



## STRONG ORGANISATIONAL HEALTH IS A COMPETITIVE ADVANTAGE

### Dimensions of Organisational Health

1. Direction. Does your strategy inspire and engage your people?
2. Leadership. Do you show sensitivity to personal needs as well as creating a stimulating and challenging work place?
3. Culture and climate. Do you sustain a high performance culture underpinned by mutual trust?
4. Accountability. Are people clear on what they need to do and how they contribute to the organisation?
5. Coordination and controls. Do you have well-defined goals that align efforts, foster collaboration and make it clear how things are progressing?
6. Capabilities. Do you have the organisational capabilities required to execute your strategy and deliver distinctiveness to your offering?
7. Motivation. Are your people engaged in a way that unleashes extraordinary effort?
8. External orientation. Is the focus of organisational energy on creating value for your customers?
9. Innovation and learning. Are you able to capture the ideas within the business and leverage these into opportunities that create new value?

#### *A quick reflection*

Take just a moment to think about any regular physical exercise you do. It might be that 2km run? Perhaps it's laps in the pool? What about a morning walk to the train station or from the parking garage to the office?

How you perform is one way of thinking about the exercise. You possibly even have goals that you use to measure your progress? The number of laps. The time it takes to complete a set routine. Even how many days a week you do the exercise.

Performance is probably the most common way we think about exercise. However, the quality of our exercise is closely related to elements of our health. For example, how well do you execute that physical activity when you have the flu? What about when you've had a few nights of interrupted sleep? And what impact does a couple of weeks of unbalanced or junk-food meals have on your energy levels and performance?

All too often we think about our health only when it deteriorates and impacts on our performance. Usually though, it's as if it's just on auto-pilot. Yet, our health state almost always determines our physical performance. That's why athletes looking for peak performance also focus on elements such as eating a balanced diet, getting enough sleep and engaging in a carefully planned exercise schedule.

#### *Performance is king, but what role for 'health'?*

So, what does all this have to do with organisational performance and competitive advantage? As it turns out, quite a lot. Chances are you're already making the connections! Companies whose 'organisational health' is in the top quartile are more likely to deliver stronger results on traditional performance measures than less healthy companies.

For example, top quartile companies are 2.2 times more likely than those in the lower-quartile to have an above median EBITDA margin. They are 2 times more likely to have above median growth in enterprise value-book value. And they're 1.5 times more likely to achieve above median growth in net income to sales. No points for correctly guessing on which side of that ledger you would prefer to fall.

Researchers interested in testing the hypothesis that health *and* performance make a substantial difference to business outcomes conducted a two year study. Their sample included businesses from different sectors. Essentially, they 'matched' pairs of businesses looking to improve performance. The control group received standard performance-focused support. In contrast, the experimental group received extra support aimed at improving dimensions of organisational health. The results are well worth our attention.

#### *Health focus doubles performance*

In a business bank, the traditional performance focus intervention led to an 8% rise in profits per banker. But a focus on performance *and* health yielded a 19% increase in profits. In a retail bank, profits increased 7% with a performance focus and 12% with a dual focused intervention.

Tonnage increase in a coal mine went from 15% when the focus was performance alone to 25% when organisational health was also addressed. A retailer lifted its sales-labour ratio by 51% with a dual focus. The other in the pair achieved only a 34% lift with the traditional performance focus.

Finally, one call centre saw a 65% reduction in customer churn when it focused on health and performance compared with only a 35% reduction in another where performance was the sole focus.

The average trend is clear – in many instances, focusing on organisational performance and health returned almost double or more than attending to performance alone. Organisational health has a significant impact on performance and is they key also to sustained performance in the longer term.

#### *Solid data for some big claims*

You'll know that an evidence-based approach is a cornerstone of UGM's work. So like us, you may be wondering what evidence these researchers have for their pretty astonishing claims?

As McKinsey consultants, authors Scott Keller and Colin Price accessed a decade's worth of research, including over 600,000 survey responses covering 500 large organisations. Add to that a huge body of data insights from surveys of 6,800 executives working with organisational transformation. Then, include reviews of 900 research articles and books on related topics and 30 one-on-one interviews with CEOs and senior execs involved in leading change and driving performance. They share their findings in their recent book, aptly titled, 'Beyond Performance: How great organisations build ultimate competitive advantage'.

#### *Just what is 'organisational health'?*

Organisational health is not simply the current engagement score! Keller and Price suggest that it consists of three key elements: 1. ability to align efforts, 2. execution capability, and 3. capacity for renewal. We've included the 9 components of organisational health in the side-bar.

#### *Ultimate competitive advantage on the table?*

Hopefully you're reflecting on your organisation and your own area of accountability. Can simultaneous focus on performance and organisational health deliver you ultimate competitive advantage?