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THE ADVANTAGE



WHY ORGANIZATIONAL HEALTH
TRUMPS EVERYTHING ELSE
IN BUSINESS

The Case for Organizational Health

The single greatest advantage any company can achieve is organizational health. Yet it is ignored by most leaders even though it is simple, free, and available to anyone who wants it.

That is the premise of this book—not to mention my career—and I am utterly convinced that it is true. If it sounds absurd, it should. After all, why in the world would intelligent human beings ignore something that is powerful and readily accessible?

That question was finally answered for me on July 28, 2010.

STOOPING TO GREATNESS

I was attending a client's leadership conference, sitting next to the CEO. This wasn't just any company. It was, and still is, one of the healthiest organizations I have ever known and one of the most successful American enterprises of the past fifty years. In an industry plagued with financial woes, customer fury, and labor strife, this amazing company has a long history of growth and economic success, not to mention fanatical customer loyalty. Moreover, its employees love their jobs, their customers, and their leaders. When compared to others in the same industry, what this company has accomplished seems almost baffling.

As I sat there at the conference listening to one presentation after another highlighting the remarkable and unorthodox activities that have made this organization so healthy, I leaned over and quietly asked the CEO a semirhetorical question: "Why in the world don't your competitors do any of this?"

After a few seconds, he whispered, almost sadly, "You know, I honestly believe they think it's beneath them."

And there it was.

THE THREE BIASES

In spite of its undeniable power, so many leaders struggle to embrace organizational health (which I'll be defining shortly) because they quietly believe they are too sophisticated, too busy, or too analytical to bother with it. In other words, they think it's

beneath them.

And in some ways, it's hard to blame them. After years of off-site meetings filled with ropes courses and trust-falling exercises, even the most open-minded executives have come to be suspicious of anything that looks or sounds touchy-feely. Combine that with the notion that corporate culture has been reduced to surface-level artifacts like funky office furniture, employee yoga classes, and bring-your-dog-to-work policies, and it's no wonder that so many leaders have become cynical, even condescending, toward most things related to organizational development.

This is a shame because organizational health is different. It's not at all touchy-feely, and it's far bigger and more important than mere culture. More than a side dish or a flavor enhancer for the real meat and potatoes of business, it is the very plate on which the meat and potatoes sit.

The health of an organization provides the context for strategy, finance, marketing, technology, and everything else that happens within it, which is why it is the single greatest factor determining an organization's success. More than talent. More than knowledge. More than innovation.

But before leaders can tap into the power of organizational health, they must humble themselves enough to overcome the three biases that prevent them from embracing it.

- *The Sophistication Bias:* Organizational health is so simple and accessible that many leaders have a hard time seeing it as a real opportunity for meaningful advantage. After all, it doesn't require great intelligence or sophistication, just uncommon levels of discipline, courage, persistence, and common sense. In an age where we have come to believe that differentiation and dramatic improvement can be found only in complexity, it's hard for well-educated executives to embrace something so simple and straightforward.
- *The Adrenaline Bias:* Becoming a healthy organization takes a little time. Unfortunately, many of the leaders I've worked with suffer from a chronic case of adrenaline addiction, seemingly hooked on the daily rush of activity and firefighting within their organizations. It's as though they're afraid to slow down

and deal with issues that are critical but don't seem particularly urgent. As simple as this may seem, it remains a serious obstacle for many dysfunctional organizations led by executives who don't understand that old race-car drivers' axiom: *you have to slow down in order to go fast.*

- *The Quantification Bias:* The benefits of becoming a healthy organization, as powerful as they are, are difficult to accurately quantify. Organizational health permeates so many aspects of a company that isolating any one variable and measuring its financial impact is almost impossible to do in a precise way. That certainly doesn't mean the impact isn't real, tangible, and massive; it just requires a level of conviction and intuition that many overly analytical leaders have a hard time accepting.

Of course, I suppose that even if leaders were able to humble themselves enough to overcome each of these biases, there is yet another reason that might prevent them from tapping into the power of organizational health, and that is what provoked me to write this book: it has never been presented as a simple, integrated, and practical discipline.

I am convinced that once organizational health is properly understood and placed into the right context, it will surpass all other disciplines in business as the greatest opportunity for improvement and competitive advantage. Really.

So what exactly is organizational health?

I thought you'd never ask.

UNDERSTANDING ORGANIZATIONAL HEALTH

At its core, organizational health is about integrity, but not in the ethical or moral way that integrity is defined so often today. An organization has *integrity*—is healthy—when it is whole, consistent, and complete, that is, when its management, operations, strategy, and culture fit together and make sense.

If that's a little too vague for you (it would be for me), think about it this way. Whenever I present organizational health to a prospective client or a roomful of executives, I start by contrasting it with something more familiar to them. I explain that any organization that really wants to maximize its success must come

to embody two basic qualities: it must be smart, and it must be healthy.

Smart Versus Healthy

Smart organizations are good at those classic fundamentals of business—subjects like strategy, marketing, finance, and technology—which I consider to be decision sciences.

When I started my career at the management consulting firm Bain & Company, we did research and analysis to help clients make smarter, better decisions in these areas. No one with any experience in business will tell you that these pursuits are not critical to the success of an organization, nor should they.

But being smart is only half the equation. Yet somehow it occupies almost all the time, energy, and attention of most executives. The other half of the equation, the one that is largely neglected, is about being healthy.

A good way to recognize health is to look for the signs that indicate an organization has it. These include minimal politics and confusion, high degrees of morale and productivity, and very low turnover among good employees.

Two Requirements for Success

| Smart | Healthy |
|--------------|---------------------|
| • Strategy | • Minimal Politics |
| • Marketing | • Minimal Confusion |
| • Finance | • High Morale |
| • Technology | • High Productivity |
| | • Low Turnover |

Whenever I list these qualities for leaders, I usually get one of the following reactions, and sometimes both. Often they laugh quietly, in a nervous, almost guilty kind of way. Or they barely sigh, like parents do when they hear about a family where the kids do what they're told the first time they're asked. In either case, it's as though they're thinking, "Wouldn't that be nice?" or, "Can you imagine?"

What I find particularly amazing is that none of the leaders I

present to, even the most cynical ones, deny that their companies would be transformed if they could achieve the characteristics of a healthy organization. They never dismiss it as being soft or touchy-feely, and they immediately recognize the practical connection between a lack of health and overall performance. So it would be natural to assume that those executives would then march back to their companies and focus a large portion of their time, energy, and attention on making their organizations healthier.

Well, I've come to learn that even well-intentioned leaders usually return to work and gravitate right back to the "smart" side of the equation, spending their time tweaking the dials in marketing, strategy, finance, and so forth. Why would they do something so absurd?

Better Light

One of the best explanations for this strange phenomenon comes from a comedy sketch I saw as a child. I remember it being part of an old episode of *I Love Lucy*.

Ricky, Lucy's husband, comes home from work one day to find his wife crawling around the living room on her hands and knees. He asks her what she's doing.

"I'm looking for my earrings," Lucy responds.

Ricky asks her, "You lost your earrings in the living room?"

She shakes her head. "No, I lost them in the bedroom. But the light out here is much better."

And there it is.

Most leaders prefer to look for answers where the light is better, where they are more comfortable. And the light is certainly better in the measurable, objective, and data-driven world of organizational intelligence (the smart side of the equation) than it is in the messier, more unpredictable world of organizational health.

Studying spreadsheets and Gantt charts and financial statements is relatively safe and predictable, which most executives prefer. That's how they've been trained, and that's where they're comfortable. What they usually want to avoid at all costs are

subjective conversations that can easily become emotional and awkward. And organizational health is certainly fraught with the potential for subjective and awkward conversations.

That's why so many leaders, even when they acknowledge the pain that politics and confusion are causing their organizations, continue to spend their time tweaking the dials in more traditional disciplines. Unfortunately, the opportunities for improvement and competitive advantage they find in those areas are incremental and fleeting at best.

That's right. The advantages to be found in the classic areas of business—finance, marketing, strategy—in spite of all the attention they receive, are incremental and fleeting. In this world of ubiquitous information and nanosecond technology exchange, it's harder than it has ever been in history to maintain a competitive advantage based on intelligence or knowledge. Information just changes hands too rapidly today. Companies, even entire industries, come and go faster than we could have imagined even a decade ago.

Permission to Play

And so, being smart—as critical as it is—has become something of a commodity. It is simply permission to play, a minimum standard required for having even a possibility of success. It's certainly not enough to achieve a meaningful, sustainable competitive advantage over any length of time.

In fact, I'd have to say that a lack of intelligence, domain expertise, or industry knowledge is almost never the problem I see in organizations. In twenty years of consulting to clients in virtually every industry, I have yet to meet a group of leaders who made me think, *Wow, these people just don't know enough about their business to succeed*. Really. The vast majority of organizations today have more than enough intelligence, expertise, and knowledge to be successful. What they lack is organizational health.

This point is worth restating.

After two decades of working with CEOs and their teams of senior executives, I've become absolutely convinced that the

seminal difference between successful companies and mediocre or unsuccessful ones has little, if anything, to do with what they know or how smart they are; it has everything to do with how healthy they are.

If you're tempted to dismiss that idea, consider this. Though I made the statement just a few paragraphs ago that I've not yet met a group of leaders whom I thought lacked the knowledge, expertise, or intelligence to succeed, I've met plenty who made me think, *Uh-oh. The culture within this team and this organization is way too unhealthy to sustain a successful business.* And time after time I've seen smart companies find a way to fail in spite of their sizable intellectual and strategic assets.

Again, that's not to say that being smart isn't important. It is. But if someone were to press me on which of the two characteristics of an organization, intelligence or health, should receive first priority, I would say without hesitation that health comes out a clear number one. Here's why.

Health Begets—and Trumps—Intelligence

An organization that is healthy will inevitably get smarter over time. That's because people in a healthy organization, beginning with the leaders, learn from one another, identify critical issues, and recover quickly from mistakes. Without politics and confusion getting in their way, they cycle through problems and rally around solutions much faster than their dysfunctional and political rivals do. Moreover, they create environments in which employees do the same.

In contrast, smart organizations don't seem to have any greater chance of getting healthier by virtue of their intelligence. In fact, the reverse may actually be true because leaders who pride themselves on expertise and intelligence often struggle to acknowledge their flaws and learn from peers. They aren't as easily open and transparent with one another, which delays recovery from mistakes and exacerbates politics and confusion. That's certainly not to say that being smart isn't desirable, just that it provides no inherent advantages for becoming healthy.

The same phenomenon can be seen in families. Healthy

families—the ones where parents give their children discipline, affection, and time—almost always improve over the years, even when they lack many of the advantages and resources that money can buy. Unhealthy families, the ones without discipline and unconditional love, will always struggle, even if they have all the money, tutors, coaches, and technology they could ever want.

The key ingredient for improvement and success is not access to knowledge or resources, as helpful as those things may be. It's really about the health of the environment. And consider this: if you had to bet on the future of one of two kids, one raised by loving parents in a solid home and the other a product of apathy and dysfunction, you'd always take the former regardless of the resources surrounding them. Well, the same is true in organizations.

The Multiplier Effect

Here is another testament to the superiority of organizational health over intelligence. In my career as a consultant, I've worked with a number of great, healthy companies that were led by men and women who attended relatively modest colleges—people who would admit to being just a little above average in intellectual capacity. When those companies made wise decisions that set them apart from their competition, journalists and industry analysts incorrectly attributed their success to their intellectual prowess. The truth of the matter was that those companies weren't smarter than their competitors; they simply tapped into the adequate intelligence they had and didn't allow dysfunction, ego, and politics to get in the way.

On the flip side, I've seen all too many companies whose leaders earned the best grades at the top universities, who possessed tremendous intellectual capacity and had extraordinary experience and industry knowledge, yet still managed to fail because they couldn't tap into much of it. In almost every situation, it was politics, behavioral misalignment, and inconsistency that did them in, leading them to make what seemed in retrospect like obvious tactical and strategic mistakes. Journalists and analysts always seem perplexed by how those

executives “could have been so dumb.” But again, they miss the point by attributing the bad decisions to intellectual deficiencies. They fail to see that the real deficiency, the one that makes it possible for smart people to make dumb decisions, is a lack of organizational health.

And so a good way to look at organizational health—and one that executives seem to respond to readily—is to see it as the multiplier of intelligence. The healthier an organization is, the more of its intelligence it is able to tap into and use. Most organizations exploit only a fraction of the knowledge, experience, and intellectual capital that is available to them. But the healthy ones tap into almost all of it. That, as much as anything else, is why they have such an advantage over their unhealthy competitors.

Okay, I’ve already addressed the biases that prevent so many leaders from embracing the power of organizational health. Another worthwhile question that needs to be answered is this: Why haven’t more business scholars and journalists embraced it?

Media and Academia

First, organizational health just isn’t very sexy, so journalists aren’t terribly excited to talk or write about it. No magazine or newspaper wants to run a story about a humble leader who continues to run her medium-sized company with discipline, common sense, and consistency. They would rather tell you about how a brash young entrepreneur is trying to set the world on fire—and maybe himself—with a disruptive new piece of technology or a revolutionary new service. And that makes sense given that they’re trying to sell magazines and lure more advertisers. But it certainly doesn’t mean their eye-catching stories are more instructive or practical.

Another reason that organizational health has been overlooked by academia and the media has to do with the difficulty of measuring its impact. As I mentioned earlier, trying to identify exactly how much a company’s health affects its bottom line is next to impossible; there are just too many variables to isolate it from the myriad of other factors. But again, that doesn’t make the impact of organizational health any less real, just harder for

journalists and academics to justify in a definitive, quantitative way.

Finally, organizational health gets overlooked because the elements that make it up don't seem to be anything new. And in many ways, they aren't. The basic components—leadership, teamwork, culture, strategy, meetings—have been a subject of discussion within academia for a long time. The problem is that we've been looking at those elements in isolated, discreet, and theoretical ways instead of as an integrated, practical discipline.

It's tempting to downplay this oversight of organizational health by media and academia and, for that matter, leaders, as just another interesting and unfortunate phenomenon of modern business culture. However, the cost of that oversight is extraordinarily high and cannot be overstated.

The Price of Poor Health

Anyone who has ever worked in an unhealthy organization—and almost everyone has—knows the misery of dealing with politics, dysfunction, confusion, and bureaucracy. As much as we enjoy making jokes about these artifacts of organizational plight, there is no denying that they exact a significant toll.

The financial cost of having an unhealthy organization is undeniable: wasted resources and time, decreased productivity, increased employee turnover, and customer attrition. The money an organization loses as a result of these problems, and the money it has to spend to recover from them, is staggering.

And that's only the beginning of the problem. When leaders of an organization are less than honest with one another, when they put the needs of their departments or their careers ahead of the needs of the greater organization, when they are misaligned, confused, and inconsistent about what is important, they create real anguish for real human beings. And they experience that anguish themselves too.

Aside from the obvious impact this has within the organization, there is a larger social cost. People who work in unhealthy organizations eventually come to see work as drudgery. They view success as being unlikely or, even worse, out of their control. This

leads to a diminished sense of hope and lower self-esteem, which leaks beyond the walls of the companies where they work, into their families where it often contributes to deep personal problems, the effects of which may be felt for years. This is nothing short of a tragedy, and a completely avoidable one.

I point all this out only so that we don't underestimate the cost of allowing our organizations to remain unhealthy, and, more important, so that we fully grasp the opportunity that lies before us. Turning an unhealthy company into a healthy one will not only create a massive competitive advantage and improved bottom line, it will also make a real difference in the lives of the people who work there. And for the leaders who spearhead those efforts, it will be one of the most meaningful and rewarding endeavors they will ever pursue.

Okay, here is the next question that has to be answered, the one that will occupy the rest of this book: What does an organization have to do to become healthy? There are four required disciplines.

The Four Disciplines Model



An organization doesn't become healthy in a linear, tidy fashion. Like building a strong marriage or family, it's a messy process that involves doing a few things at once, and it must be maintained on an ongoing basis in order to be preserved. Still, that messy process can be broken down into four simple disciplines.

DISCIPLINE 1: BUILD A COHESIVE LEADERSHIP TEAM

An organization simply cannot be healthy if the people who are chartered with running it are not behaviorally cohesive in five fundamental ways. In any kind of organization, from a corporation to a department within that corporation, from a small, entrepreneurial company to a church or a school, dysfunction and lack of cohesion at the top inevitably lead to a lack of health throughout.

DISCIPLINE 2: CREATE CLARITY

In addition to being behaviorally cohesive, the leadership team of a healthy organization must be intellectually aligned and committed to the same answers to six simple but critical

questions. There can be no daylight between leaders around these fundamental issues.

DISCIPLINE 3: OVERCOMMUNICATE CLARITY

Once a leadership team has established behavioral cohesion and created clarity around the answers to those questions, it must then communicate those answers to employees clearly, repeatedly, enthusiastically, and repeatedly (that's not a typo). When it comes to reinforcing clarity, there is no such thing as too much communication.

DISCIPLINE 4: REINFORCE CLARITY

Finally, in order for an organization to remain healthy over time, its leaders must establish a few critical, nonbureaucratic systems to reinforce clarity in every process that involves people. Every policy, every program, every activity should be designed to remind employees what is really most important.

Is this model foolproof?

Pretty much. When an organization's leaders are cohesive, when they are unambiguously aligned around a common set of answers to a few critical questions, when they communicate those answers again and again and again, and when they put effective processes in place to reinforce those answers, they create an environment in which success is almost impossible to prevent. Really.

Sure, if those leaders make a catastrophic, completely boneheaded mistake in strategy, finance, or marketing they could sink the organization. But people in healthy organizations rarely make those kinds of mistakes. That's because cohesive leadership teams prevent groupthink, learn from mistakes, and call each other on potential problems before they get out of hand. And so it makes sense that this is the first of the four disciplines that should be taken on: building a cohesive leadership team.