

JANUARY | 2017

EXAMPLE COMPANY

ORGANIZATIONAL HEALTH AUDIT REPORT



Culture Eats Strategy for Breakfast & Structure
Eats it for Lunch

- Peter
Drucker

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Executive Summary

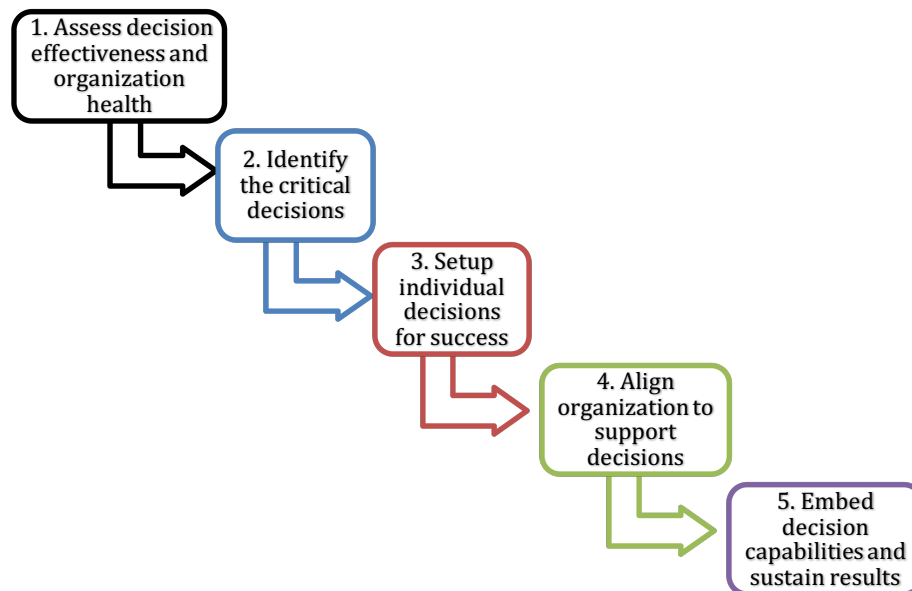
Introduction

The following pages are about how to create an organization that hums—one that can make and execute good decisions, faster than the competition, and without too much (or too little) time and trouble. No company can live up to its full potential unless it can decide and deliver.

S6 Partners and Bain & Company have consulted thousands of organizations of all sorts, large multinational corporations, entrepreneurial ventures, research universities and nonprofit institutions and together have found that they all share one consistent trait: when they focus explicitly on decisions, the organizations learn how to improve performance. As their decision making and execution get better, so do the results. Backed by years of research, together with Bain & Company, we have systematized an approach to decisions and performance. In every industry and country, there is a high correlation between an organization's decision abilities and its' financial results. There's an equally strong correlation between decision effectiveness and employee attitudes. This data is backed with a 95% confidence level for every country, industry and company size.

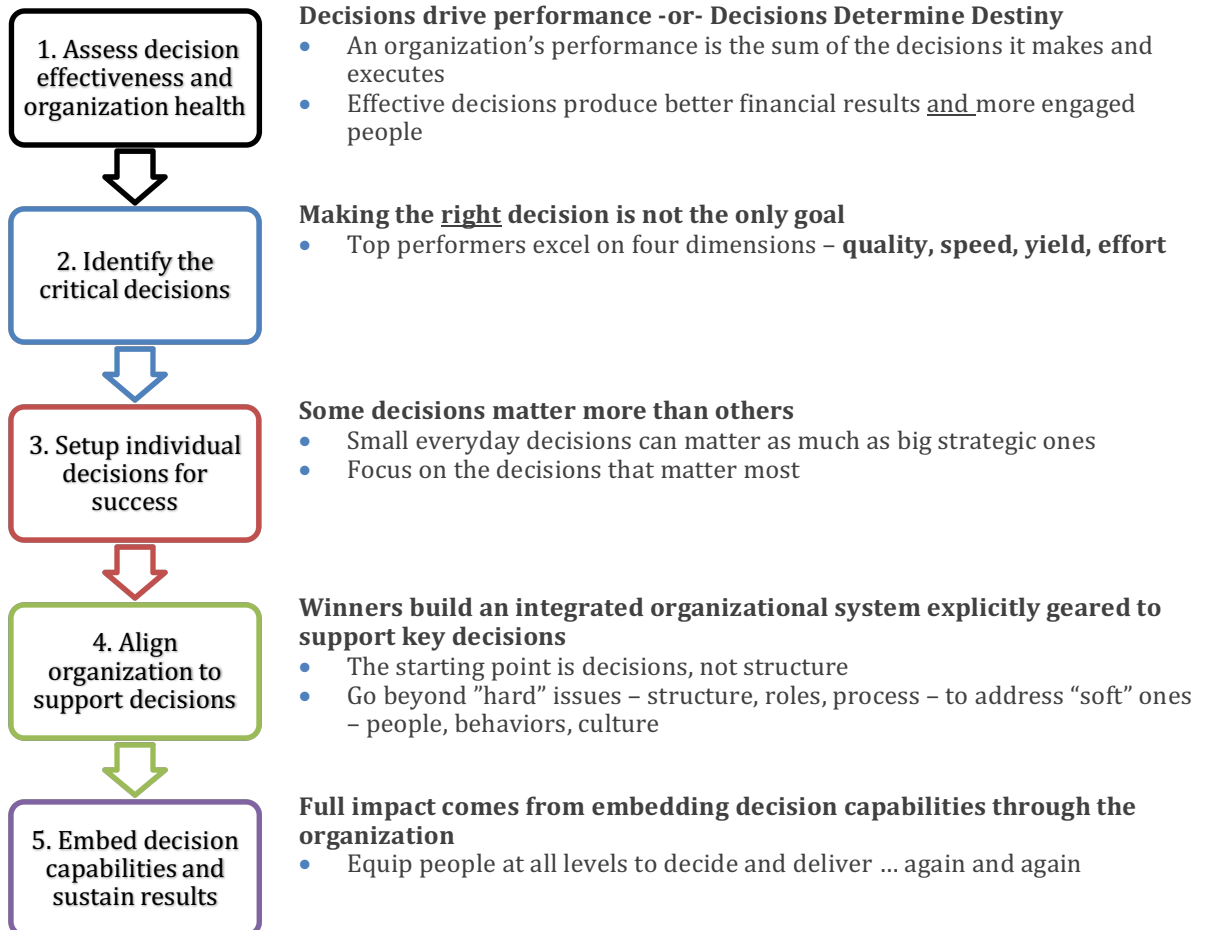
Process & Key Messages Associated with Findings

Five-Step Process



These five steps enable an organization to transform their businesses from good to great, from mediocre to High Performance.

Five Key Messages



Eight Keys to Results Delivery

DESIGN FOR IMPACT	UNLEASH DELIVERY	EMBED CAPABILITIES
<ul style="list-style-type: none"> • Create vision of improved decision effectiveness • Balance ambition with ability to deliver <ul style="list-style-type: none"> • Most critical decisions • ‘Clear the clutter’ • Engage the organization • Decision effectiveness change plan • Early decision improvements 	<ul style="list-style-type: none"> • Reinforce leadership & role model change <ul style="list-style-type: none"> • Passionate advocates • New decision behaviors • Execute with impact and speed <ul style="list-style-type: none"> • Inspire and reward • Ownership and grassroots pull • Celebration and reward 	<ul style="list-style-type: none"> • Build capability and sustain success <ul style="list-style-type: none"> • Training on new decision approaches • Tracking impact & results • Anticipate and adapt • Continuous improvement • Fast feedback loops on critical decisions • Increase capacity to deliver results

What Will Success Feel Like?

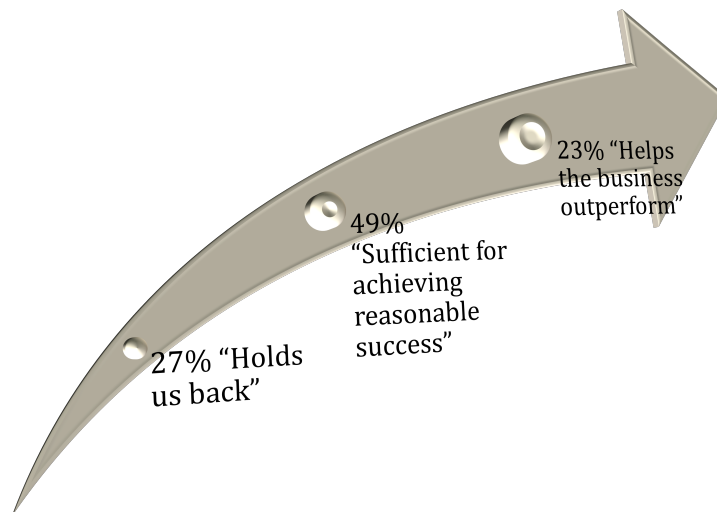
We are making and executing good decisions faster than the competition



- **Absolute clarity** throughout the organization on the **goals and priorities** of the business
- **Ingrained understanding** of the “**what, who, how & when**” for making critical decisions
- **Disciplined leadership** whose behaviors consistently drive the **best decisions** for the company
- **Healthy debate** on critical decisions, but through processes that feel **productive with minimal frustration**
- **Agility and flexibility** in decision-making to respond to dynamic circumstances

Better financial results; More engaged employees

Only 23% Are High Performance



What Do High Performers Do?



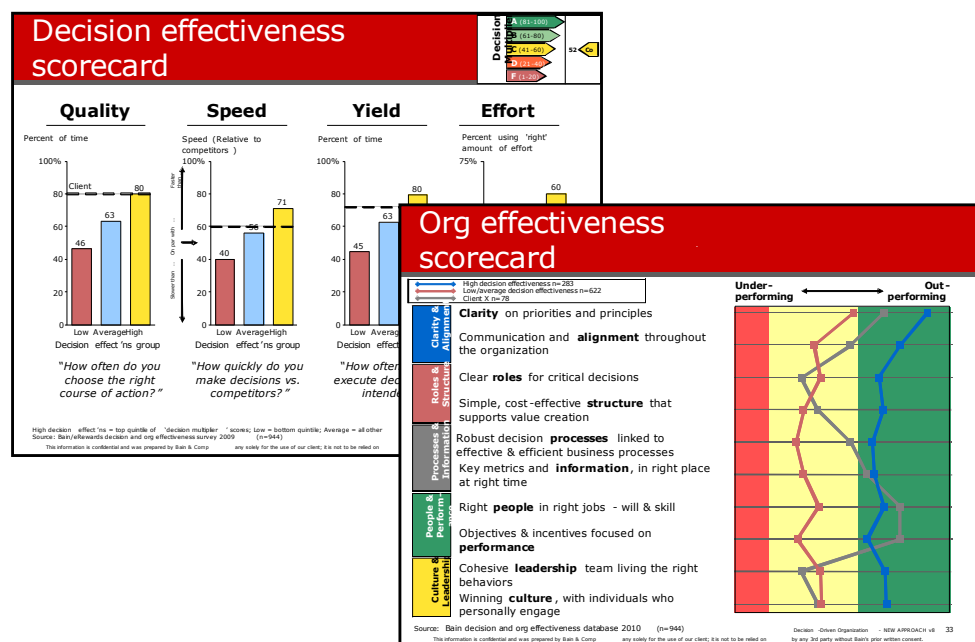
- **Clarity** on priorities and principles
- **Communication and alignment** throughout the organization
- Clear **roles** for critical decisions
- Simple, cost-effective **structure** that supports value creation
- Robust decision **processes** linked to effective business process
- Key metrics and **information** – right place, right time
- Right **people** in right jobs – will & skill
- Objectives & incentives focused on **performance**
- Cohesive **leadership** team living the right behaviors
- Winning **culture**, with individuals who personally engage

What High Performance Organizations Do Well

Clarity & Alignment	<ul style="list-style-type: none"> Do people throughout our organization have the clarity they need on priorities and strategic context to make and execute the decisions they face? Is our management team aligned around our priorities and providing consistent direction?
Roles & Structure	<ul style="list-style-type: none"> What are the specific roles and accountabilities for our most critical decisions? Does our structure support or hinder the decisions most critical to creating value?
Processes & Information	<ul style="list-style-type: none"> Are our processes geared to produce effective, timely decisions and action? Do the people in critical decision roles have the information they need when/how they need it?
People & Performance	<ul style="list-style-type: none"> Do we put our best people in the jobs where they can have the biggest decision impact? Do our measures focus people on making decisions well and quickly, and are our incentives aligned with these measures?
Culture & Leadership	<ul style="list-style-type: none"> Do our leaders at all levels consistently demonstrate effective decision behaviors? Does our culture reinforce prompt effective decisions and action throughout the organization?

Where Should You Start?

Getting practical is important. Start with a decision, organizational and employee effectiveness / attitude diagnostic.



S6 Partners – How We Add Value and Assist Your Company Become a High Performance Company

An engagement with S6 Partners should lead to:

- Understanding which decisions are most important
- A common vocabulary and set of expectations between executives and frontline employees about how to make and execute those decisions
- Employees will know how to collaborate across the organization to make decisions that benefit the business and are able to respond quickly to changing circumstances
- Continuous improvement of decision effectiveness, thus leading to greater performance
- Provide a sustainable competitive edge and create value for shareholders
- Turn your organization into a great place to work
- Greater financial performance
 - Revenue Growth & Trajectory
 - Margin
 - Value
 - ROIC
 - Ratio Performance

The first step to a high performance organization is to assess your decision effectiveness and organization health. S6 Partners does this through the use of 3 tools: Decision Effectiveness Audit, Organizational Health Audit and the Employee Attitudes Audit. Each audit will benchmark your organization relative to over 1,000 other companies and will highlight area's of opportunity.

- *Decision Effectiveness Audit:* This survey is 4 multiple choice questions and historically has taken employees less than 2 minutes to complete. This survey is for key employees, managers & leaders only. This survey assesses decision effectiveness on 4 dimensions: Quality, Speed, Yield & Effort. High decision effectiveness companies outperform competitors in core financial measures: 5-year revenue growth, 5-year average ROIC (return on invested capital), TSR (total shareholder return) each with confidence levels of 95% or higher.
- *Organizational Health Audit:* This survey consists of 10 multiple choice questions and historically has taken employees less than 4 minutes to complete. This survey is also for key employees, managers & leaders only. This survey will diagnose where the decision barriers are. This assessment will evaluate the health of the organization across 10 areas: Priorities, Decision Style, Roles, Structure, Processes, Information, People, Measures & Incentives, Behaviors and Culture.
- *Employee Attitudes Audit:* This survey is 2 questions and generally takes 1-2 minutes to complete. This survey is for every employee in the organization. S6 uses a tool called Net Promoter Score. The result of this survey will provide an internal Net Promoter Score and show you where you should be relative to competitors. The responses from employees will highlight areas of concern and help to diagnose reasons for poor performance.

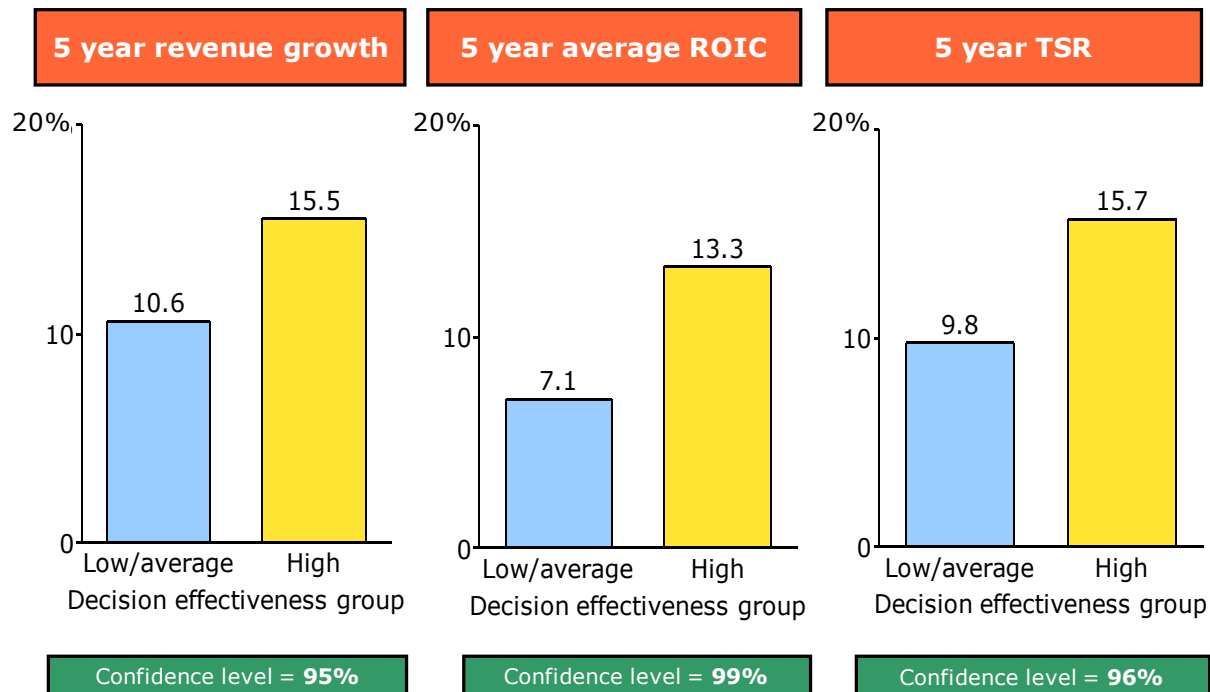
ORGANIZATIONAL HEALTH AUDIT – S6 PARTNERS

Decisions matter. They are the basic building blocks of an organization. An organizations performance relative to it's competitors is no more or less than the sum of the decisions it makes and executes. Peter Drucker is credited with saying "Culture eats strategy for breakfast". Even the best strategy can get derailed by poor decision making or execution. The tools outlined hereafter in greater detail are designed to improve decision making relative to speed, quality, yield and effort; increase the organization health and culture and improve employee attitudes. Collectively, all three together lead to greater financial performance.

What The Research Shows

Decisions Effectiveness Matters

- The connection between decisions and results is intuitive
 - Supported by data on decisions that Bain Consulting has gathered on over 1,000 companies around the world.
 - In every industry: there is a high correlation between an organization's decision abilities and financial results.
 - There is an equally strong correlation between decision effectiveness and employee's attitudes.
- High Decision Effectiveness and Great Performance
 - Correlation between decision effectiveness and performance is extraordinarily strong.
 - 95% confidence level or higher for every country, industry and company size.
 - Higher scores on decision effectiveness and decision architecture consistently generate higher levels of revenue growth and ROIC.



Company Organizational Health Audit Findings

Benchmarking the Organization

- Find out which ailments the organization is suffering from.
- The **Company Decision Effectiveness Scorecard** may indicate poor performance on, say, speed
- The **Organization Effectiveness Scorecard** will reveal the reasons FOR PERFORMANCE AND EMPLOYEE ATTITUDES.

Organizational Health Scorecards

- These assessments focus on THREE areas:
 - decision effectiveness
 - organizational health
 - employee attitudes.

Company Decision Effectiveness Scorecard

Decision Effectiveness

Decision effectiveness is measured on four interrelated dimensions:

- Quality
- Speed
- Yield
- Effort

Quality

One element of decision effectiveness is, obviously, decision quality – that is, whether a company makes good decisions more often than not.

A company with a robust approach to decisions should have a pretty high hit rate on quality.

Speed

How quickly an organization moves can be as important as how good its decisions are.

What counts most isn't absolute speed, which will vary according to the business you're in and the kind of decision you're making, but speed relative to competitors or best-in-class performers in your industry type.

Yield

Individuals often make decisions they fail to follow through on. Organizations are no different.

Poor execution of a decision that has been made naturally undermines any virtues the decision itself might have had.

YIELD – how well a company turns its decisions into action, is always critical to performance.

In some instances, yield effectiveness can be a powerful source of competitive advantage.

What counts here, isn't just the implementation of big, strategic decisions. Performance always depends on how well middle managers and frontline employees make and execute the day-to-day decisions that they are responsible for.

Effort

Effort is the time, trouble, expense, and sheer emotional energy it takes to make and execute a decision.

Decision effectiveness obviously suffers if the effort involved is greater than what the decision merits. It can also suffer if the effort involved is too little.

Effort is a little different from the other three dimensions of decision effectiveness. It's like a tax – necessary, but important to keep at an appropriate level. Effort becomes an issue only when it is substantially higher or lower than it ought to be.

A Multiplier Effect

The research supported Bain's view that each of the first three dimensions of decision effectiveness – quality, speed, and yield – is itself linked to financial performance.

The real discovery is the multiplier effect associated with decisions.

When combining the three dimensions through multiplication, you find a far tighter correlation with financial results than when you use any one element alone.

- In other words, any one element makes some difference, but all three together make a *lot* of difference.
- High decision effectiveness and outstanding financial results require high scores on quality, speed, and yield.

Effort as A Drag On Performance

Effort wasn't as highly correlated with financial performance as the other three components.

But including it refines the assessment further.

- It helps differentiate between truly great companies and merely good ones.
- Of all the companies with high scores on quality, speed, and yield, slightly fewer than half reported effort too high or low.
- Once the "Effort Tax" is factored in, this group has an overall decision score only 66 percent that of the optimal group's.
- This group of performers were about equally split between too much effort and too little.

Whatever a company's score on quality, speed, and yield, inappropriate effort will drag down performance.

Few Trade-Offs

High scores on one element of decision effectiveness are not typically associated with low scores on the other elements.

- Companies that score high on speed, for example, don't automatically score low on quality or even yield.
- Quite the contrary: Companies that make the fastest decisions are about *four times* as likely to make high-quality decisions as companies with average or low speed scores. Similar relationships hold with the other elements.

The lesson for trade-offs is this:

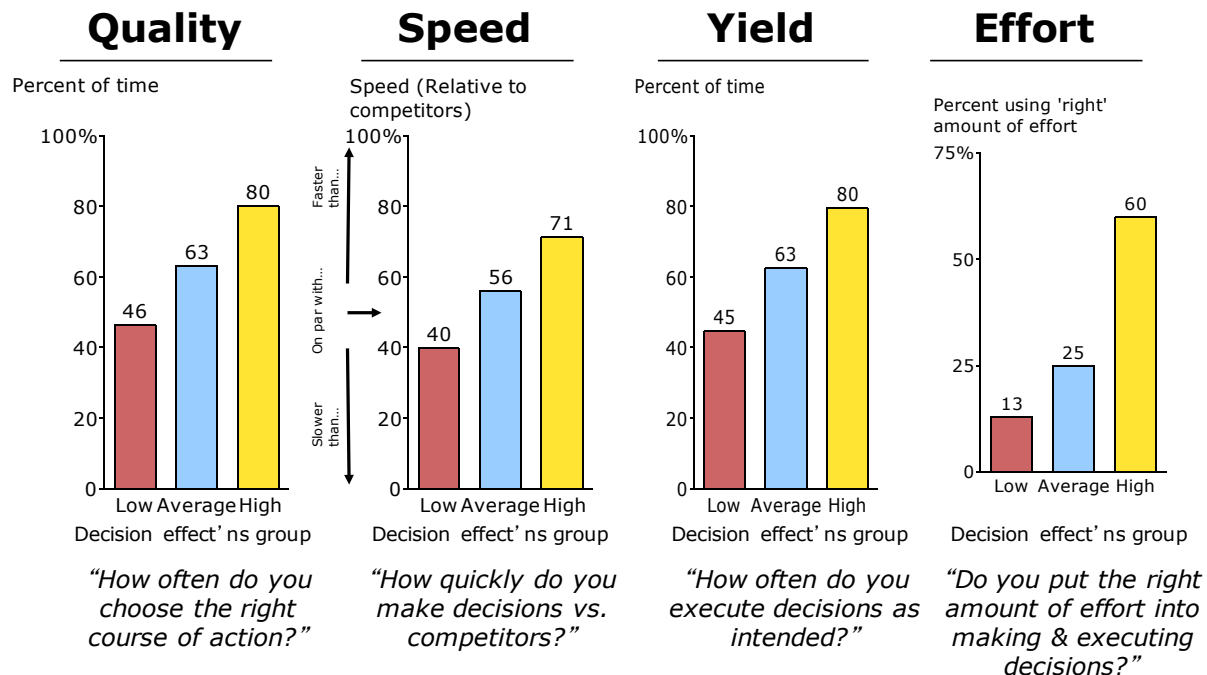
- People in top-performing organizations naturally dial speed up and down, depending on the nature of a particular decision.
- They typically move faster than competitors on their most important decisions.

Research Conclusions: A Quick Summary

- **Decisions = Performance.** Decision effectiveness and financial results correlate at a 95 percent confidence level or higher for every country, industry, and company size. Top-quintile companies on decisions generate average total shareholder returns nearly 6 percentage points higher than those of other companies.

- **Quality, speed, and yield reinforce one another.** Each factor alone correlates with financial results. But the product of all three is much stronger predictor of financial performance than any single element.
- **Effort is a drag.** Effort levels differentiate between truly great companies and merely good ones. Of all the companies with high scores on quality, speed, and yield, for instance, nearly half report effort as too high or too low – and this group’s overall decision score is only two-thirds that of the optimal-effort group.
- **Few trade-offs.** Although it’s counterintuitive, high performance on quality goes along with high performance on speed and yield, and vice versa. Companies that score highest on quality are nearly eight times as likely to execute their decisions effectively as those with average or low quality scores.
- **Room for improvement.** On a decision-effectiveness scale of 0 to 100, top-quintile companies score an average of 71. All other companies average only 28. The size of the gap may be surprising, but it is due to the multiplier effect of quality, speed, and yield on overall decision effectiveness.

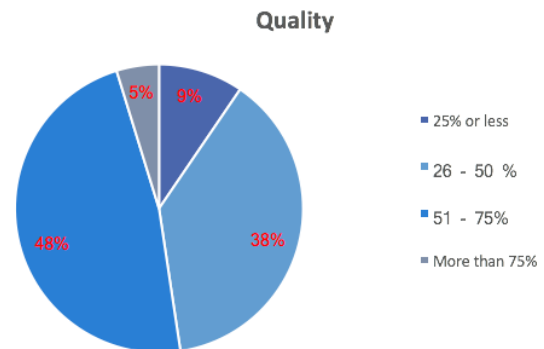
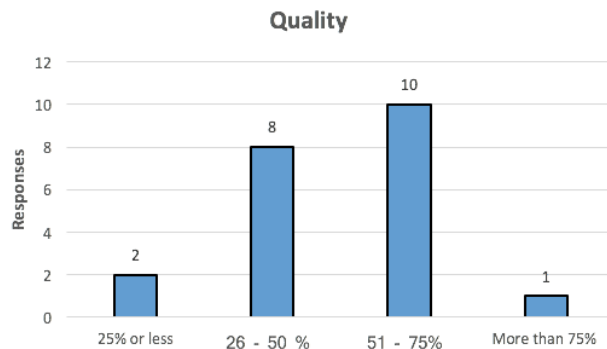
High Performers Excel On All Dimensions



Organizational Health Audit

Company Decision Effectiveness Scorecard

- When making critical decisions, we choose the right course of action:



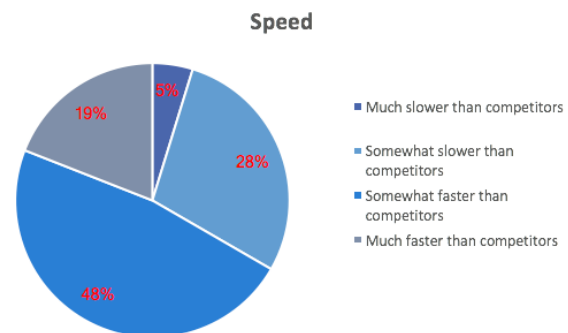
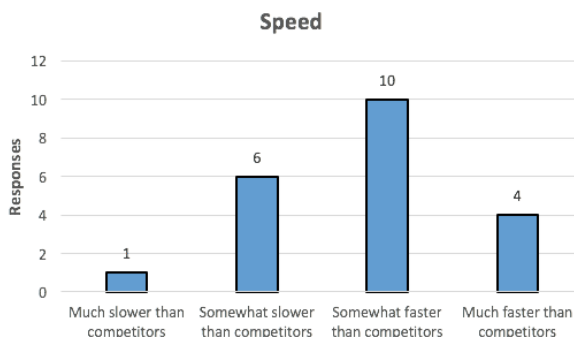
Total Responses = 21
Weighted Average = **2.48**

Margin of Error +/- 11%
Confidence Level 95%
Range 2.21 – 2.75

Organizational Health Audit

Company Decision Effectiveness Scorecard

- We make critical decisions:



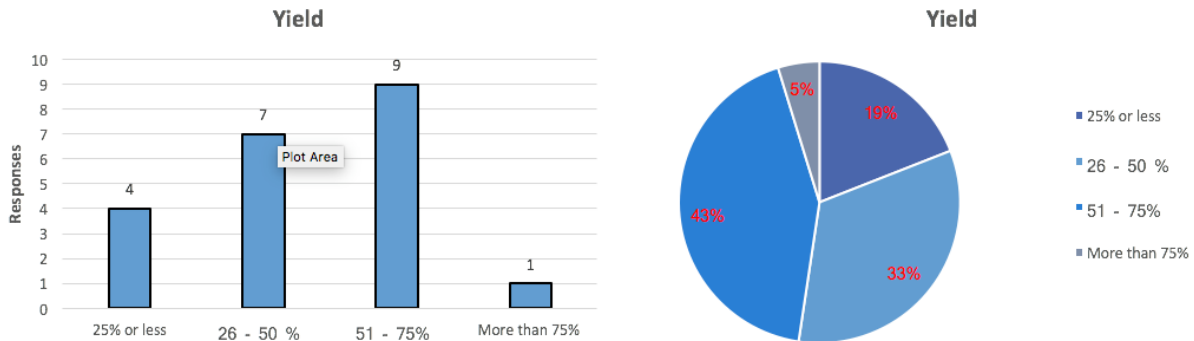
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Confidence Level 95%
Range 2.54 – 3.08

Organizational Health Audit

Company Decision Effectiveness Scorecard

- We execute critical decisions as intended:



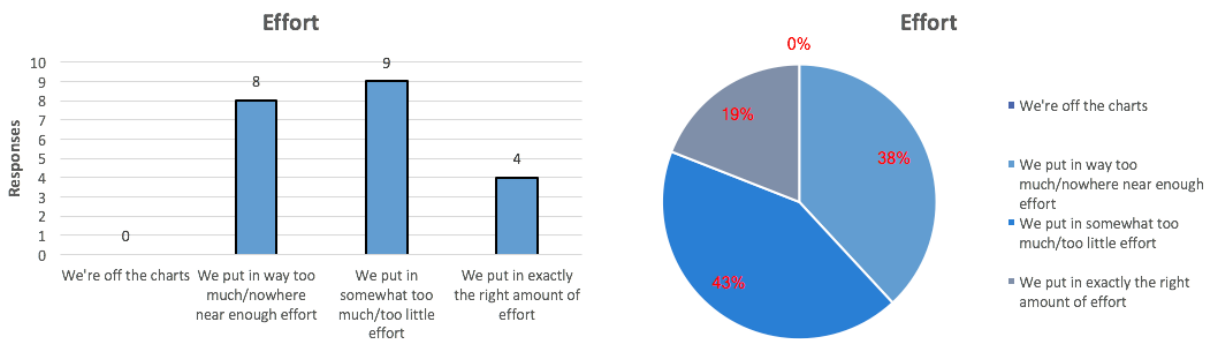
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Margin of Error +/- 11%
Confidence Level 95%
Range 2.06 – 2.6

Organizational Health Audit

Company Decision Effectiveness Scorecard

- How often do you put the right amount (not too much or too little) of effort in making and executing critical decisions?



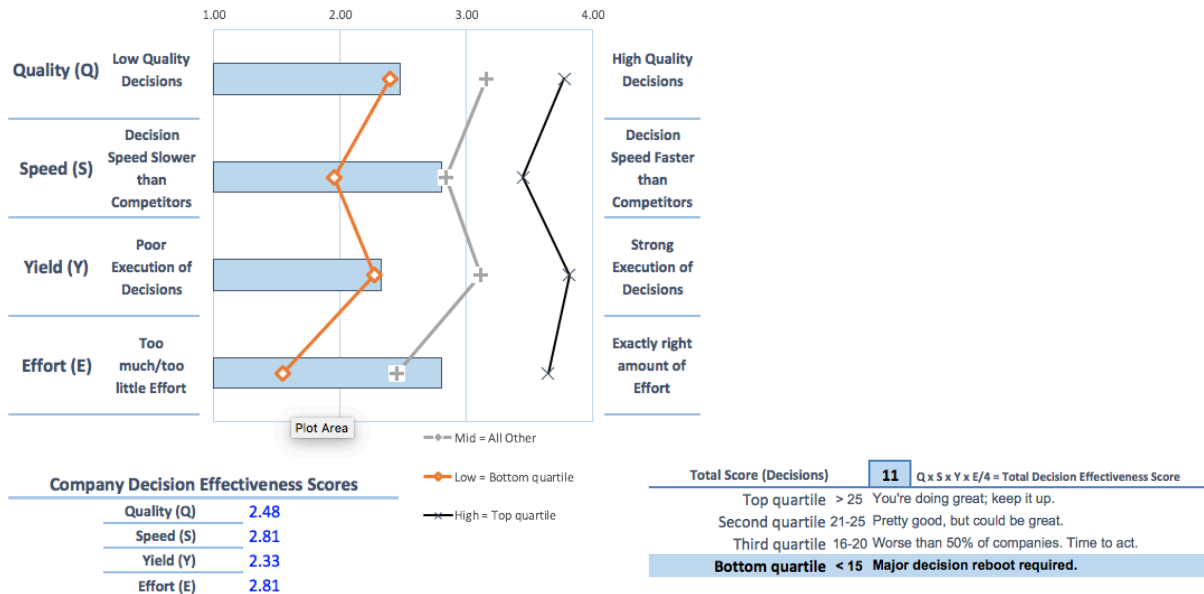
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Margin of Error +/- 11%
Confidence Level 95%
Range 2.54 – 3.38

Organizational Health Audit

FFH Decision Effectiveness Scorecard

OVERALL DECISION AUDIT RESULTS



Company Organizational Effectiveness Scorecard

Where are the decision barriers?

The Organizational Effectiveness Scorecard

This scorecard includes a lot of information.

Organizations are complex entities and can come down with any number of afflictions that compromise their performance.

Bain has bundled the questions into ten common areas and labeled each with a medical-sounding term for poor performance. Any of these ailments can compromise your organization's overall performance.

Organizational Diagnosis

- **Structural sclerosis** - The organization's structure gets in the way of good decision making and execution.
- **Decision ambiguity** - Nobody is quite sure who should play what role in major decisions.
- **Process paralysis** - Business processes are undermined by ineffective decision processes
- **Data dysfunction** - The information needed to support major decisions isn't available at the right time or in the right format.
- **Misaligned measures** - Measures and incentives don't reinforce good decisions.
- **Blurred vision** - People throughout the organization lack a clear context for making and executing the decisions they're involved in.
- **Consensus overdose** - The organization's principles for making decisions aren't effective.
- **Talent deficiency** - Positions with major impacts on decisions aren't held by people with the necessary experience and competencies.
- **Behavior breakdown** - Leaders don't walk the talk.
- **Performance anemia** - The organization's culture gets in the way of effective decisions.
 - "Culture Eats Strategy for Breakfast" – Peter Drucker

No Magic Bullet

There is no consistent relationship between a given organizational area and a specific element of decision effectiveness.

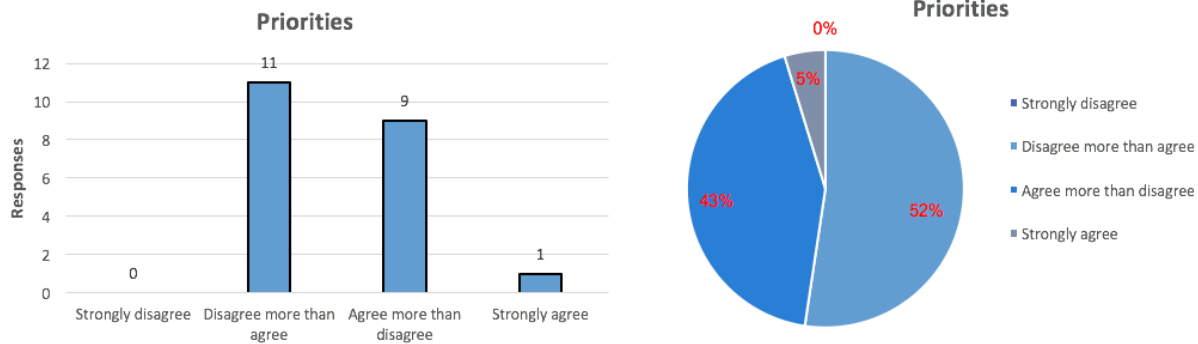
Bain's research pointed them in quite a different direction.

- Not only is there no magic bullet, but companies also can't expect to improve decision effectiveness simply through superior performance in one or another organizational element.
- An integrated approach is necessary.
 - Company's with top-quintile decision scores outperformed other companies by about 15 to 20 percent in *every single organizational area*.
 - The more elements of organizational health a company scored highly on, the higher its overall decision effectiveness.
- An organization is a system, and all the elements have to work together to produce great results.

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- People understand their priorities clearly enough to be able to make and execute the decisions they face.



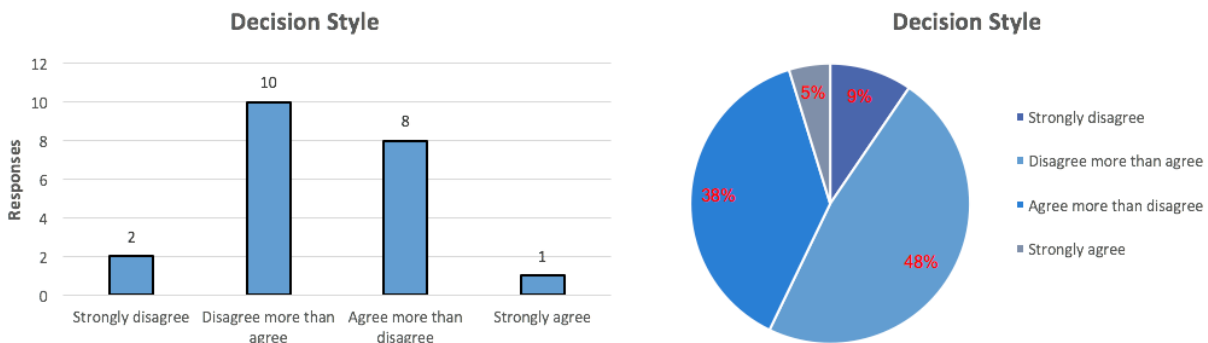
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Margin of Error +/- 11%
Confidence Level 95%
Range 2.25 – 2.79

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- We make decisions in a style that is effective (for example, that appropriately balances inclusiveness with momentum).



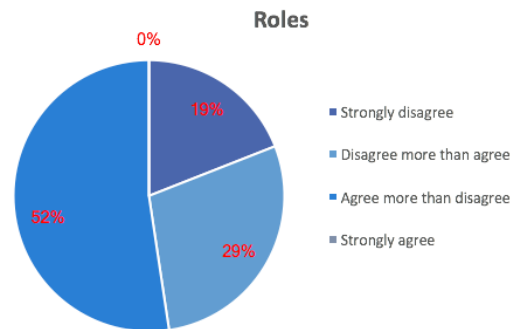
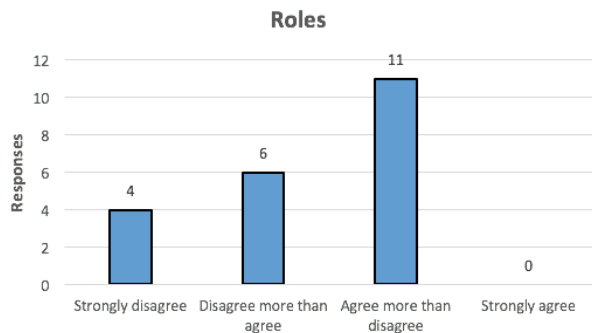
Total Responses = 21
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Margin of Error +/- 11%
Confidence Level 95%
Range 2.11 – 2.65

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- Individuals understand their roles and accountability in most critical decisions.



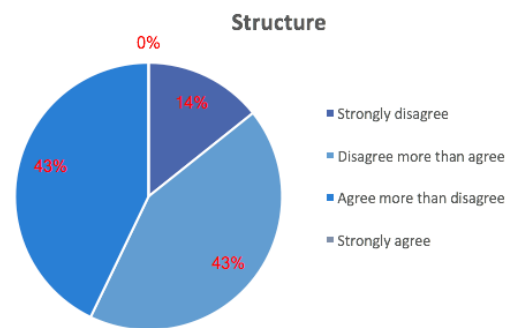
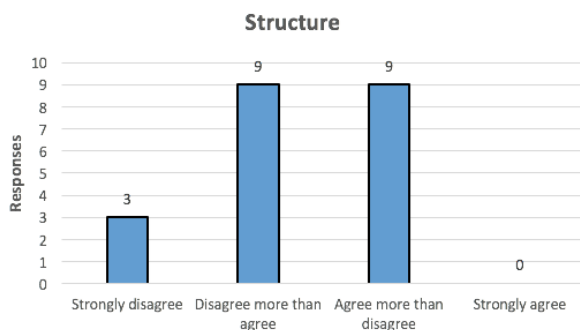
Total Responses = 21
Weighted Average = **2.33**

Margin of Error +/- 11%
Confidence Level 95%
Range 2.06 – 2.6

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- Our structure helps (rather than hinders) the decisions most critical to our success.



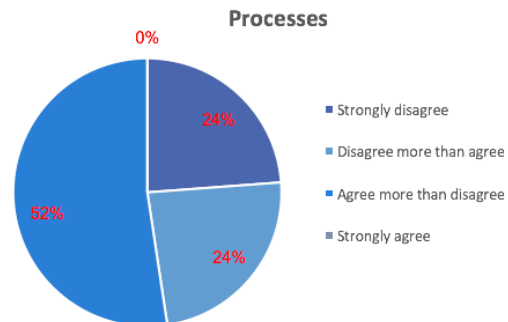
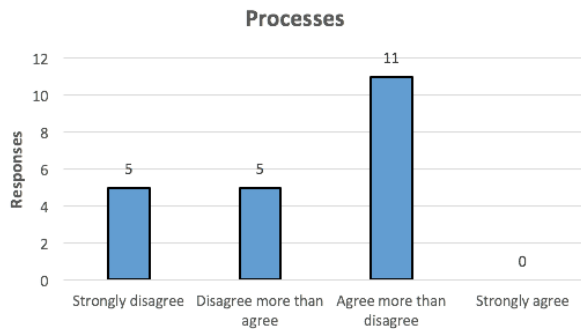
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Margin of Error +/- 11%
Confidence Level 95%
Range 2.02 – 2.56

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- Our processes are designed to produce effective, timely decisions and action.



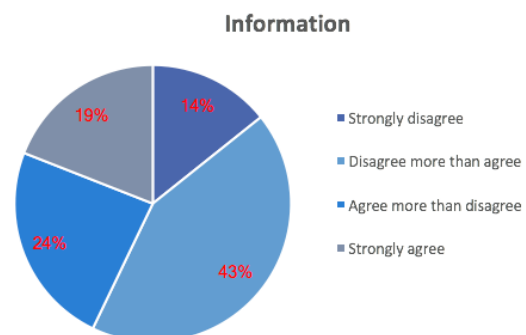
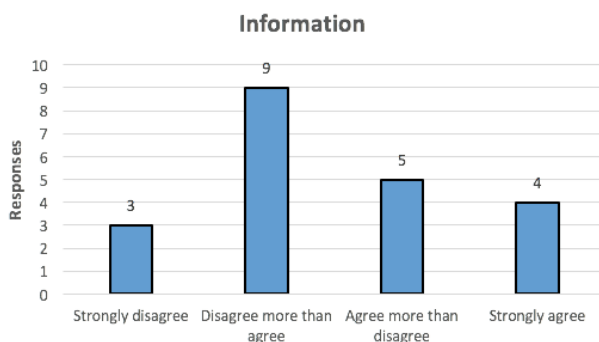
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Margin of Error +/- 11%
Confidence Level 95%
Range 1.93 – 2.47

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- The people in critical decision roles have the information they need when and how they need it.



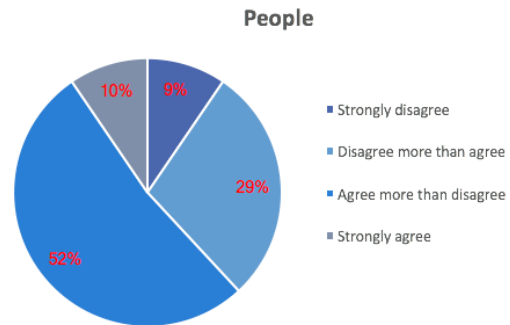
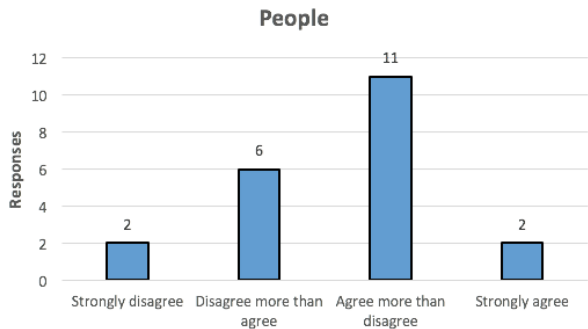
Total Responses = 21
Weighted Average = **2.48**

Margin of Error +/- 11%
Confidence Level 95%
Range 2.21 – 2.75

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- We put our best people in the jobs where they can have the biggest decision impact.



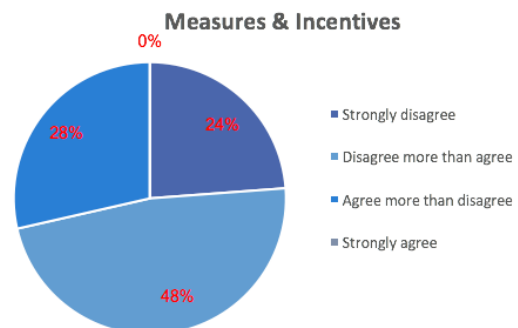
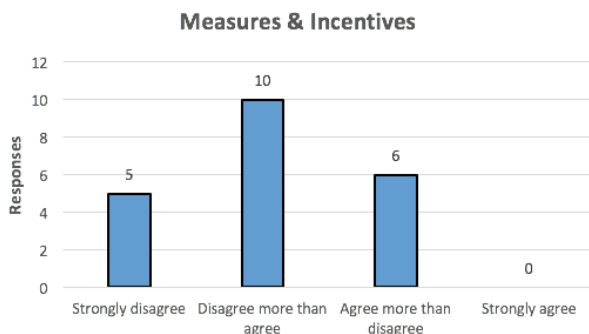
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Range 2.35 – 2.89

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- Our measures and incentives focus people on making and executing effective decisions.



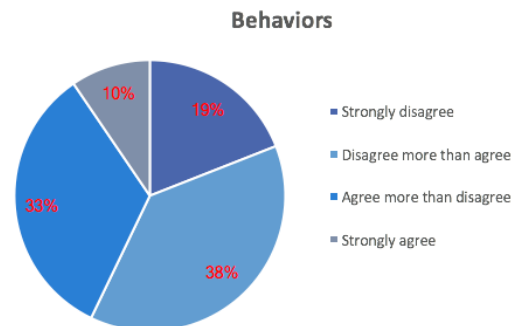
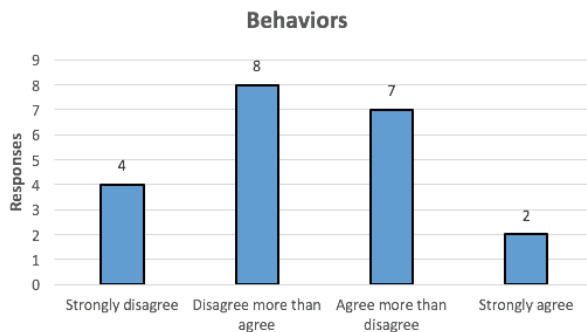
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Confidence Level 95%
Range 1.78 – 2.32

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- Our leaders at all levels consistently demonstrate effective decision behaviors.



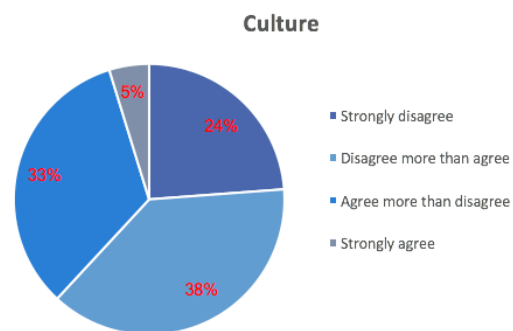
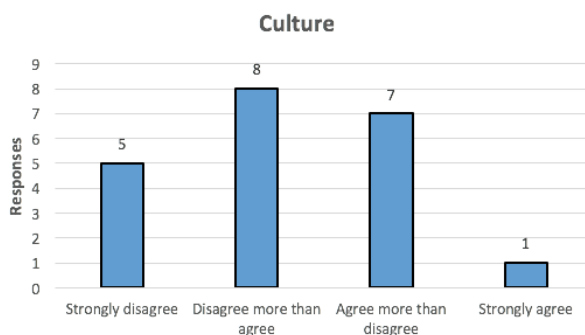
Total Responses = 21
Weighted Average = **2.33**

Margin of Error + - 11%
Confidence Level 95%
Range 2.06 – 2.6

Organizational Health Audit

Company Organizational Effectiveness Scorecard

- Our culture reinforces prompt, effective decisions and action throughout the organization.



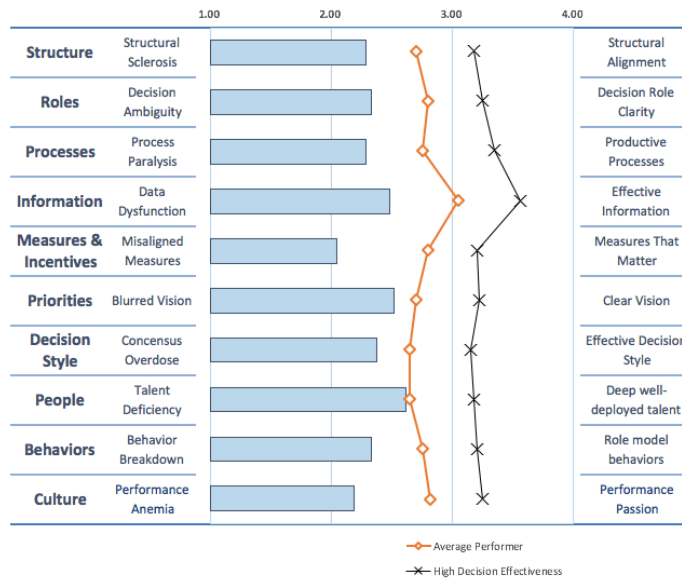
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Margin of Error + - 11%
Confidence Level 95%
Range 1.92 – 2.46

Organizational Health Audit

FFH Organizational Effectiveness Scorecard

OVERALL ORGANIZATION AUDIT RESULTS



Company Organization Scores			
Structure	2.29	Priorities	2.52
Roles	2.33	Decision Style	2.38
Processes	2.29	People	2.62
Information	2.48	Behaviors	2.33
Measures & Incentives	2.05	Culture	2.19
Total Score (Organization) 23 *Add All Scores			
Top quartile > 35 You're doing great; keep it up.			
Second quartile 31-35 Good, but room for improvement.			
Third quartile 26-30 Org is serious barrier to decisions			
Bottom quartile 10-25 Major org transformation required			

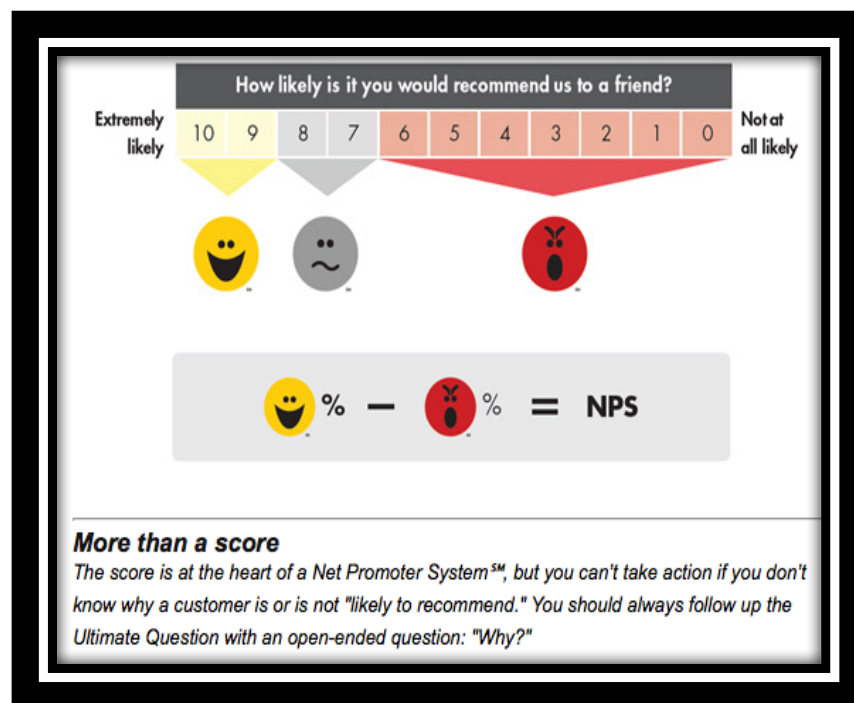
Company Employee Audit

High decision effectiveness companies also have stronger employee engagement

- High Performance companies average an NPS of 9% - 15%
- Average companies score 0% - 8%
- Low Performance companies score to <0%.

Net Promoter Score (NPS)

Net Promoter Score (NPS)



Organizational Health Audit

Internal NPS Survey Results

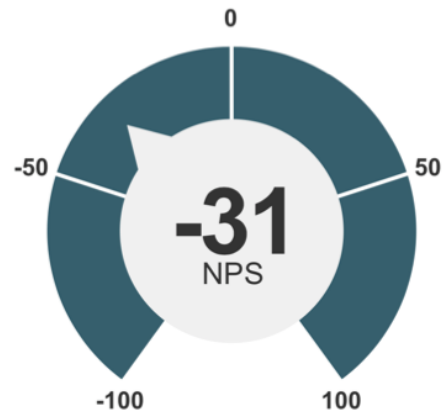
How likely is it that you would recommend Company as a place to work to a friend or colleague?

Detractors (0-6): 38 (57%) Passives (7-8): 12 (18%)
Promoters (9-10): 17 (25%)

Total Responses = 67

Confidence Level = 95%

Margin of Error = 5%



Organizational Health Audit

Internal NPS Survey Results



Why or why not?

Common Remarks:

- Lack of raises; no career advancement
- Lack of organization & accountability; Lack of training
- Poor Management & Leadership
- Poor communication
- Lack of Strategy & Direction
- Unstable
- High Turnover

Total Responses = 67

Summary of Organizational Health Audit

Company Decision Effectiveness Scorecard

- Company Decision Effectiveness Score 11
 - Company Band: Bottom Quartile < 15
 - Company CTA:
 - Major Decision Reboot Required
- Company Financial Measure Scorecard
 - Revenue
 - Company 5 Year Revenue TBD
 - HPO Companies 15.5%
 - ROIC
 - Company 5 Year ROIC TBD
 - HPO Companies 13.30%

Company Organizational Effectiveness Scorecard

- 10 out of 10 results below average company band
- Company Organizational Effectiveness Score 23
- Company Band bottom quartile 10 – 25
- Company CTA:
 - Major organizational transformation required

Employee Attitude Audit

- Company NPS Score -31
- Company in Low band (Low Band < 0%)
- 57% Detractors
- 25% Promoters
- Issues to be addressed:
 - Lack of raises; no career advancement
 - Lack of organization & accountability; Lack of training
 - Poor Management & Leadership
 - Poor communication
 - Lack of Strategy & Direction
 - Unstable
 - High Turnover

Where will decision effectiveness, organizational effectiveness and employee attitudes show up?

Complexity or Simplicity

- How your organization scores will usually drive the following:
 - Financial Performance
 - Revenue Growth Trajectory
 - Margin (Gross & Net)
 - Value
 - ROIC
 - Return to Owners
 - ROA / RMS
 - Ratio Performance (Liquidity / Leverage / Performance)
 - Product Mix
 - Long-Tail
 - Segment / Channel Focus
 - Segments of One
 - Geographic Focus
 - Geographic Concentrations
 - Economies of Scale
 - Experience Curve