

The Advantage

From *The Advantage: Why Organizational Health Trumps Everything Else in Business* by Patrick Lencioni (2012)

The Case For Organizational Health

Before leaders can tap into the power of organizational health, they must humble themselves enough to overcome the three biases:

The Sophistication Bias

In an age where we believe that differentiation and dramatic improvement can only be found through complexity, it is hard for well-educated executives to embrace something so simple and straightforward.

The Adrenaline Bias

Leaders often get hooked on the rush of constant activity and putting out fires. They fail to slow down and address issues that are critical but not urgent.

The Quantification Bias

Becoming a healthy organization is difficult to quantify compared to hard data. It requires conviction and intuition that overly analytical leaders have a hard time accepting.

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.

Understanding Organizational Health

Successful companies must be smart and healthy.

Smart versus Healthy

SMART QUALITIES	HEALTHY QUALITIES
Strategy	Minimal politics
Marketing	Minimal confusion
Finance	High morale
Technology	High productivity
Engineering	Low turnover

Most leaders over-focus on smart qualities for the following reasons:

- Better lighting (a tendency to solve comfortable, measurable issues)

- Permission to play (being smart is a commodity and a minimum standard for success)

The 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.

Health Begets -- and Trumps -- Intelligence

- An organization that is healthy gets smarter over time. Leaders learn from one another, identify critical issues, recover quickly from mistakes, and create environments in which employees do the same
- An organization that is smart does not mean it will get healthier. In fact it may suffer. Leaders who pride themselves on expertise and intelligence often struggle to acknowledge their flaws and learn from their peers

The Multiplier Effect

- The healthier an organization is, the more of its intelligence it is able to tap into and use
- The success of companies is often incorrectly attributed to intellectual prowess
- The failure of companies is often incorrectly attributed to obvious tactical and strategic mistakes

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.

Media and Academia

- Organizational health is not 'sexy,' so journalists don't talk about it. Its impact is difficult to measure. Its elements are not new
- Leadership, teamwork, culture, effective meetings, etc., are often discussed in isolated, discrete, and theoretical ways instead of as an integrated, practical discipline

The Price of Poor Health

The financial costs of an unhealthy organization include wasted resources and time, decreased productivity, increased employee turnover, and customer attrition. Unhealthy organizations create anguish that has a trickle-down effect. The social cost is staggering. Employees often:

- See work as drudgery
- View success as unlikely or out of their control
- Have a diminished sense of hope
- Find the experience leaking into their personal lives

What does an organization have to do to become healthy? There are four required disciplines...

Discipline #1: Build A Cohesive Leadership Team

Defining a Leadership "Team"

A leadership team is a small group of people who are collectively responsible for achieving a common objective for their organization.

Few organizations invest nearly enough time and energy in making their leadership teams cohesive, and certainly not with the level of rigor that it requires and deserves. Teamwork is not a virtue. It is a choice - and a strategic one.

The Five Behaviors

NOTE: These are covered in greater detail in *The Five Dysfunctions of a Team: A Leadership Fable* by Patrick Lencioni (2002).

Behavior 1: Building Trust

Behavior 2: Mastering Conflict

Behavior 3: Achieving Commitment

Behavior 4: Embracing Accountability

Behavior 5: Focusing on Results

Checklist for Discipline #1

- The leadership team is small enough (three to ten people) to be effective.
 - Members of the team trust one another and can be genuinely vulnerable with each other.
 - Team members engage in productive, unfiltered conflict around important issues.
 - The team leaves meetings with clear-cut, active, and specific agreements around decisions.
 - Team members hold one another accountable to commitments and behaviors.
 - Members of the leadership team are focused on team number one. They put the collective priorities and needs of the larger organization ahead of their own departments.
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Discipline #2: Create Clarity

There are six questions that must be answered together in order to create clarity.

1. Why Do We Exist?

Employees in every organization, and at every level, need to know that at the heart of what they do lies something grand and aspirational. Here are critical factors for identifying your reason for existing:

- Answering the question is not the end of the clarity process
- The reason for existing, the purpose, has to be true
- The process of determining purpose cannot/should not be confused with marketing
- The answer should be just shy of "to make the world a better place."

"Why do we exist" categories:

- Customer (pleasing the people)
- Industry (love for the business)
- Greater Cause (being connected, playing a role in making a reality)
- Community (pride, and commitment to the neighborhood)
- Employees (providing great experience for workers and their families)
- Wealth (not really a purpose, but should be communicated up front if that is the reason)

Making money for owners/shareholders is an indicator of success, NOT a purpose or reason to exist. The answer should not be a strategic differentiator. It should only be for clarity.

2. How Do We Behave?

The answer lies in an organization's core values, which define its personality. Clear values attract the right employees and customers without excessive marketing. Avoid a "value stampede" by trying to include everything. If an organization tolerates everything, it stands for nothing. Before isolating your core values, identify and understand the different types of values:

Core Values

These are the behavioral traits at the heart of the organization's identity. They already exist and do not change over time. They cannot be created for convenience. Limit these to two or three. Examples are prioritizing long-term relationships over short-term gain, and extreme ownership of results.

Aspirational Values

These are desired characteristics that are not natural nor inherent. They must be purposefully inserted into an organization's culture. Some examples are developing stronger cross-functional collaboration, and becoming more data-driven in decision-making. Do not confuse these with core values.

Permission-to-Play Values

These are minimum behavioral standards that are required in an organization, like honesty, integrity, and respect. They don't clearly define or differentiate. Do not attempt to integrate these with core values.

Accidental Values

These are evident traits that have come about unintentionally and don't necessarily serve the good of the organization. An example is hiring employees that share a quality like age, socioeconomic status, and/or good looks. These need to be safeguarded to avoid unintended consequences.

Isolating the Core:

- Is this trait inherent and natural for us, and has it been evident for a long time? Or is it something we must consciously cultivate?
- Could we credibly claim we are more committed to this value than 99 percent of companies in our industry?
- Name core values clearly and without excessive wordsmithing—keep them specific and distinctive.
- To verify core values, examine which employees consistently act in the organization's best interest—and which do not—and assess the patterns honestly. If these disappeared tomorrow, would the organization still feel like itself? If the answer is no, you're likely looking at a true core value.

3. What Do We Do?

This is nothing more than a simple description of what an organization actually does. Guidelines:

- Make it clear and straightforward
- No adjectives or adverbs
- Nothing ethereal or abstract

- Something your grandmother would understand

NOTE: The business definition can change over time, but only when the market changes and calls for a meaningful shift in the fundamental activity of the organization. Reasons for existing and core values should not change here.

4. How Will We Succeed?

An organization's strategy is nothing more than the collection of intentional decisions a company makes to give itself the best chance to thrive and differentiate from competitors.

Since this definition is not actionable or useful for guiding decisions, it's recommended to boil it down into three strategic anchors. Strategic anchors provide the context for all decision making and help companies avoid the temptation to make purely pragmatic and opportunistic decisions.

Identifying strategic anchors:

Create an exhaustive list of everything imaginable related to the business

Look for patterns and identify items that fit together (i.e., an activity system map)

Group into three anchors. Yes, exactly three

Strategic durability:

Strategic anchors should change whenever the competitive landscape shifts and market conditions call for a different approach. How often this happens depends on the industry's strategic durability, based on the rate of innovation and the barriers to entry.

Low innovation + high barrier to entry = durable anchors that don't change often. EXAMPLE: Airlines

High innovation + low barrier to entry = weak anchors that change often. EXAMPLE: Online software companies

Low + low (law firms) OR high + high (pharmaceuticals) = average anchors.

Many leadership teams struggle with not wanting to walk away from opportunities. Strategic anchors give them the clarity and courage to overcome these distractions and stay on course.

5. What Is Important, Right Now?

NOTE: This section is covered in greater detail in *Silos, Politics and Turf Wars: A Leadership Fable* by Patrick Lencioni (2006).

Focus on one thing. "If everything is important, nothing is." Every organization, if it wants to create a sense of alignment and focus, must have a single top priority within a given period of time.

EXERCISE: List the thematic goal, defining objectives, and standard operating objectives on a single page. Use a green (on-track), yellow (needs improving), and red (way behind) color system for tracking.

The Thematic Goal

Think of this goal as a rallying cry. It must be singular in origin.

The Defining Objectives

Create four to six objectives of this goal that are:

- Qualitative
- Temporary
- Shared across the leadership team

The Standard Operating Objectives

These are the ongoing and straightforward metrics and areas of responsibilities that any leadership team must maintain in order to keep the organization afloat (i.e., the leaders' day jobs).

Metrics come last, after the thematic goal and objectives have been identified. Metrics without context won't motivate everyone. Metrics are not always quantifiable numbers and can encourage the achievement of arbitrary outcomes.

6. Who Must Do What?

Clarity around division of labor starts at the top and should not be taken for granted.

Challenge traditional roles and responsibilities. Have the leadership team write down a description of their functions and share to create clarity and eliminate confusion.. Remember that everyone on the team is responsible for all the functions, not just the department heads.

Create a playbook - a simple document summarizing the answers to the six critical questions. Keep it short, and keep in on you at all times.

Checklist for Discipline #2

- Members of the leadership team know, agree on, and are passionate about the reason the organization exists.
 - The leadership team has clarified and embraced a small, specific set of behavioral values.
 - Leaders are clear and aligned around a strategy that helps them define success and differentiate from competitors.
 - The leadership team has a clear, current goal around which they rally. They feel a collective sense of ownership for that goal.
 - Members of the leadership team understand one another's roles and responsibilities. They are comfortable asking questions about one another's work.
 - The elements of the organization's clarity are concisely summarized and regularly referenced and reviewed by the leadership team.
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Discipline #3: Overcommunicate Clarity

Great leaders see themselves as Chief Reminding Officers as much as anything else. Repetition over a prolonged period of time is the best test of seriousness. Most leaders are hesitant to repeat themselves after an all-hands meeting - they feel they've done their job after giving a speech outlining strategy or priorities. Here are some problems with this:

- Leaders confuse the mere transfer of information with the audience's ability to understand, internalize, and embrace the message being communicated
- Leaders don't enjoy the reminding role because it seems wasteful and inefficient. They've been trained to avoid redundancy in all aspects of work
- Leaders fear repetition is insulting to their employees (that they don't need to be told twice)
- Leaders fail to realize that employees understand the need for (and importance of) repetition. Messaging is not so much an intellectual process as it is an emotional one
- Leaders get bored saying the same things over and over again

Cascading Communication

This is the most reliable way to get an organization moving in the same direction. Members of a leadership team should come out of their meetings with a clear message about what was decided, promptly communicate that message to their direct reports, and have those direct reports do the same for their teams.

The three keys to cascade communication are:

- Message consistency from one leader to another
- Timeliness of delivery
- Live, real-time communication

Top-Down Communication

The most common direction that information flows. Examples include all-hands meetings, employee newsletters, regular email announcements, social media, and cascading communication. The success of top-down communication starts with Discipline 1 (build a cohesive leadership team) and Discipline 2 (create clarity).

The world is full of organizations where employees feel uninformed and in the dark even though they have access to more glossy newsletters, interactive websites, and overly produced employee meetings than they need or want.

Upward and Lateral Communication

Great organizations are not run like a democracy. Giving employees a voice can be helpful, but leaders should not give the impression that they get a vote. Upward communication will not take the place of a manager who understands and represents the views of his/her employees, nor should it be a substitute for out of touch managers.

Checklist for Discipline #3

- The leadership team has communicated the six aspects of clarity to all employees
 - Team members regularly remind the people in their departments about these aspects of clarity
 - The team leaves meetings with clear and specific agreements about what to communicate to their employees, and they cascade those messages quickly after meetings
 - Employees are able to accurately articulate the organization's reason for existence, values, strategic anchors, and goals.
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Discipline #4: Reinforce Clarity

An organization must institutionalize its culture without bureaucratizing it. A delicate but critical balance exists between too much and too little structure. Leaders must work with HR to put the right systems in place.

Non-Generics

The best human systems are the simplest and least sophisticated. The purpose is not to avoid lawsuits or copy other companies, but to keep managers and employees focused on what the organization believes is important. Human systems provide a structure that ties operations, culture, and management together, even when leaders are not present to reinforce them.

Recruiting and Hiring

Organizations often fail to define what the right and wrong people look like, hiring without clear and strict criteria or behavioral standards. Too much emphasis is placed on technical skills and experience. Leaders give themselves too much credit for good hires and forget the bad ones because of the time lag between the decision and the realization of the mistake. They also diminish judgment by adding too many layers of forms, approvals, and analysis.

A balanced approach is needed. Use a short document to explain the process and core values, with space to take notes during interviews, and ensure the process is consistent across departments. Plan interviews in advance with colleagues and establish a process for immediate review. Get creative with interviews; avoid relying solely on an office setting.

Without a clear understanding of cultural fit or misfit, and without active leadership involvement, even the most sophisticated hiring process will fail.

Orientation

First impressions are powerful. Orientation should not revolve around lengthy explanations of benefits and administration, but instead reinforce the answers to the six critical questions. Leaders must understand the value of welcoming new employees with clarity, enthusiasm, and a sense of importance, and should take an active role in its design and delivery.

Performance Management

Performance management is primarily about eliminating confusion. It consists of activities that ensure managers provide employees with clarity about expectations and regular feedback on whether those expectations are being met. Avoid processes designed mainly to protect the company legally or that turn employees into adversaries, as these lead to distrust and poor communication. The best performance management programs stimulate the right conversations around the right topics. That is the goal.

Compensation and Rewards

The primary reason to reward people is to incentivize behavior that benefits the organization. Use the six critical questions as a guide. When there is a disconnect from those questions, leaders must address it directly and work to eliminate it.

Recognition

When leaders fail to tell employees they are doing a good job, they miss opportunities to provide the recognition people crave. Gratitude, recognition, increased responsibility, and appreciation are often valued more highly than financial compensation.

Firing

The decision to fire someone is the most important part of the process and must be driven by the organization's values. If an employee's behavior aligns with core and permission-to-play values, letting them go is a mistake. Keeping a strong performer who is not a cultural fit sends a clear message that the organization is not serious about its stated beliefs. Retaining someone who clearly does not fit culturally is also a disservice to that person.

Checklist for Discipline #4

- The organization has a simple way to ensure that new hires are carefully selected based on the company's values
- New people are brought into the organization by thoroughly teaching them about the six elements of clarity
- Managers throughout the organization have a simple, consistent, and nonbureaucratic system for setting goals and reviewing progress with employees. That system is customized around the elements of clarity
- Employees who don't fit the values are managed out of the organization. Poor performers who do fit the values are given the coaching and assistance they need to succeed
- Compensation and reward systems are built around the values and goals of the organization