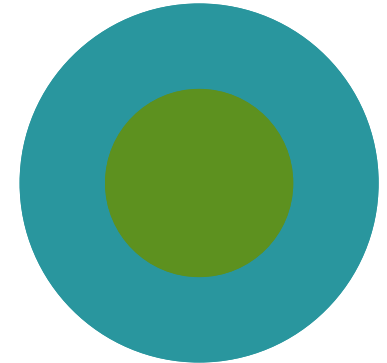
Leadership
driven



Market
focus



Execution
edge



Talent/
knowledge
core

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



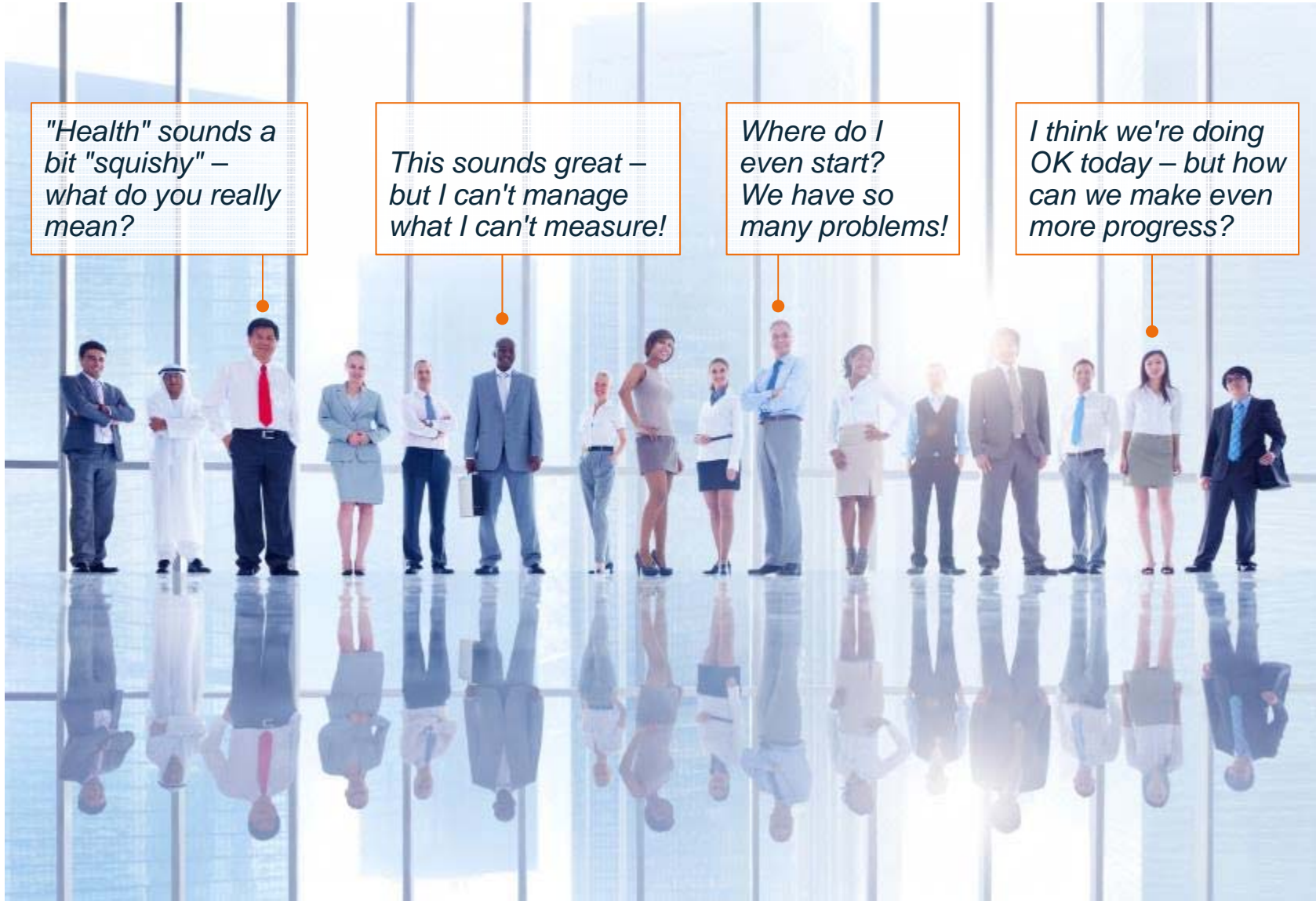
What you may be thinking at this point

"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?



Leaders manage what they can measure and track



Performance metrics



Health metrics

We measure organizational health via the Organizational Health Index (OHI) which has 4 components

1 Health score

72

9 Outcomes



37 Management practices



4 Archetypes

ARCHETYPE A: LEADERSHIP DRIVEN	ARCHETYPE B: MARKET FOCUS	ARCHETYPE C: EXECUTION EDGE	ARCHETYPE D: TALENT & KNOWLEDGE CORE
Leaders are the performance catalyst; they set high expectations and help the organization achieve them.	Shaping market trends and building a portfolio of solid, innovative brands keeps us ahead of the competition.	Discipline, sound execution, and continuous improvement are the foundations of great performance.	Our collective talent and knowledge is our most important asset; our success depends on developing it effectively.
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
6 Consequence management	Capturing external ideas	Internally competitive	People performance review
7 People performance review	Strategic clarity	Personal ownership	Consequence management
8 Strategic clarity	Process based capabilities	Consequence management	Process based capabilities
9 Operationally disciplined	Shared vision	Capturing external ideas	Top-down innovation
10 Financial management	Operationally disciplined	Meaningful values	Knowledge sharing



The OHI score provides a benchmark for overall health using a normative, predictive measure

Global Benchmark

■ Top quartile	■ 3rd quartile
■ 2nd quartile	■ Bottom quartile

OHI SCORE



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



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

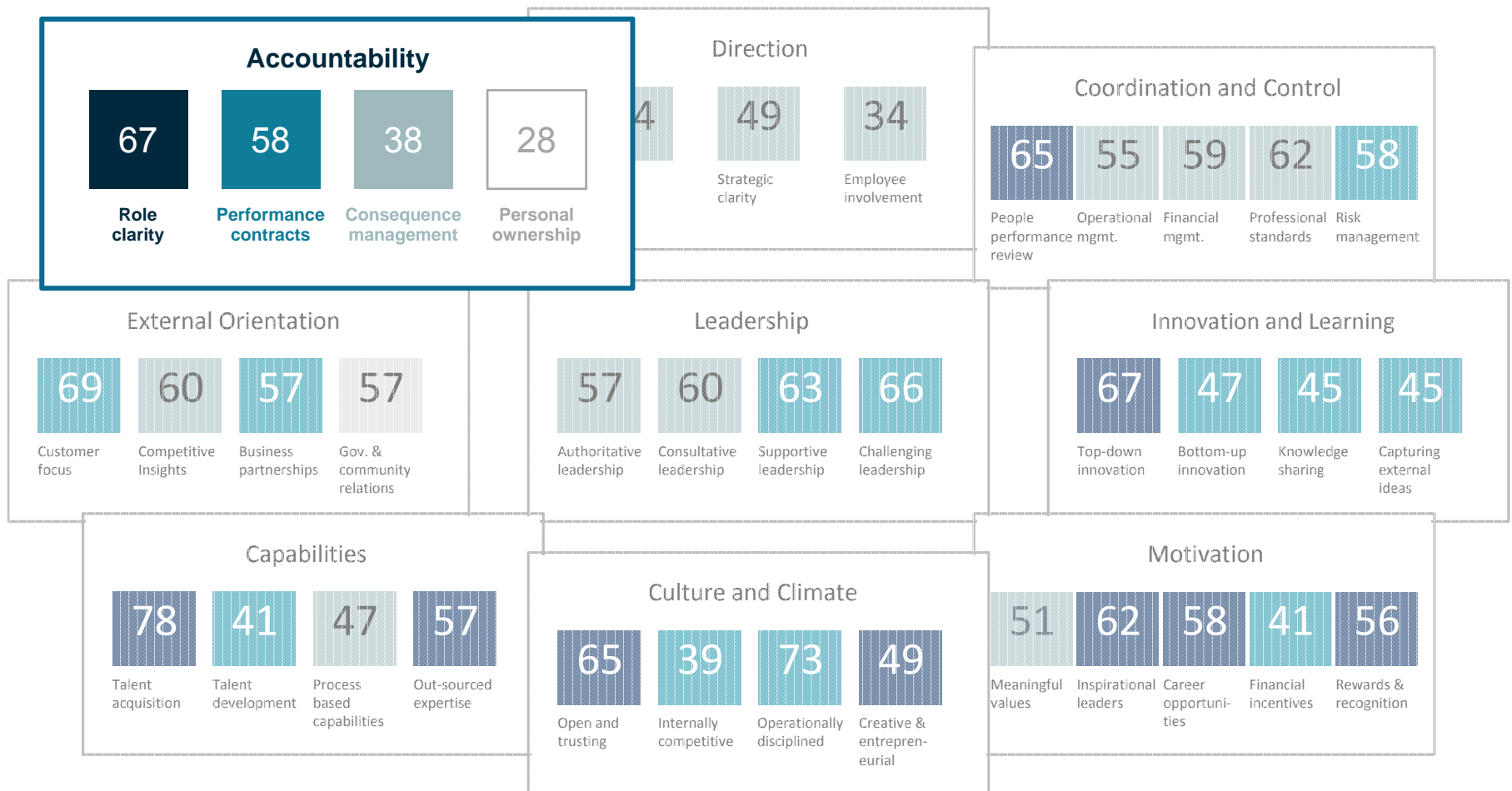
Quality of execution

The organization demonstrates executional excellence against its strategy and in delivering its services

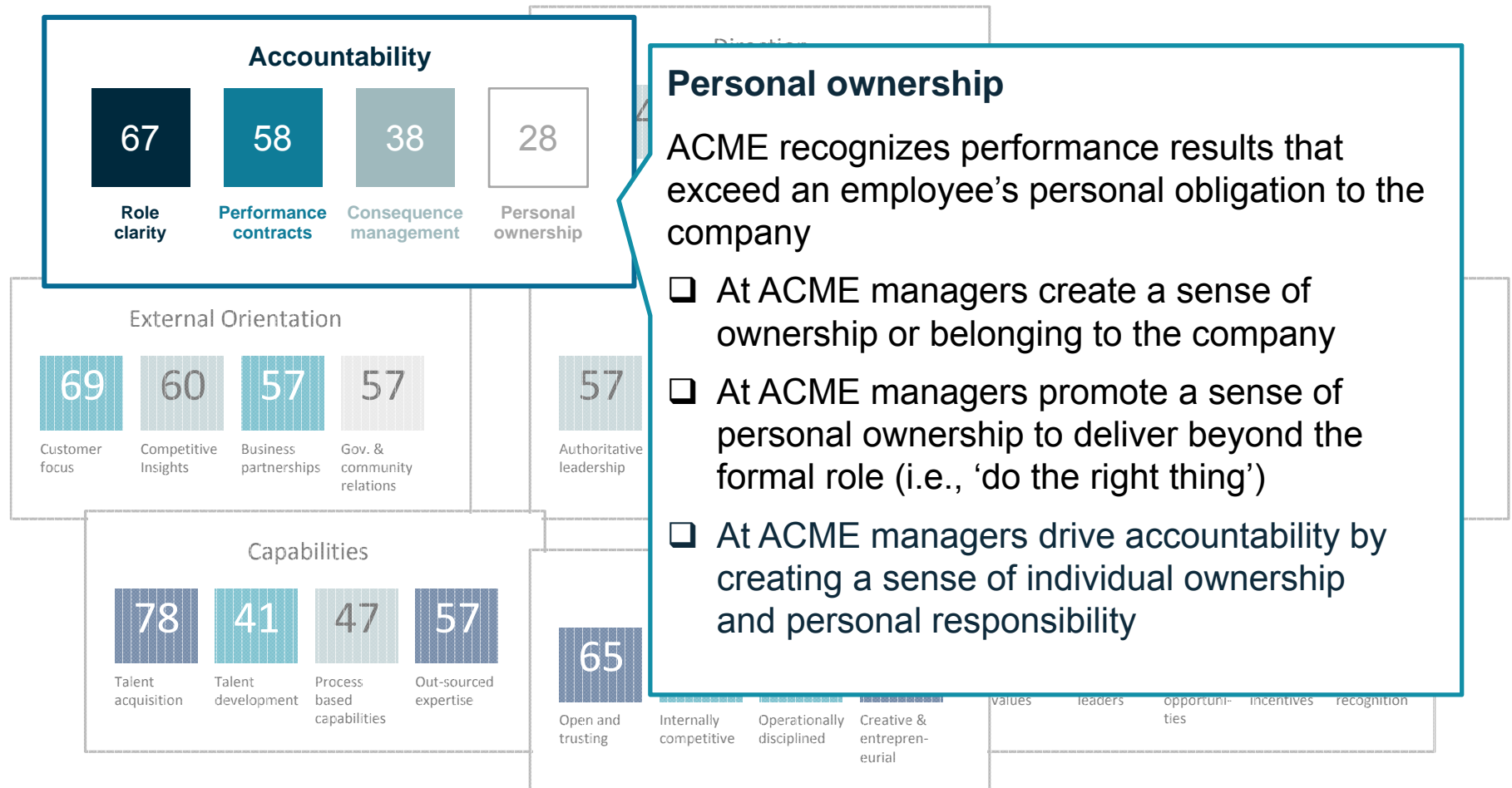
Capacity for renewal

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

Management practices assess the frequency with which management/leaders perform certain activities to drive health



Management practices provide deep insight and action orientation

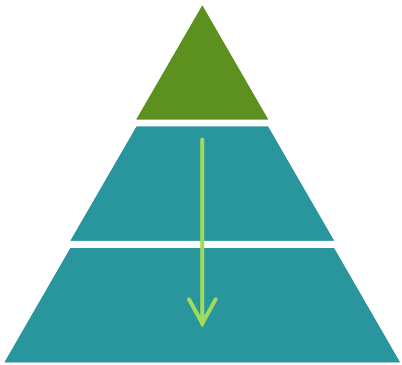


Organizations don't need to be good at all 37 practices - Leaders can select the recipe that enables them to drive health in a way that reflects their core beliefs about value creation

	 LEADERSHIP DRIVEN	 MARKET FOCUS	 EXECUTION EDGE	 TALENT/ KNOWLEDGE CORE
	Leaders are the performance catalyst; they set high expectations and help the organization achieve them	Shaping market trends and building a portfolio of solid, innovative brands keeps us ahead of the competition	Discipline, sound execution, and continuous improvement are the foundations of great performance	Our collective talent and knowledge is our most important asset; our success depends on developing this effectively
1	Career opportunities	Customer focus	Knowledge sharing	Rewards & recognition
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⋮				

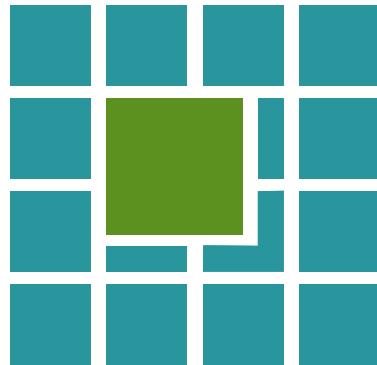


Poll: Which of the four archetypes seems most appropriate for your organization? (choose one)



Leadership
driven

A



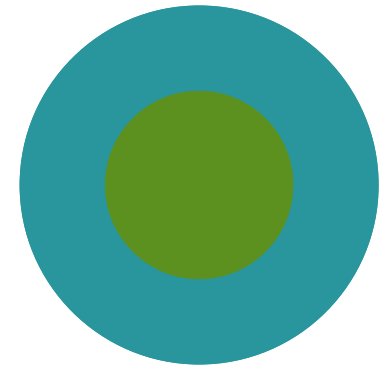
Market
focus

B



Execution
edge

C



Talent/
knowledge
core

D

Digging into the Execution Edge recipe



Execution edge



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

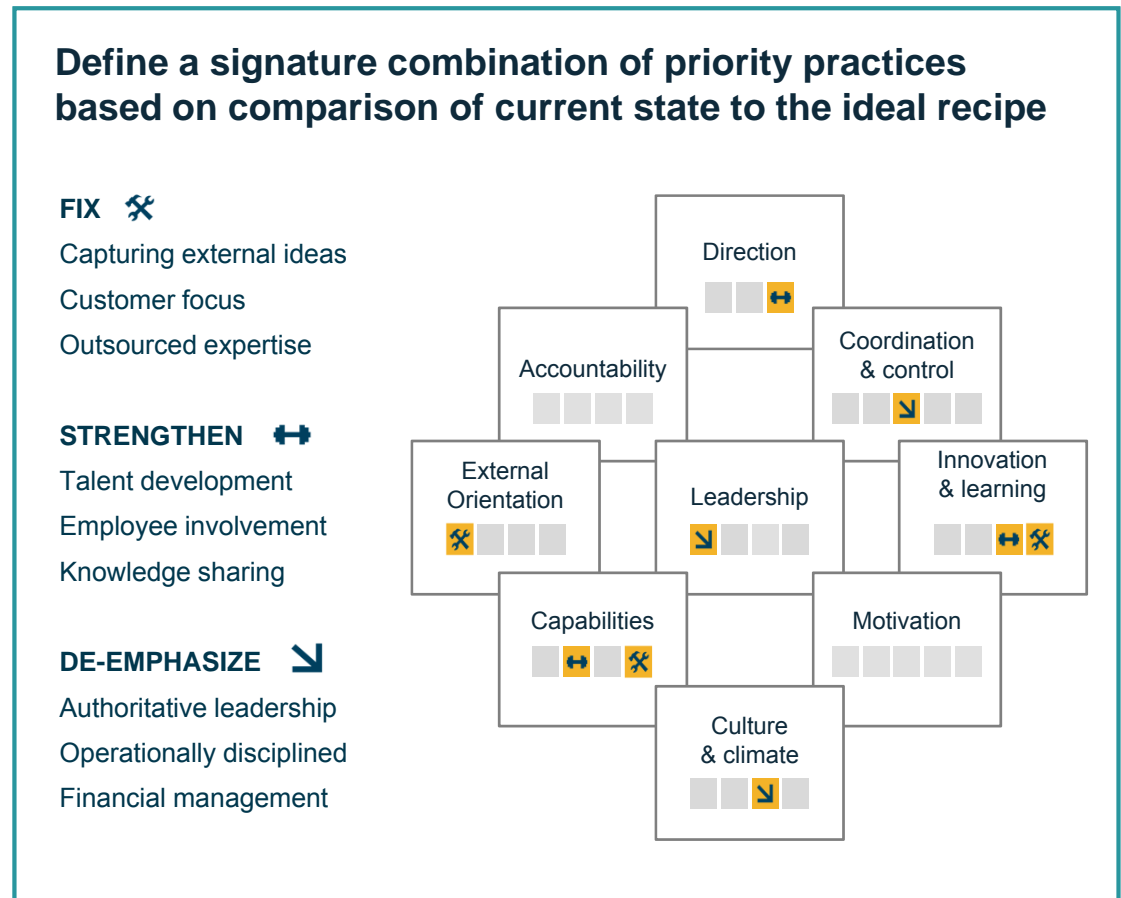
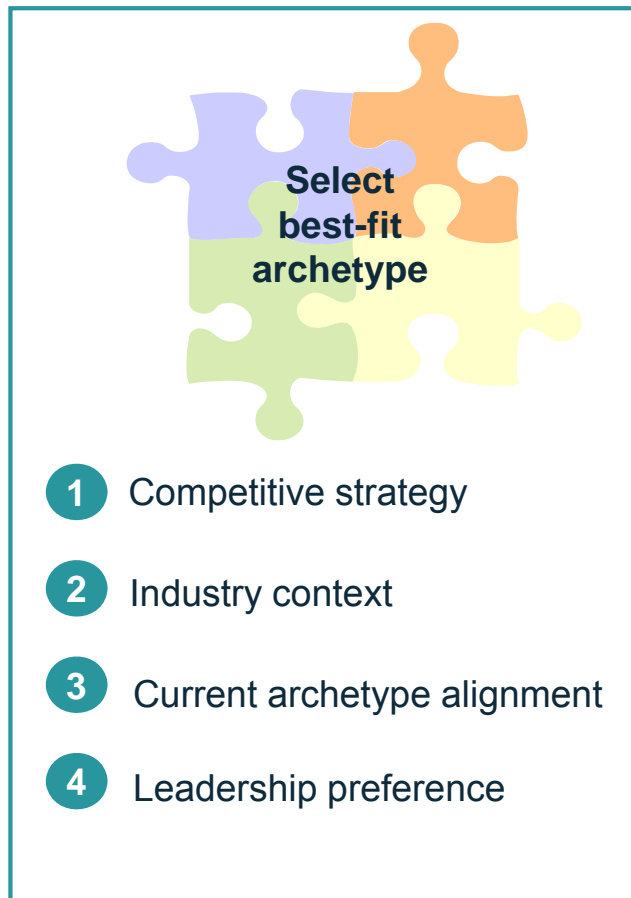


An organization **where employees are constantly eliminating waste and inefficiency** as well as improving overall performance



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

Moving to action is a two-step process - align on the best-fit archetype and identify priority practices to close the gap



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OHI in Claims Organizations

Situation and themes

Situation

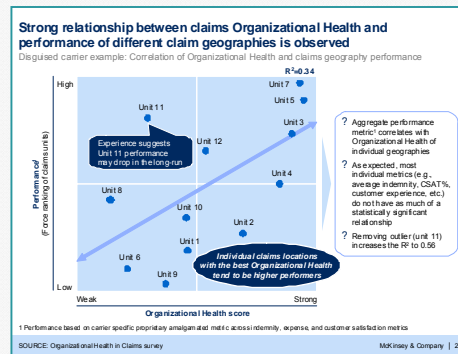
- In the last 12 months, OHI has been implemented in 8 of the 15 largest US P&C carriers
- ~21,000 claims individuals have completed the survey (ranging from the CCO to the frontline adjuster)

Example Themes

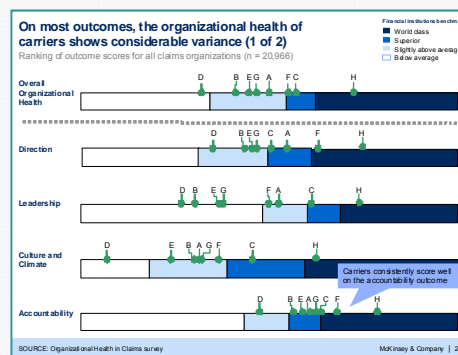
- Weak innovation & continuous improvement capability, practices and mindsets
- Significant disconnects on health perception from senior team down to the frontline
- Overuse of authoritative leadership, performance contracts, professional standards and people performance reviews
- Lagging talent and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



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

HEALTH RESULTS

- OHI score increased from near bottom quartile to 2nd quartile

PERFORMANCE RESULTS

- Identified ~\$1+ billion in costs savings across the organization



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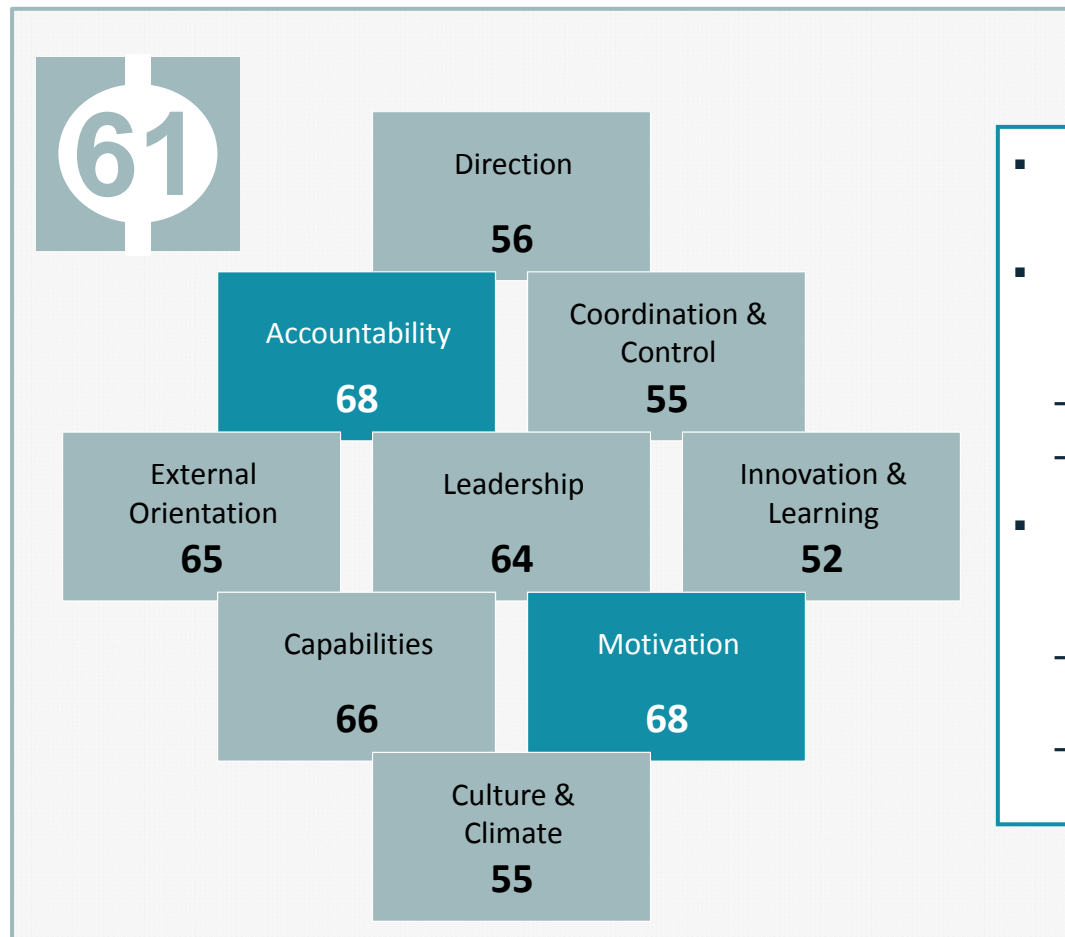


Organizational health as a lever to overcome change fatigue in the pharmaceutical industry

Pharma industry average

(n = 17,286)

Global Benchmark



- 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



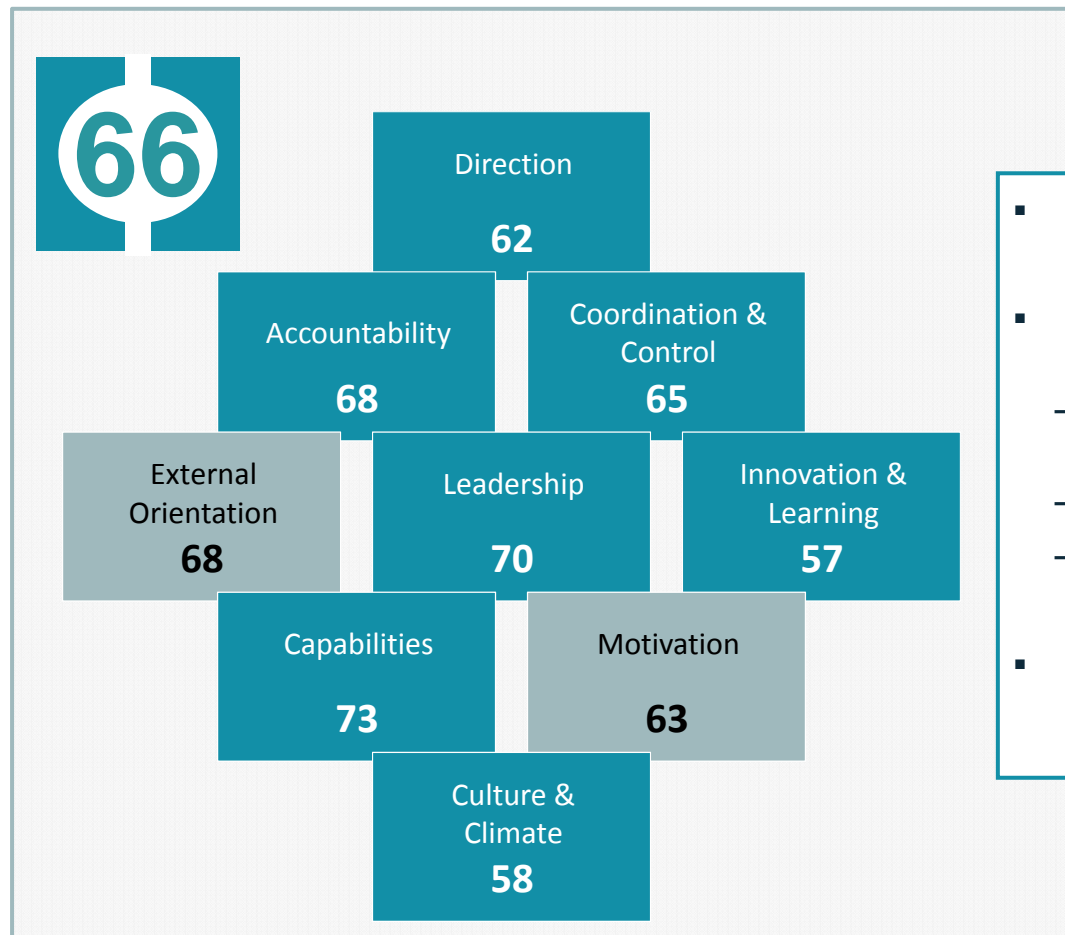
Organizational health in banking

Global Benchmark



Banking industry average

(n = 169,918)



- 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



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