BEYOND PERFORMANCE 2.0

A PROVEN APPROACH TO LEADING LARGE-SCALE CHANGE

SCOTT KELLER | BILL SCHANINGER

WILEY

Praise for *Beyond Performance 2.0*

"*Beyond Performance 2.0* is the change management manifesto for the modern-day organization. Keller and Schaninger pair evidence-based support, case studies, and insights into human behavior with a clear roadmap to creating sustainable change in any company. This is a must-read for CEOs and any leader that aspires to be a catalyst for change in their organization."

—Alain Bejjani, Chief Executive Officer,
Majid Al Futtaim Holding

"Even if you have great momentum, you can't stay ahead without acceleration. This is where Keller and Schaninger's *Beyond Performance 2.0* comes in—it combines left-brained and right-brained approaches to provide a reliable methodology for accelerating the delivery of results at scale. This isn't just a play book, it's a game changer."

—Greg Case, CEO, Aon

"At a time where management books are plentiful yet largely vacuous, *Beyond Performance 2.0* truly stands out from the pack. Keller and Schaninger have created a user-friendly roadmap to organizational change that is evidence based, profoundly insightful, and practical. I have learned so many of these lessons the hard way! You don't have to, because it is all here."

—Hussain Dawood, Chairman, Engro Corporation

"A must-read for senior leaders. Even the most skeptical will be won over by the pragmatic, data and research driven approach to improving performance by also giving equal weight to improving organizational health. From my experience, the application of the Five Frames methodology described in this book will give your organization a tailor-made prescription for executing successful large-scale change."

—Lynn Elsenhans, former CEO, Sunoco

"Scott and Bill's new book provides the framework and proof that investing in and integrating the people, processes, and cultural elements of organizational transformation are essential to achieve enduring and inspiring impact."

—Michael Fisher, CEO, Cincinnati Children's
Hospital Medical Center

"In our experience, the approach described in *Beyond Performance 2.0* is the best one to follow if you want to thrive as a business and as an agent of change for your people and the community around you"

—Carlos Labarthe, Chairman, former CEO,
and Co-founder, Gentera

"Keller and Schaninger offer leaders a clear, effective framework for optimizing organizational performance and health. This work of "where do we want to go" to "how do we continue to improve" is never finished. But the journey is made easier with this insightful guide."

—Satya Nadella, CEO, Microsoft

"The approach and methods of *Beyond Performance 2.0* apply well beyond the business world. Leaders of any large or growing organization will benefit from this thoroughly researched update, and its clear and direct lessons will have near-immediate impact. Scott Keller and Bill Schaninger have crafted a powerful guidebook that ought to be read and implemented on a grand scale. It is for the bold, engaged and tenacious leader, and for those who aspire to be one."

—Admiral Eric Olson, 8th Commander,
U.S. Special Operations Command (Retired)

"In *Beyond Performance 2.0*, Keller and Schaninger combine rigorous data analysis and their own extensive experience to provide a step-by-step method for creating major change in any organization. If you're hoping to build a workplace that can nimbly adapt to changing times, this is the ultimate how-to guide."

—Daniel H. Pink, author of *When*, *To Sell Is Human*, and *Drive*

"Many companies fail to truly change, even when it's essential both to survive and thrive. Keller and Schaninger treat the culture topic with same degree of rigor and discipline as strategic and operational elements. My view: if you're looking for radical change, to make bold moves, and to mobilize leadership and the entire workforce in doing so, *Beyond Performance 2.0* is a must-read."

—Frans van Houten, CEO, Philips

"Both organizational health AND performance need to be measured and managed rigorously. In the VUCA world, enterprises need the continuous reshaping of both business portfolio AND organization transformation. *Beyond Performance 2.0* provides inspiring insights and practical guidance to make it happen!"

—Liang Yu, Chairman, China Vanke

Beyond Performance 2.0

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A Proven Approach to Leading Large-Scale Change

SCOTT KELLER
BILL SCHANINGER

WILEY

Contents

Foreword

In my 35 years of observing top companies, CEOs, and boards, there's one challenge that I've seen consistently vex leaders: how to make large-scale change happen successfully and sustainably. In far too many cases, what started with bold aspirations ended up delivering little in terms of results. This mattered less in a time when industry structures, physical assets, and privileged relationships enabled leaders to win by being good at "running the company." In today's volatile, fast-paced, and ever-increasingly competitive marketplace, however, few if any leaders will succeed unless they also know how to "change the company."

In *Beyond Performance 2.0: A Proven Approach to Leading Large-Scale Change*, Scott Keller and Bill Schaninger tackle that critical challenge head-on—and do so with great energy and deep insight. I look for three things, in particular, in my reading and my own writing. First, I want to see something different than all the advice already out there, advice that too often hasn't helped leaders improve their odds of success. Second, I want to see ideas that leaders can put into practice on Monday morning. Finally, I look for concepts founded on a deep fact base.

Not surprisingly, given that the authors are senior partners and leading practitioners at McKinsey & Company, *Beyond Performance 2.0* is packed with data and richly researched, and to that extent truly delivers on the word "proven" in its title. But as I read Scott and Bill's book, I was delighted to find even more. For one thing, there is a simplicity to their prescription that I find appealing—and in no way simplistic. The core notion is that successful change happens when leaders put as much emphasis on boosting the health of the organization as they do on improving its financial performance. This big idea resonates extremely well with my experience advising CEOs in times of corporate transformation.

What I wasn't necessarily expecting from McKinsey & Company senior partners was to see such full and profound treatment of the human side of the change equation. As Scott and Bill put it in their introduction, "At the end of the day, organizations don't change, people do. Take the people away and the life-blood of the organization is gone." In their five-stage roadmap showing how to put equal emphasis on performance and health, they draw on the best of behavioral psychology and speak to how to capture hearts and minds in practical terms.

This combination of hard science, practical experience, and insight into the human factor is rare and hugely valuable. I can say with confidence that, if you are facing a large-scale change challenge, *Beyond Performance 2.0* is an essential read.

Ram Charan
January 2019

Ram Charan *is a world-renowned business adviser, author, and speaker. He has authored over 25 books that have sold more than 2 million copies, including numerous* Wall Street Journal *and* New York Times *best-sellers.*

Introduction

Excellence Found

What is the greatest invention of all time? In our view, it isn't the wheel, it is the organization: people working together toward a common goal. Organizations can achieve feats that go far beyond anything that individuals can accomplish alone. As each successive generation finds better ways of working together, it performs at levels that could barely have been imagined a few decades earlier. And when there are improvements in the effectiveness of our organizations—whether they be private enterprises, governments, public agencies, charities, community groups, political parties, or religious bodies—these gains translate into benefits for society as a whole. Innovations such as mass production, public transport, space travel, the internet, and the mapping of the human genome are all products of human organizations.

When we wrote the first edition of *Beyond Performance* almost a decade ago, we emphasized what it takes to lead and manage an effective organization (a "healthy organization"). We then outlined the change management needed to get there (the "Five Frames of Performance and Health"). In this, the second edition, we've chosen to flip the emphasis. Why? Well, quite frankly, because you—our readers who lead organizations—told us to! We've received countless e-mails, phone calls, and personal outreaches indicating that struggling change programs had been unlocked by applying the Five Frames of Performance and Health. Further, new change programs that employed the Five Frames of Performance and Health as their change methodology from the outset were delivering results far beyond expectations.

The feedback seemed almost too good to be true, based on the history of the field of change management. As many readers will no doubt be aware, in 1996, Harvard Business School professor John Kotter published one of the best-selling books on the topic, *Leading Change*. In it, he reported that only 30 percent of all change programs succeed and offered an eight-step process for managing change. The popularity of his work triggered an explosion of

thinking on the topic. In the 15 years that followed, over 25,000 books were published, hundreds of business schools built change management into their curricula, and many organizations created change management functions. By 2011, when the first version of *Beyond Performance* was published, one would have expected success rates to be much higher. The facts, however, were clear: multiple studies, including our own, had shown that the odds of leading a successful change program remained unchanged: just 30 percent.[1] The field of change management, despite its prolific output, hadn't changed success rates.

Before we go on, we want to be clear that we are not intending to say that all of the work done by many brilliant people wasn't good and helpful. In fact, it's possible that maintaining 30 percent success rates in a rapidly changing external environment is proof that the state of the art has been continually advanced, and it's also possible—and even likely—that the two variables are intrinsically linked (the more change programs succeed, the more the overall pace of change in the world at large increases). Our goal wasn't to unravel these complex dynamics at play, however, it was simply to offer a better way. Why? Well, put it this way: If we needed to get to London from New York for an important meeting and upon boarding the plane the pilot said, "Welcome aboard, there's a 30 percent chance we'll make it as far as London today…," we certainly wouldn't stay in our seats and discuss why—we'd disembark and catch a different flight with better odds!

Flipping the Odds of Success

Almost five years after *Beyond Performance* was written, we felt enough time had passed that we could test whether the positive messages we were hearing reflected a broader reality. We conducted a global survey of 1,713 executives who had been part of at least one large-scale change program in the past five years. The sample represented a full range of regions, industries, company sizes, functional specialties, and tenures. The results spoke for themselves: 79 percent of those organizations who fully implemented the recommended Five Frames of Performance and Health methodology reported change success.[2]

We were obviously thrilled to see these results. First and foremost, however, we credit them to the determined leaders of the change programs in question—having a process and tools laid out is one thing; getting the job done is entirely another. As London Business School professor and influential management thinker Gary Hamel said, "Changing things at scale is never easy: the endeavor is always complex, perilous, and gut-wrenching."[3] William C. Taylor, the co-founder of *Fast Company*, agrees: "The truth is, the work of making deep-seated change in long-established organizations is the hardest work there is."[4]

We also attribute the results to the many members of McKinsey's Global Leadership and Organization Practice, whose work and insights shaped our methodology. We also add to our acknowledgments the experience and research of innumerable leaders around the world and throughout history whose thinking has informed our methodology—within the Five Frames there are numerous tools and approaches that we in no way claim to be our own. We have endeavored to be students of all that has come before us, and as such, the results are also a validation of what in many ways is our life's work. Both of us have been part of the group that has directed the research that led to this book since its inception almost 20 years ago, and have spent our careers applying the approaches as consultants to organizations around the world. True to Malcolm Gladwell's perspective on what it takes to become an expert, by this time in our careers we've both done our 10,000 hours of practice![5]

If you are a leader who wants to beat the dismal odds and successfully make change happen at scale, this book is for you. If you also want to improve how your organization is managed and led so that it has the capability to *continuously change* to stay ahead of the competition, this book is also for you. What's more, the concepts, approaches, and tools apply to any human system, whether a public company, family-owned business, professional services firm (we at McKinsey & Company take our own medicine!), public sector body, activist group, nongovernment organization, or social enterprise. They also apply to virtually every type of change program, whether related to a company-wide transformation, marketing, sales, technology, operations, finance, risk, culture, talent, and so on.

How can it apply so broadly? Simple: At the end of the day, organizations don't change, people do. Take the people away and the life-blood of the organization is gone, leaving only the skeleton of infrastructure: buildings, systems, inventory. If a change program requires *people* to think and behave differently, the Five Frames of Performance and Health is proven to be the best approach available to leaders.

What Sets This Book Apart

The central premise of our work is that leaders should put equal emphasis on the health elements of making change happen as they do the performance elements. While these will be described fully in the chapters to come, a simple analogy to a manufacturing company helps explain in brief. The performance elements of a change program relate to the changes that need to be made to improve how the company "buys, makes, and sells": how will it *buy* its raw materials, *make* them into products, and *sell* them into the market more efficiently and effectively? The health elements, on the other hand, relate to the changes that need to be made to how it "aligns,

executes, and renews": How does it *align* the full organization on a shared direction, *execute* the work that needs to be done with minimum internal friction (e.g., from politics, bureaucracy, silos, and so on), and rapidly adapt and *renew* itself in response to an ever-changing environment?

In answering these questions, there are at least five things that set this book apart.

1. **Research and rigor behind the recommendations.** The world of management is rife with opinion and conjecture. In writing this book, we don't just draw on our own experience as management consultants, but ensure that our arguments are as objective and fact-based as possible. That isn't to say that there aren't plenty of other business books out there that do have a strong research base. One of the best-selling and most influential business books of all time, Tom Peters and Robert Waterman's *In Search of Excellence: Lessons from America's Best-Run Companies,* was based on a study of 43 of the Fortune 500 list of top-performing companies in the United States. Another highly influential bestseller, Jim Collins and Jerry Porras's 1994 book *Built to Last*, analyzed patterns among 18 successful companies. This book, however, draws on a far broader array of evidence. The first edition of *Beyond Performance* already represented the most extensive research effort ever undertaken in the field of organizational effectiveness and change management, and this edition has been fully updated with almost another decade's worth of data including:

   ▪ Data from over five million Organizational Health Index survey respondents from more than 2,000 organizations across the globe.

   ▪ Data from five biennial *McKinsey Quarterly* Five Frames of Performance and Health–related surveys sent to our 32,000-member Global Survey Panel.

   ▪ Data and learning from more than 1,000 clients served by McKinsey on engagements specifically related to performance and health.

   ▪ In-depth reviews of more than 900 top-tier management books and articles from academic journals.

   ▪ Data from McKinsey's "Wave" implementation tracking software solution that has been used by over 600 clients globally.

   ▪ More than 150 change leaders' seminars, each bringing together 20 to 40 leaders from different industries for two days to share their experiences and insights.

- In-depth, one-on-one interviews with over 30 CEOs and other senior executives who shared their personal experiences of leading change and driving performance
- Close working relationships with five eminent scholars who helped to challenge and augment our findings

2. **Comprehensiveness and pragmatism of the tools.** Many leaders have told us this is what they value most. It allows them to bring the same degree of rigor, discipline, and measurement to managing the "soft" side of change as they have for the "hard" aspects. Whereas in our first edition, we provided a mix of concepts and practical steps, here you'll find a clear and specific roadmap for putting equal emphasis on performance and health. We walk you step-by-step through how to set your change aspirations, assess how ready your organization is to change, develop a powerful plan to move your organization from where it is today to where you want it to be, master what it takes to implement this plan successfully, and transition from being in change-program mode to a state of continuous improvement. Every aspect of leading change is covered in depth, with specific tools, methodologies, and real-life examples that make it easy to quickly distill what the most important and practical implications are for your organization. We've also incorporated learnings from various advances in the field of management from the past 10 years, for example, agile, big data and analytics, and digital transformations.

3. **Uniqueness of the solutions.** Many companies have analyzed how Southwest Airlines delivers low-cost air travel, the Ritz-Carlton sets standards in customer service, Apple drives continuous innovation, or Netflix creates a culture of empowerment. And yet, few, if any, are able to replicate their success based on these analyses. Instead of suggesting you copy what other organizations do, we provide a robust process by which you can find the right answer for your organization given its context: its history, the capabilities and passions of its people, its external environment, and its aspirations. The answer will be unique to your situation and one your competitors can't copy (or attempt to copy at their peril). In short, we help you create the "ultimate competitive advantage."

4. **Proof that the approach works in practice as promised.** We've already shared the data that shows using the Five Frames of Performance

and Health methodology flips your odds of change success, moving them from 30 to 79 percent. The facts also indicate that you'll deliver on average 1.8 times higher impact from your change efforts than otherwise.[6] Furthermore, companies who use the methodology, not just to deliver a successful change program but to become top quartile in their overall organizational health, deliver on average 3 times higher total returns to shareholders (TRS), 2.2 times EBITDA margin, 1.5 times growth in net income/sales, and on that order of magnitude, higher results on every comparable measure we've been able to test across industries (a total of 15 so far).[7] As Sir William Castell, former chairman of the Wellcome Trust, puts it, "Healthy organizations get things done quicker, better, and with more impact than unhealthy ones."[8]

5. **Increases an organization's ongoing capacity for change.** This is much more than a book about change management. By applying the Five Frames of Performance and Health in your change program, you are not just increasing your odds of success, but also fundamentally increasing your organization's capability and capacity to continuously improve after your change program objectives have been achieved. Gary Hamel put it well in his foreword to our first edition, "*Beyond Performance* is far more than a guide to leading a successful change program. It's a manifesto for a new way of thinking about [how] organizations … become, fundamentally, pro-change."[9] It's not just about getting ahead; it's about staying ahead.

Why It Matters

That the pace of change in business is on an ever-increasing trajectory isn't new, but it is most certainly true. Consider how long an average company from the S&P 500 stays in the index. In 1958, it was estimated to be 61 years; in 1980, 25 years; and in 2011, 17 years.[10] A S&P 500 company in this decade is being replaced once every two weeks, which translates to roughly 75 percent of today's firms being superseded by newcomers in the index in the next 10 years.[11] There are only 60 companies today that appear on the original list of 500 when it was first compiled just over 60 years ago. Sixty years from now it's unlikely any of the companies that exist today will remain in prominence. Yes, we are saying the likes of Amazon, ExxonMobil, Berkshire Hathaway, and so on are all at risk. Seem hard to believe? No doubt the employees and customers of companies such as Blockbuster, Compaq, Kodak, Circuit City, Enron, General Foods, Pan Am, WorldCom, Digital Equipment Corporation, Lehman

Brothers, Arthur Andersen, and British Leyland, during their prime, felt just as invincible.

Need more convincing? Let's go back to Peters and Waterman's *In Search of Excellence* and Collins and Porras's *Built to Last*. It's revealing to look at what has become of these "excellent" companies. Ten years after the latter was published, 20 percent of the companies featured in these books no longer existed, 46 percent were struggling, and only 33 percent remained high performers.[12] Not all of these changes in standing can be attributed to the companies themselves, of course. As Chris Bradley, Martin Hirt, and Sven Smit point out in their book, *Strategy Beyond the Hockey Stick*, a portion of business results are driven by macroeconomic forces, industry attractiveness, and sheer luck.[13] But they are also driven by what leaders choose to do and not do (in particular, what Bradley, Hirt, and Smit refer to as "big moves," all of which require exceptional change management to deliver the desired impact) and the way they lead, which are things under every leader's control. While the homage to Charles Darwin's findings that says, "The fittest win out at the expense of their rivals because they succeed in adapting themselves best to their environment" (i.e., they make change happen), may have become something of a cliché in management literature, that's only because of how right it is when it comes to success in the business world.

If we look beyond the world of commerce to society at large, the ability to make change happen at scale has never been more important. In the political process, for instance, leaders committed to change continue to attract unprecedented levels of public engagement. When we wrote the introduction to our first edition, we noted how leaders around the world had run on platforms such as "Change we need," promising massive overhauls of public sector practices and outcomes. Almost a decade later, little has changed. In the United States, the winning election narrative promised to "make America great again" in as sharp and acerbic a tone as the country had ever seen.[14] In France, Sarkozy's successors, François Hollande in 2012, and Emmanuel Macron in 2017, both focused on large-scale change in their respective campaigns: "le changement," or *the change* and "en marche" or *moving forward*.[15] In Malaysia, the new prime minister Mahathir Mohammed vowed to make changes that will fight corruption and unite the country.[16] Virtually everywhere you turn, you'll see similar messages. In Canada, Prime Minister Justin Trudeau ran on the promise of bringing "real change" to the country.[17] In New Zealand, Jacinda Arden promised "a government of change."[18] In Mexico, President Andrés Manuel López Obrador won in a landslide victory with promises of great reform.[19]

Outside politics, nongovernmental and not-for-profit organizations continue to tackle key cross-border challenges such as sustaining the environment and helping the developing world break the cycles of poverty, corruption,

and inadequate education. Meanwhile, numerous factors continue to drive widespread change globally: the historic shift in economic and labor force growth from the developed to the developing world, the rise of global energy demands with an uncertain supply source, the rapid expansion of the global consumer class, changes in global demographics with an aging world population, the rise of new networks of hitherto unimaginable complexity for communication and trade, the increasingly urgent challenge to balance economic growth with environmental sustainability, and the race to increase productivity through accelerated technology and the knowledge economy.[20]

The way we respond to these business and societal challenges will have a profound effect on all our futures. What are the odds of their being successful? And what will be the consequences if they aren't? What will be the social costs? And who will bear them?

Our Greatest Hope

If this book helps you lead a more successful change program, our writing it has been worth it. If it goes further, and helps you create an organization whose capacity to continuously change enables it to thrive long into the future, we'll be delighted. If this book helps people make faster progress in tackling the major social and political issues of our time, it will have achieved more than we could have hoped for.

The reason why we wrote it, however, goes much deeper. According to Gallup, roughly 1.3 billion people work for a full-time employer (i.e., they are part of an organization of some sort).[21] These people spend half or more of their waking hours at work. In their remaining time outside of work, they are spending fewer and fewer hours pursuing traditional activities involving family, community, or religious institutions than ever before (in political scientist Robert Putnam's parlance, they are "Bowling Alone").[22] Taken together, this means the workplace is taking on an increasing role as a source of identity, belonging, and meaning for us as a human race.

Workplaces that are characterized by any or all of competing agendas and conflict (no alignment on direction), politics and bureaucracy (low quality of execution), and where work is "just a job" (low sense of renewal), aren't just unhealthy for sustainably delivering bottom-line results—they are unhealthy for the human soul. As the Japanese proverb goes, "Vision without action is a daydream. Action without vision is a nightmare."

Healthy organizations, however, unleash human potential and uplift the human spirit. They inspire (aligning on a big, important goal), they create a sense of belonging (executing as one team), and they foster creativity and innovation (through a sense of renewal). Paraphrasing motivational speaker

Joel Barker's riff on the aforementioned Japanese proverb, healthy organizations "connect vision with action to change the world."

If this book's contents make their way into management practice at a scale that meaningfully reduces the frictional cost of human progress—that'd be our dream come true!

We don't claim to have all the answers, but at this point in our research efforts, we're more confident than ever that we do have insightful (beyond common sense) and pragmatic (readily applicable) advice, methodologies, and tools that work. They are battle tested and proven in practice. They will help you lead more successful change programs and simultaneously create a healthy organization that is able to continuously adapt and therefore thrive long into the future. With the benefit of another decade of research and practice under our belts, we have observed so many successes in so many industries and from so many different starting points that we have no question change program success and sustained excellence are within reach for virtually any organization.

The Big Idea

CHAPTER **1**

Performance and Health

When Neville Isdell took over as CEO of the Coca-Cola Company (TCCC), it was during troubled times. In his words, "These were dark days. Coke was losing market share. Nothing, it seemed—even thousands of layoffs—had been enough to get the company back on track."[1] TCCC's total return to shareholders stood at negative 26 percent, while its great rival PepsiCo delivered a handsome 46 percent return.

Isdell was the former vice chairman of the Coca-Cola Hellenic Bottling Company, then the world's second-largest bottler, and had enjoyed a long and successful career in the industry. Since retiring from that role, he had been living in Barbados, doing consulting work, and heading his own investment company. However, the opportunity to lead the transformation of one of the world's most iconic companies was a powerful lure. Isdell was clear-eyed about the challenge ahead as he recognized, "There were so many problems at Coke, a turnaround was risky, at best."[2] For the former rugby player, however, the game was on. He was soon installed in the executive suite at headquarters in Atlanta.

Isdell had a clear sense of what needed to be done. The company had to capture the full potential of the trademark Coca-Cola brand, grow other core brands in the noncarbonated soft drinks market, develop wellness platforms, and create adjacent businesses. These weren't particularly new ideas, however, and each of his predecessors had failed to make change happen at scale. Why would his tenure be any different?

Experience told him that focusing solely on "what" needed to get done— the new strategy and initiatives to support it—wouldn't get TCCC where it needed to be. Regardless of what direction he set, progress couldn't be made while morale was down, capabilities were lacking, partnerships with bottlers were strained, politics were rampant, and its once-strong performance culture was flagging.

Just a hundred days into his new role and having got his head around the current state of the organization, Isdell announced that TCCC would fall short of its meager third- and fourth-quarter target of 3 percent earnings growth. "The last time I checked, there was no silver bullet. That's not the way this business works," Isdell told analysts.[3] Later that year, TCCC announced that its third-quarter earnings had fallen by 24 percent, one of the worst quarterly drops in its history.

Having acknowledged the shortfall in performance, Isdell ploughed onward, launching what he called TCCC's "Manifesto for Growth" process. The goal was to outline a path to growth showing not just where the company aimed to go—its strategy—but what it would do to get there, and how people would work together differently along the way. And then, of course, to deliver on it. A number of working teams were set up to tackle performance-related issues such as what the company's targets and objectives would be and what capabilities it would require to achieve them. Another set of teams tackled organizational effectiveness-related issues: how to work better as a global team, how to improve planning, metrics, rewards, and people development to enable peak performance, and how to go back to "living our values." The whole effort was designed through a collaborative process that ensured all of the work being done remained integrated, and that the leaders of the organization would feel deep ownership and authorship of the answer. As Isdell explained, "The magic of the manifesto is that it was written in detail by the top 150 managers and had input from the top 400. Therefore, it was their program for implementation."[4]

It wasn't long before the benefit of Isdell's approach to making change happen became apparent. Within three years of having taken the role, shareholder value jumped from a negative return to a 20 percent positive return. Volume growth in units sold increased almost 10 percent to 21.4 billion, roughly equivalent to sales of an extra 105 million bottles of Coca-Cola per day. TCCC had amassed 13 billion-dollar brands, 30 percent more than Pepsi. Of the 16 market analysts following the company, 13 rated it as outperforming, and the other 3 as in line with expectations.

These impressive performance gains were matched by quantifiable improvements in people-related measures. Staff turnover at U.S. operations fell by almost 25 percent. Employee engagement scores saw a jump that researchers at the external survey firm hailed as an "unprecedented improvement" compared with scores at similar organizations. Other measures showed equally compelling gains: employees' views of leadership improved by 19 percent, and communication and awareness of goals increased from 17 percent to 76 percent. According to Isdell, however, the biggest change was a more qualitative one that could only be felt in the company's halls. Three years into the role, Isdell noted, "When I first arrived, about 80 percent

of the people would cast their eyes to the ground. Now, I would say it's about 10 percent. Employees are engaged."[5]

When Isdell retired as CEO, he was handing over a healthy company that was performing well.

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To what does Isdell credit the success of the turnaround? In his words, "Having taken the 'how' as seriously as the 'what.'"[6] Another way to put it would be that he put as much effort into the "soft stuff" as he did the "hard stuff." Others may prefer terminology such as talking about the balance between the "business and behavioral," "adaptive and technical," or "right brain and left brain." We believe the most helpful juxtaposition is to say that he put equal emphasis on performance as he did on health. But what specifically do we mean by this when it comes to leading large-scale change?

Performance is what an enterprise does to deliver improved results for its stakeholders in financial and operational terms. It's evaluated through measures such as net operating profit, return on capital employed, total returns to shareholders, net operating costs, and stock turn (and the relevant analogues to these in not-for-profit and service industries). As we shared in our introduction, a more memorable way to think about this is through the lens of a manufacturing company in which performance-oriented actions are those that improve how the organization *buys* raw materials, *makes* them into products, and *sells* them into the market to drive financial and operational results.
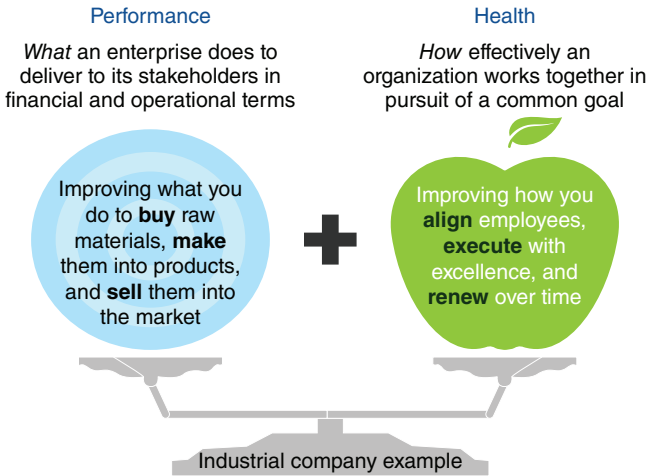
Health is how effectively an organization works together in pursuit of a common goal. It is evaluated in levels of accountability, motivation, innovation, coordination, external orientation, and so on. A more memorable way to think about health-related actions is that they are those that improve how an organization internally *aligns* itself, *executes* with excellence, and *renews* itself to sustainably achieve performance aspirations in its ever-changing external environment.

Make no mistake, leaders have a choice when it comes to where they put their time and energy in making change happen. *The big idea in delivering successful change at scale is that leaders should put equal emphasis on performance- and health-related efforts,* as illustrated in Exhibit 1.1.

Some reject this, as they aren't convinced there is a proven return on investment in the people-oriented aspects of driving change. Those who think this way have their heads well and truly in the sand as the facts to the contrary are incontrovertible, which we'll share in the next section. Other leaders accept and are even intuitively drawn to the concept, but simply have no idea how they'd fill 50 percent of their time taking action related to the soft stuff. Rest assured, they won't lack for answers once they understand the Five Frames of Performance and Health that will be introduced at the end of this chapter and expanded on throughout this book.

Exhibit 1.1

The Big Idea

Performance

What an enterprise does to
deliver to its stakeholders in
financial and operational terms

Health

How effectively an
organization works together in
pursuit of a common goal

Improving what you
do to **buy** raw
materials, **make**
them into products,
and **sell** them into
the market

Improving how you
align employees,
execute with
excellence, and
renew over time

Industrial company example

The Value of Health

That organizational health matters is repeatedly borne out by the testi-
monies of successful leaders. Larry Bossidy, former chairman and CEO of
Honeywell and Allied Signal, comments, "The soft stuff—people's beliefs
and behaviors—is at least as important as the hard stuff. Making chang-
es in strategy or structure by itself takes a company only so far."[7] Don
Argus, retired chairman of BHP, suggests the key to success is to "mobi-
lize and develop our people to unleash their competencies, creativity, and
commitment to get things moving forward."[8] Sheikh Mohammed bin Essa
Al-Khalifa, chief executive of Bahrain's Economic Development Board, con-
curs, "I always worried that we were going to have to spend millions to fix
the educational system. But it turned out the solution wasn't the money. It
was the soft things—which were usually harder."[9]

    We could fill a chapter with similar quotes from virtually every successful
leader we have spoken to. Such wisdom, however, is too often dismissed by
leaders staring a big change challenge in the face: "Maybe that worked for
them, but it won't work here" or "I'm sure that mattered later in the change
program, but right now I have to get performance runs on the board" is the
all-too-common reaction.

One of the goals of our research, therefore, has been to answer the question, once and for all with hard facts, as to how much value organizational health creates. With millions of data points across thousands of organizations, we have the data required to do so. In Chapter 2, we'll describe the specifics of how we define and measure organizational health in detail, but to cut to the chase: when we tested for correlations between performance and health on a broad range of business measures, we found a strong positive correlation in every case. When we wrote the first edition of *Beyond Performance*, companies in the top quartile of organizational health were 2.2 times more likely than lower-quartile companies to have an above-median EBITDA (earnings before interest, taxes, depreciation, and amortization) margin, 2 times more likely to have above-median growth in enterprise value to book value, and 1.5 times more likely to have above-median growth in net income to sales. Now, almost 10 years later and having increased the data points more than eightfold, the analytics tell the same story. As Exhibit 1.2 shows, companies in the top quartile of organizational health have a 3 times greater total return to shareholders (TRS) than bottom quartile companies over an eight-year period.

Exhibit 1.2

Healthy Companies Perform Better

TRS[1]
(Total return
to shareholders)

ROIC[2] (Return on
invested capital)

Bottom   Mid*   Top
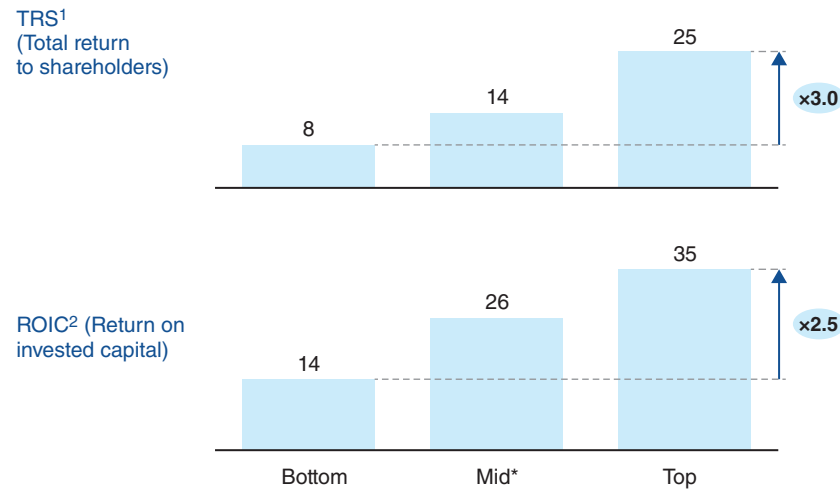
* Comprised of second and third quartiles
[1] 8 year average used to exclude volatility from 2007/2008 global financial crisis
[2] Average 3 year financial indicators of companies in respective quartile