

PART I

The Big Idea

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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.



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?

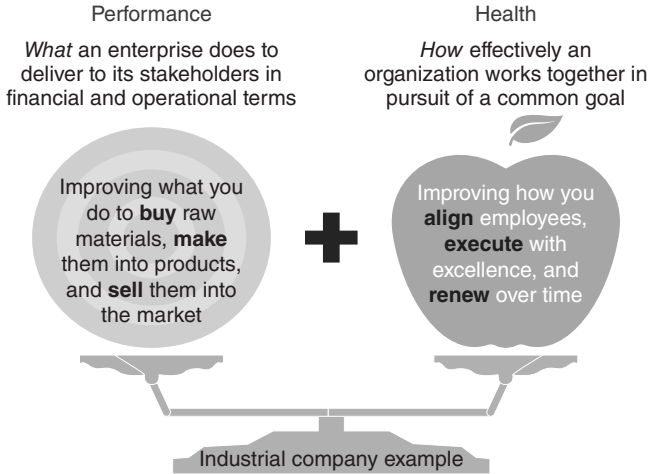
Performance is what an enterprise does to deliver improved results for its stakeholders in financial and operational terms. It's evaluated through measures such as net operating profit, return on capital employed, total returns to shareholders, net operating costs, and stock turn (and the relevant analogues 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**The Value of Health**

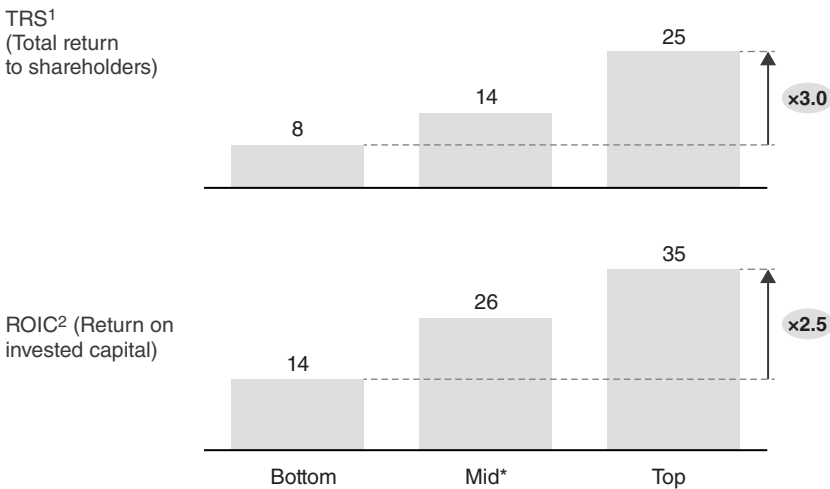
That organizational health matters is repeatedly borne out by the testimonies of successful leaders. Larry Bossidy, former chairman and CEO of Honeywell and Allied Signal, comments, “The soft stuff—people’s beliefs and behaviors—is at least as important as the hard stuff. Making changes in strategy or structure by itself takes a company only so far.”⁷ Don Argus, retired chairman of BHP, suggests the key to success is to “mobilize 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, concurs, “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



* 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

They also have 2 times higher return on invested capital (ROIC). Further, whereas bottom-quartile health companies don't see any growth in sales, top-quartile companies average 24 percent sales growth.¹⁰

Savvy readers will know that a correlation between health and performance does not mean that there is a causal relationship (higher health leads to higher performance). We'd be the first to admit that correlations need to be treated with caution. Take an example: education and income are highly correlated, but that doesn't mean that one causes the other. It's just as logical to argue that a higher income creates opportunities for higher education as it is to argue that higher education creates opportunities for a higher income (and even if it does, we can't infer that everyone who gains more education will have a higher income).

We haven't been content to rest our case on correlations; we've also invested heavily in testing for the relationship over time. To start with, we've looked at regression coefficients between comparable units within organizations. For example, we've compared the performance and health of branches within bank networks, of hospitals in healthcare networks, stores within retail networks, oil refineries in oil companies, and so on. In every case, we've found statistically significant relationships between health and performance that indicates health explains over 50 percent of the variance in performance across locations. Exhibit 1.3 shows an example of a linear regression analysis across 16 refineries at a large multinational oil company.

We've gone even further than regressions to test causality, as well, by conducting extensive research that compares experimental and control groups over a period of approximately two years. One group would embark on making change happen in a traditional, relatively performance-heavy fashion, and the other would use the Five Frames approach, which puts equal emphasis on performance and health. In viewing performance and measuring health regularly over this fairly long period, we sought to remove any distortions that might derive from the Hawthorne effect, whereby subjects alter their behavior simply because they are being studied, not because of the interventions being tested. After running five of these longitudinal tests in industries as diverse as telecommunications, mining, banking, and retail and finding that, on average, the experimental groups who applied the balanced performance and health approach delivered on average 1.8 times higher impact, we felt the case for causation was well and truly closed, as shown in Exhibit 1.4.

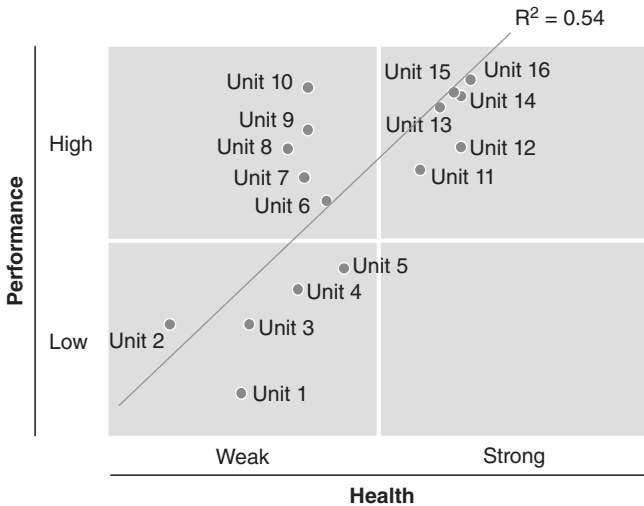
At a large financial services institution, for example, we selected two experimental groups and a control group that were comparable and representative of the wider organization across a range of criteria, including net profit before taxes (in terms of overall growth and average over the longest coherent period of data available), customer economics (average income

Exhibit 1.3

Impact of Health on Performance at Business-Unit Level

Example: Refineries at an oil company

US\$ per unit produced



per customer in retail banking; industry composition in business banking), and branch staff characteristics (performance rating and tenure). Each of the experimental groups then pursued a sales stimulation program over an 18-month period, one using a more traditional, performance-heavy approach and the other the balanced performance and health approach. During the study, we took care to minimize any distortions during the trial—operational restructuring, changes in leadership, significant staff turnover, or other corporate initiatives—that might have a disproportionate effect on one group.

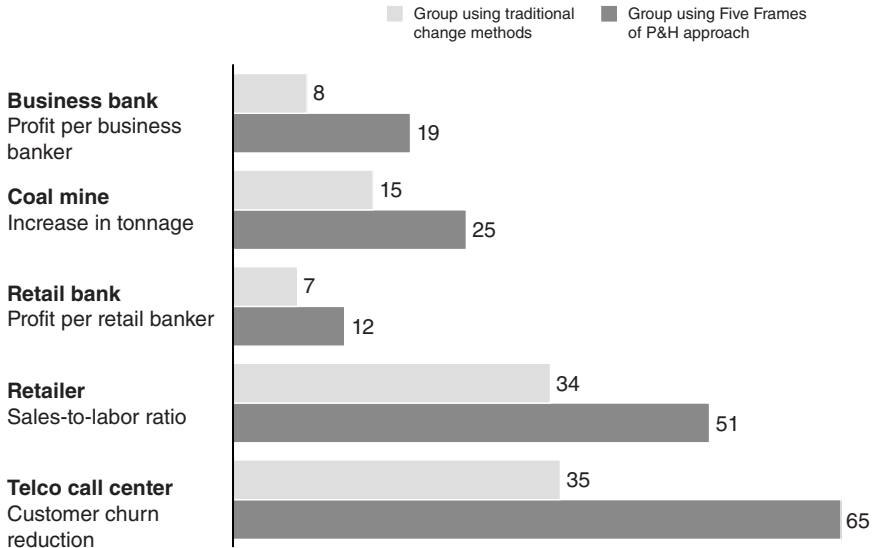
The results of the study were compelling. In business banking, the traditional approach yielded improvements in value of 8 percent versus the control group, whereas adopting our new “performance and health” approach delivered improvements of 19 percent. In retail banking, the traditional approach delivered a 7 percent improvement, compared with 12 percent for our new approach.

To shed more light on this causal link, here’s an anecdote from our own experience. At McKinsey, we have an internal competition called the New

Exhibit 1.4

Testing the Power of Performance and Health Interventions

Comparison of traditional and experimental change efforts over an 18- to 24-month period



Ventures Competition to develop new knowledge and service offerings. In the New Ventures Competition, teams of consultants compete to develop new management ideas and present them to a panel of judges at local, regional, and organization-wide heats. In the 2006 version of the event, our topic of organizational health made it through to the last round.

A few days before their final presentation, the organizational health team decided to add in an extra ingredient. Rather than drawing conclusions from a retrospective view of performance and health at various organizations, they asked themselves, “If we look at the health of today’s high-performing companies, what does it tell us about their prognosis for performance in the future?” After reviewing publicly available information about many companies, the team singled out Toyota.

In 2005, Toyota had set an aspiration to become the world’s largest carmaker. Renowned for its manufacturing expertise, the company had developed unusually close collaborations with suppliers during decades of shared experience. But this new aspiration would force it to expand so

rapidly that it was hard to see how its supply-chain management capability could keep up. The company would have to become increasingly dependent on new relationships with suppliers outside Japan, yet it didn't have enough senior engineers in place to monitor how these suppliers were fitting into the Toyota system. And the engineers it did have wouldn't be able to give new suppliers a thorough grounding in how to do things the Toyota way in the limited time available.

In front of the judges at the finals of the 2006 New Ventures Competition, the team put their stake into the ground. Toyota, with its proud reputation for building quality into its products at every step, was likely to have health issues that would affect its medium-term performance. Having sat through a day of novel ideas, the panel of judges reacted with outright disbelief. Toyota had just posted a 39 percent increase in net profit largely driven by sales, and appeared to be on a roll. One of the judges remarked that the team's prediction was "provocative, but completely ridiculous."

Fast forward to 2010, and Toyota was in the throes of recalling a number of models on safety grounds. So serious was the situation that its president Akio Toyoda was called before the U.S. Congress to offer an explanation and an apology for the defects. The general consensus was that one of the primary reasons for the quality breakdown was the turn of events the team had foreseen four years earlier.

We see the proof that health is a significant causal driver of performance as great news for leaders. Unlike many of the other factors that influence performance—changes in customer behavior, competitive moves, government actions—your organization's health is something that *you* can control. It's a bit like our personal lives. We may not be able to avoid being hit by a car speeding around a bend, but by eating properly and exercising regularly, we are far more likely to live a longer, fuller life.

The Perils of Performance

Putting equal emphasis on performance and health is not easy. When your back is up against the wall and large-scale change is required to reverse downward trends, it often feels counterintuitive to spend time on health. Indeed, short-term gains can be made without tending to health, but they are unlikely to last.

Perhaps the starkest example of the perils of pursuing performance at the expense of health is the story of Albert J. Dunlap, famous for taking over struggling companies, ruthlessly downsizing them, and selling them at a profit. Dunlap's mantra was, "If you're in business, it's for one thing—to make money." When he took over U.S. appliance maker Sunbeam Products, true to his "Chainsaw Al" nickname, he sold two-thirds of its plants and

fired half of its 12,000 employees. Ironically, at this point, Sunbeam's stock price proceeded to rise so high that it wrecked his plans to sell the company. Having compromised Sunbeam's health, Dunlap now found he needed to sustain its performance for the coming years. But the damage was too great. Just two years later, Sunbeam was facing quarterly losses as high as US\$60 million, and Dunlap was fired.

Compare Dunlap's tactics to those of Lou Gerstner when he took the helm at IBM. Despite pressure from Wall Street to engineer a rapid turnaround at the ailing technology giant, Gerstner decided not to focus exclusively on improving its performance, but to put considerable effort and resources into improving its health, as well. Under Gerstner's stewardship, the company worked on collaborating as "one IBM" across businesses. It became more externally oriented, reduced bureaucracy, and moved from an arrogant to a continuous-learning mindset. By the time Gerstner retired nine years later, the stock had increased in value by 800 percent, and IBM had regained its leadership in multiple areas of the computer, technology, and IT consulting industry.

Perversely, the worst enemy of putting an appropriate emphasis on health isn't the presence of an urgent performance imperative, but the lack of one. When an organization is doing great financially, it's easy for a degree of complacency to set in that allows for health to decline, which in turn leads, in the best case, to a slow performance decline and in the worst case, an existential crisis.

Here the history of Atari provides a cautionary tale. The company was founded in 1972 to exploit what was then no more than a figment of a designer's imagination: the electronic game. In 1973, Atari sold US\$40 million worth of these games (remember Pong?) and earned US\$3 million in profits. Not long after, it was bought by deep-pocketed owners who invested heavily in R&D. By 1980, it was on top of the world, posting record revenues of US\$415 million and being hailed as the fastest-growing company in U.S. history. Two years later, it was saluted by Thomas Peters and Robert Waterman in their book *In Search of Excellence*.

But even as the book's readers were discovering how Atari excelled, the company was crumbling. Teamwork began to decline, communication broke down, a culture of risk avoidance set in, investment in R&D was cut, and product quality was sacrificed to the cause of faster time-to-market.

The result was some of the biggest duds in video-gaming history. The shoddy visuals and poor playing characteristics of the game console versions of Pac-Man and E.T. alienated hitherto devoted customers. Fed-up engineers left in droves, many to set up or join rival companies whose innovative products would soon woo away Atari's fan base. By 1983, the rot had set in. The company lost US\$536 million and resorted to massive layoffs.

Atari never recovered to the glory of its heyday. The shell of the company, by then little more than a brand name, was sold in 1998 for a paltry

US\$5 million. Although Atari may have been consigned to history, the gaming market to which it belonged has gone from strength to strength. Worth US\$138 billion globally, it is still growing at a tremendous pace.

Two questions arise from this sorry story. Where did Atari go wrong? And how did Peters and Waterman miss it? A single answer will suffice. Both the company and its chroniclers were so intently focused on performance that they were oblivious to the symptoms of deteriorating organizational health.

By way of contrast, consider the case of Pixar. Fifteen of the CGI animation studio's films are among the 50 highest-grossing animated films of all time. The studio has also earned 19 Academy Awards, 8 Golden Globes, and 11 Grammys—all the more impressive given that its president, Ed Catmull, had no business experience before he co-founded the company. In a talk about Pixar's creative process, he noted that the company's development process differs from that at most Hollywood studios: "Our development team doesn't look for stories. Their job is to create teams of people that work well together."¹¹ While an average Hollywood studio produces between 6 and 12 films in a year, Pixar produces just one, a risky bet given that an animated film costs approximately US\$180 million to make. "We have realized that having lower standards for something is bad for your soul," Catmull explained. Taking the right risks and accepting that bold, innovative ideas require a tolerance for uncertainty are central to the whole culture. As Catmull says, "Talent is rare. Management's job is not to prevent risk but to build the capability to recover when failures occur."¹²

In the first edition of *Beyond Performance*, we profiled numerous examples of the catastrophic impact an overemphasis on performance versus health can have. We discussed how Enron's obsessive short-term return culture caused it to develop increasingly complex off-balance sheet financing systems that drove it to Chapter 11 bankruptcy and left some of its leadership serving jail sentences. We also described how, in spite of lawmakers having in place significant financial and accounting reforms to prevent such behavior, a similar fate was met by Lehman Brothers seven years later as it became intoxicated with short-term returns at the expense of maintaining its health. Further, we profiled BP's 2010 Deepwater Horizon catastrophe, the worst environmental disaster the United States had ever seen, which was driven by health issues related to its safety and risk culture.¹³

We noted that the temptation to put performance before health isn't just a private-sector failing. We illustrated this point with the example of the systematic failures of hospital care in England at the Mid-Staffordshire NHS Foundation Trust that left patients, as one newspaper reported, "routinely neglected, humiliated and in pain as the Trust focused on cutting costs and hitting government targets."¹⁴ After an extensive inquiry, the root causes were reported to be short-term target-driven priorities, disengagement of clinicians from management, low staff morale, a lack of openness, acceptance

of poor standards of conduct, and denial of criticisms. In other words, the Mid-Staffordshire NHS Foundation Trust was suffering from a breakdown in organizational health.

Sadly, since our first edition, there have been numerous further examples. There was Volkswagen's "dieselgate" scandal in 2015, which caused its stock price to fall by a third, and was attributed to its health—in particular, a "mindset within the company that tolerated rule-breaking."¹⁵ And then, Samsung's 2016 Galaxy Note 7 smartphone recall, which led to an almost 10 percent drop in share price that was attributed to its "deeply entrenched culture of urgency."¹⁶ Meanwhile, an investigation attributed Wells Fargo's sales practices scandal that wiped \$9 billion from the bank's market capitalization to an "aggressive sales culture."¹⁷ In 2017, Uber's widely reported "culture that values results above all else"¹⁸ led to multiple employee scandals and illegal operations, ultimately forced the CEO, Travis Kalanick, to resign, and saw the company's first drop in market share for rides.¹⁹ We could fill page after page with further examples. Just as with human health, all these cases illustrate how an organization's health will decline if not regularly tended. They also highlight that when the health declines, it doesn't just affect shareholders, but also hurts employees, customers, and communities.

The flip side is also true, however. Consider the case of General Motors, another company from Peters and Waterman's research on excellence. We discussed in our first edition how organizational health issues had brought the world's most dominant carmaker to its brink. In 2009, it filed for bankruptcy and received a government bailout of US\$50 billion to resurrect itself. The company then underwent an 18-month turnaround that enabled it to pay back a significant portion of the bailout money and return to the stock market in 2010. Many observers were suggesting the company was now back on track, but our opinion differed. From our outside-in standpoint, we suggested that while the short-term financial pressures had been dealt with, the company's health issues had not. In turn, we suggested that if left untreated these issues would result in big challenges in the medium-term.

Sure enough, the internal investigation, known as the Valukas Report, into the devastating ignition-switch crisis in 2014 that left at least 124 people dead and 275 injured, was attributed to health factors such as, "No sense of urgency. No accountability or responsibility. A siloed mentality."²⁰ Mary Barra, who took over as CEO in 2014, vowed not just to deliver performance but also to improve GM's health by "driving accountability, owning each other's problems, a relentless desire to win ... having candor and transparency, [and] being customer-focused."²¹ Her efforts appear to be paying off now, with three profitable years and a strong balance sheet under her belt. As the GM experience shows, when an organization tends to its health, it improves—and with it, so does performance.

The Five Frames of Performance and Health

No doubt you already believed performance is important before you picked up this book. We hope that at this point, there is little question in your mind as to the importance of organizational health. With that well established, we bring you back to the big idea that enables leaders to successfully lead large-scale change—putting equal emphasis on performance and health. The most important word in that statement is not performance, or health; it's *and!* By putting equal emphasis on each aspect, change programs improve their odds of success from 30 percent to 79 percent, and on average deliver 1.8 times more impact than if the focus is put disproportionately on one or the other.

Analogies from the sporting world are instructive in illuminating why this is the case. Consider a sports team that is focusing single-mindedly on its performance. If all it thinks about is winning games and titles this season, it will have a rude awakening in years to come. It will have failed to recruit new members, develop the bench, secure stakeholder support, obtain financial backing, build community relationships, and so on.

On the other hand, if the team takes steps to improve its health, it will improve its performance, as well. Recruiting promising new members will help it perform better in the future. In turn, performing better will make it easier to recruit new members and secure financial backing. A team that performs well this year is a product of superior financing, recruitment, and training in the past. In this way, paying attention to performance *and* health creates a virtuous cycle of sustained excellence over time. An important aspect of the “and” concept is that both performance and health require action *today*, even though returns on investments in health may not materialize until later.

So how, in practice, can you, as a change leader, put equal emphasis on both? If you're looking for simple recipes or quick rules of thumb that characterize much of the management literature in the social media era, you won't find them here. Large-scale change requires far more than quick fixes. As Louis Lavelle, in a book review in *Businessweek*, explains: “To hear most authors of business books tell it, there is no management conundrum so great that it can't be solved by the deft application of seven or eight basic principles. The authors are almost always wrong: big public companies have too many moving parts to conform to any set of simple precepts.”²² We agree. At the same time, we've tried not to introduce any complexity that doesn't add value—abiding by Einstein's edict that everything should be made as simple as possible, but no simpler.

We recommend leaders of large-scale change apply what we call the Five Frames of Performance and Health. The first step in understanding the approach is to see how the overall change journey has been divided

into a set of smaller, more manageable stages. This is not a new idea. In 1947, German-American psychologist Kurt Lewin developed one of the first models to structure the change process. Lewin's three-stage process consisted of "unfreezing" (dismantling defense mechanisms), "moving" (towards the intended change), and "refreezing" (stabilizing new levels of performance).²³ In the past 70 years, academics, commentators, and practitioners have offered numerous variations. There's the "identify, plan, adopt, maintain, evaluate" model. There's also the "believe, decide, act, achieve, maintain" model. Or, how about the "evaluate, vision, organize, link, vest, embed" model? Wait, what about the "prepare, connect, discover, activate, integrate" model? Or the "define, discover, dream, design, destiny" model? The good news for leaders is that most of these people are saying much of the same thing.

For our purposes, we chose to break the change journey into five stages. We found that less didn't allow for enough practical specificity, and more added unnecessary complexity. We also chose to describe each stage by the basic question that should be answered by the work, to make it simple to know when to move from one stage to the next (if you have the answer, move forward!). Finally, we wanted to keep the five stages as simple and memorable as possible, so we summed each up in a word beginning with the same letter. Taken together, the five stages in the change process that we advocate are collectively known as the "5As." They are:

- *Aspire*: Where do we want to go?
- *Assess*: How ready are we to go there?
- *Architect*: What do we need to do to get there?
- *Act*: How do we manage the journey?
- *Advance*: How do we continue to improve?

What distinguishes our approach is not these 5As. What is unique is the explicit and practical guidance given to tackle the performance and the health aspects in each of the five stages. This is provided in the form of five frameworks for performance (one for each stage of the journey), and five frameworks for health (also one for each stage). Hence the shorthand nomenclature, the Five Frames of Performance and Health.

The five performance frameworks are:

- *Aspire*: **Strategic objectives**. Create a compelling long-term change vision, roll back the future to a mid-term aspiration, and guard against biases in the process.
- *Assess*: **Skillset requirements**. Forecast skill "demand" and understand skill "supply" dynamics, and then identify how any gaps will be closed.

- *Architect: **Bankable plan.*** Define the portfolio of initiatives to deliver on your strategic objectives and fulfill your skill requirements, then programmatically sequence actions and reallocate resources to deliver.
- *Act: **Ownership model.*** Establish strong governance; decide how to scale up your portfolio of initiatives; monitor progress and dynamically adjust as plans are implemented.
- *Advance: **Learning infrastructure.*** Institutionalize processes and expertise to enable knowledge sharing, continuous improvement, and continuous learning to characterize the day-to-day workings of the organization going forward.

The five health frameworks are:

- *Aspire: **Health goals.*** Objectively check your health, choose where to be exceptional, and target any ailing areas in need of immediate improvement.
- *Assess: **Mindset shifts.*** Pinpoint the helping and hindering behaviors related to health priority areas, explore the underlying mindset drivers of these behaviors, and name and reframe the critical few “root-cause” mindsets.
- *Architect: **Influence levers.*** Reshape the work environment to influence needed shifts in mindsets and behaviors by hardwiring health interventions into performance initiatives and interactively cascading the change story.
- *Act: **Energy generation.*** Mobilize influence leaders, make the change personal for a critical mass of leaders, and maintain high impact two-way communications.
- *Advance: **Leadership placement.*** Prioritize roles by value-creation potential based on the go-forward strategy, match the best talent to priority roles, and operationalize the talent match process to ensure it’s regularly revisited.

We realize that written out in this fashion the Five Frames of Performance and Health is a lot to take in, and it’s hard to visualize how it all comes together. A sporting analogy is helpful. Imagine that you *aspire* to become a marathon runner. You decide the marathon you’d like to compete in, find out when it takes place, work out how long you have to train for it, and set your performance targets accordingly. Perhaps you even have a finishing time in mind. Having decided on your performance aspiration, you can then work out your health aspiration: the level of fitness you’ll need to run the marathon in your chosen time.

Next you need to *assess* your current skills and mindsets as a runner. On the performance side of things, how fast can you run? How good is your

technique? Do you have the right equipment? Can you get access to the facilities you need? On the health side, do you have the mental toughness to achieve your target fitness level? What dietary changes are you prepared to make to get into better shape? How much time are you willing to dedicate to training? If you have unhealthy habits like smoking or staying up too late, do you have the willpower to give them up?

Armed with this information, you can *architect* a training plan to improve your performance by alternating high- and low-intensity workouts and extending your range gradually over a few months. On the health side, you can plan a diet that will give you the energy you need. You may also want to make adjustments in other aspects of your life: letting go of commitments to free up time, telling your friends you won't be seeing them as often for a while, finding the money to pay for a trainer, and so on.

Then it's time to *act* on the plan. In terms of performance, you start out gradually and then ramp up your training. You manage your schedule to allow for the planned training to occur. You monitor and review your results and adjust your approaches as you go to ensure you're hitting the required milestones in terms of timing and distance. In terms of health, you take personal accountability for the changes to your diet and your life in general rather than procrastinating and find ways to keep your energy levels and motivation high—writing a blog, having a running partner, and celebrating small victories along the way.

Once you've successfully completed your first marathon, you consider how to make this more than a one-off event—how you can *advance* your running after the event. On the performance side, what marathons will you train for next, or will you branch out into triathlons or other Ironman competitions? Will you take a break after the marathon before resuming a fitness regime and, if so, for how long? What will that baseline training program look like before you ramp up again for your next marathon? If you get injured, what is your backup plan? On the health side, you ensure you've got the right people in the right roles to support you in the journey ahead. Who is the best trainer at this point in your running journey, now that you have more experience and different objectives? Who's the best running partner? What friends and family should you gravitate toward and away from to maintain healthy habits? Do you need a nutritionist, and if so who is the best for you? And so on.

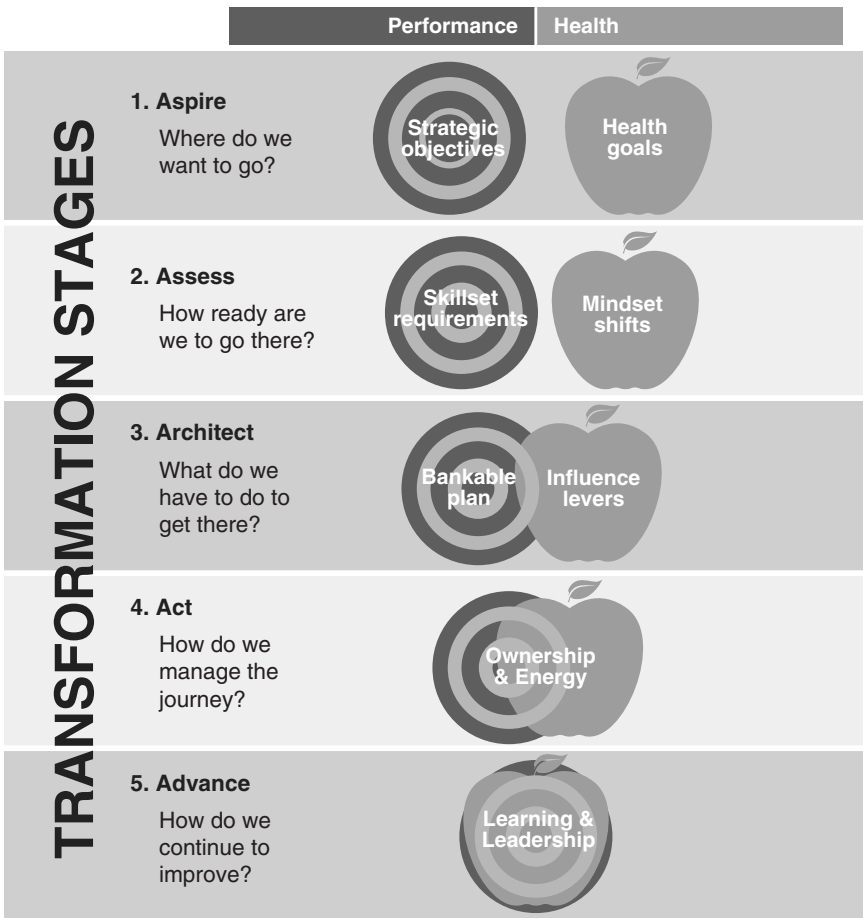
Many readers will no doubt sense in reading the above that the Advance stage sounds a lot like it's setting the stage for another cycle of the Five Frames, starting with Aspire. They'd be right. The approach is tailor-made for an organization to drive multiple "S-curves" of change (ramping up into an intensive period of activity and radical improvement followed by a period of restoration while still improving incrementally, giving way to another ramp-up in intensity, and so on). If both performance and health are improved during each cycle, over time the organization "learns to learn" and becomes characterized by continuous change. The old adage applies: give a person a fish and he will eat today; teach a person to fish and he will

eat every day. To extend the metaphor, teach a person to learn and he or she will be able to hunt and gather and farm as well as fish!

Having now described each element of the Five Frames, it's important to emphasize how they work together "horizontally" and "vertically." Let's start with the horizontal elements. In practice, the performance and health elements in each stage are far more integrated with one another than the lists above imply. Exhibit 1.5 illustrates their relationship more clearly.

Exhibit 1.5

The Five Frames of Performance and Health



In the initial stages of the journey, the work related to each of the performance and health elements is more self-contained than not (though not completely: in the Aspire stage the health goals chosen will be those that enable the performance aspiration, as we'll cover in Chapter 3). As the change journey progresses, however, working on performance increasingly reinforces health, and vice versa. By the Act stage, in which the initial implementation of the plan takes place, there is one integrated change program that employees experience—the distinction between performance and health is really just semantics at this point.

We have seen some cases of leaders grasping the concept of performance and health, but not understanding this need for integration, and therefore saying to their business heads, “do the performance stuff” and to their HR department, “do the health stuff.” Unfortunately for all involved, any approach that runs two programs in parallel is doomed to failure.

Now let's move to what we mean by the “vertical” relationship between the elements of performance and health. While we lay out the 5As change process in a linear fashion (start with Aspire, then move to Assess, then Architect, and so on), in practice its application is far more dynamic and iterative. If we go back to the marathon analogy, as the event approaches an injury or personal circumstances may require the aspirations and the plan to be reassessed. Similarly, an organization may find out in the Assess stage that its change readiness is such that the aspiration set in the Aspire stage just isn't realistic, and so the next step is to move backwards in the process. Or, new learnings or unexpected events in the Act stage may mean assumptions that went into the Architect stage no longer hold, requiring it to return to previous stages in the process.

Mastering Irrationality

Nobel Prize-winning physicist and co-founder of the Santa Fe Institute Murray Gell-Mann once said, “Think how hard physics would be if particles could think.”²⁴ His sentiment captures the importance and complexity of dealing with the human side of the change equation. This is precisely why having a rigorous and disciplined approach to the health aspects of change management is so refreshing for leaders. As one of our Aerospace and Defense clients enthused, “This is an approach that we engineers can get our heads around and deliver against!”²⁵ Or, as one investment banker put it, “I finally believe that the soft stuff drives value. More importantly I actually know what to do about it—and believe it makes good sense.”²⁶

Once understood, it's all quite logical, rational, and sensible. There is one problem, however. The “particles” in the physics of change management (employees) aren't just able to think—they very often do so seemingly *irrationally*. This dynamic accounts for why smart, hard-working leaders

often find themselves increasingly frustrated as a change journey unfolds by a raft of unintended consequences stemming from their well-intentioned actions. “We’ve told them what we need them do, why don’t they get it?”; “We’ve changed their incentives, why hasn’t their behavior changed?”; and “Don’t they understand that if we don’t make money then no one has a job?” are the kind of comments we hear behind closed doors from many a change leader.

Leaders who master the art of leading change take into account the lessons from the social sciences that relate to what has become known as “predictable irrationality.” To bring the concept of predictable irrationality to life, consider some common day-to-day experiences that many of us can relate to. When we’re in a hurry, how many of us circle around a parking lot looking for the most convenient space when we’d have been much quicker walking from the first one we saw? Why might we think nothing of spending US\$3,000 to upgrade to leather seats for our new US\$25,000 car, but consider it extravagant to spend it on a leather sofa that all the family will use every day? Why are we happy to spend a small fortune during sales, but reluctant to spend so much on full-price goods? How come we’d take home a pencil from the office for our kids without a thought, but be shocked at the idea of raiding the petty cash to buy them one? As these examples show, in certain situations, we are all susceptible to irrationality in our decision-making.

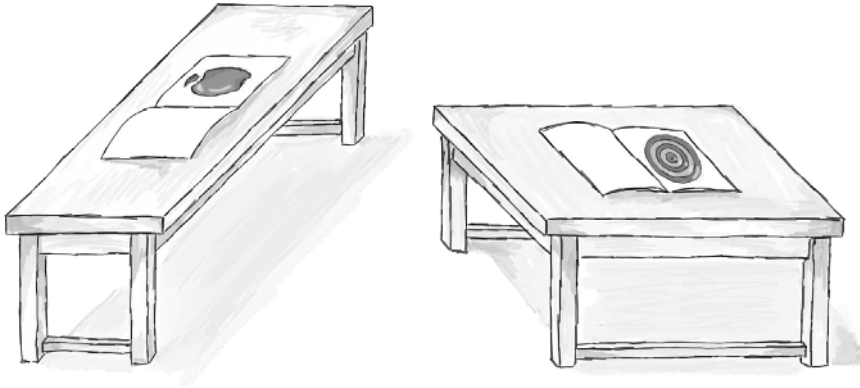
Dan Ariely, author of *Predictably Irrational*, drives this point home by showing his audiences an optical illusion.²⁷ It’s a powerful way to demonstrate that knowing something to be true doesn’t necessarily make people believe it—a prime example of irrationality. Have a look at the two tables in Exhibit 1.6. Which is longer? Easy: the one on the left. Now take out a ruler and measure them.

Lo and behold, they are exactly the same length. Now look at the picture again. Which table is longer? Still the left! It’s as if you’ve not learned anything in the past few seconds.

How do we know which table you see as longer? Because there are certain predictable ways in which our eyes deceive us, and this is one of them. What’s most striking about optical illusions like the “two tables” (a.k.a. the Shepard illusion) is that processing visual information is one of the things human beings do best: the visual cortex is the biggest part of the brain. So, if we make mistakes in vision—something that by and large we are very, very good at—what are the odds we’ll make mistakes in something that we aren’t so good at, like change management?

The social, cognitive, and emotional biases that lead to seemingly irrational decisions are already well understood and incorporated into the field of economics. The same is not true of the field of change management and organizational leadership, however. It should be, and with that in mind, in each of the 5As we call out the most important lesson from human irrationality that should be considered and how to constructively work with it—something we

Exhibit 1.6

Two Table Illusion

call the change leader “Master Stroke.” These enable you to foresee otherwise counterintuitive and unpredictable barriers to change and masterfully use them to accelerate progress and maximize impact instead.



At this point, we hope that if someone saw this book on your desk and asked you what it’s about, you’d respond with, “How to successfully lead large-scale change programs.” When pressed for more, you’d be able to expand on the central thesis by saying, “It says the key is to put equal emphasis on actions related to performance (e.g., the *buy, make, sell* stuff) and health (e.g., the *align, execute, renew* stuff).” If you were then asked the logical follow-up question about how to do that, we hope you’d respond with, “There’s a five-stage methodology called the Five Frames of Performance and Health, which is covered in detail in chapters to come.”

We also hope you’d answer the questions with a deeper understanding and conviction that what is often referred to as the “hard stuff” turns out to be the easier part of making change happen. As Roger Enrico, former chairman and CEO of PepsiCo, put it, “The soft stuff is always harder than the hard stuff.”²⁸ In this spirit, the next chapter will be dedicated to diving deeper into organizational health, its components, and the full research base behind it. We’ll then get into the practical specifics of how to apply each of the Five Frames of Performance and Health to ensure your change program is a resounding success.