

Healthy organizations keep winning, but the rules are changing fast

Driving higher organizational health and performance means focusing on new practices: empowering employees to make decisions, using technology to create value, and updating leadership styles.

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Organizational health is a moving target. Leaders at today's healthiest organizations don't run them the same way that the C-suite did in 2003, when McKinsey launched the Organizational Health Index (OHI).

We created the index to help organizations gain vital insights into whether they have the right practices in place to drive sustained performance. In the two decades since then, OHI research has consistently shown that the best predictor of long-term performance is organizational health: how well organizations align around a common vision, execute their strategy, and renew themselves over time.

Indeed, organizations scoring in the top quartile on health deliver, on average, three times the shareholder returns of those in the bottom quartile.¹ Healthier organizations are less likely to show signs of financial distress² or have safety incidents,³ and are more likely to have employees who endorse their employer to friends and relatives.⁴

¹ Corporate Performance Analytics and Organizational Health Index by McKinsey, 174 surveys, 2008–16; Scott Keller and Bill Schaninger, "A better way to lead large-scale change," McKinsey, July 10, 2019.

² Corporate Performance Analytics and Organizational Health Index by McKinsey, 28 surveys with 238,489 respondents, 2020–21; Dana Maor, Michael Park, and Brooke Weddle, "Raising the resilience of your organization," McKinsey, October 12, 2022.

³ Organizational Health Index by McKinsey; Randy Lim, Jean-Benoît Grégoire Rousseau, and Brooke Weddle, "The symbiotic relationship between organizational health and safety," *McKinsey Quarterly*, November 13, 2018.

⁴ Organizational Health Index by McKinsey, 14 surveys, August to December 2023.

About the research

The latest effort to improve

McKinsey's Organizational Health Index began with surveying, interviewing, and conducting focus groups with more than 100 McKinsey practitioners and clients to understand what changes would be needed. We then conducted a multiphase research effort in 2023, with nearly 9,000 employees across the world participating, to validate survey questions for new concepts and refine those for existing concepts to ensure that the upgraded survey can be available for widespread use in 2024.

Yet technologies have advanced. Worker motivations have evolved. Leadership styles and power dynamics have shifted. And the COVID-19 pandemic accelerated these changes and others.

Since 2003, McKinsey has regularly upgraded the OHI to reflect advances in organizational science and changes in the state of organizations. In the latest upgrade conducted over the past year, we were struck by new organizational patterns that emerged. These insights led to the most substantial and numerous set of changes yet in the OHI, reflecting the most powerful modern predictors of health and, by extension, long-range organizational success.

In this article, we discuss the six key shifts that emerged from the data and why they matter for leaders trying to build healthy organizations in a rapidly changing world. We were surprised that some of our predictions about what is and isn't changing in organizational health weren't supported. Or, if they were supported, the reasons were slightly different from what we had expected. We figured if our organizational science experts were intrigued, leaders would be even more so as they think about how to address change.

The rules of the game are different

The OHI measures organizational health through nine dimensions of organizational effectiveness, or outcomes: direction, leadership, work environment, accountability, coordination and control, capabilities, motivation, innovation and learning, and external orientation. We hypothesized—correctly, it turns out—that these outcomes would remain constant.

Within each of those nine outcomes are a range of practices, or behavioral manifestations of how leaders run an organization, that drive overall health. For the latest OHI upgrade, we spent the better part of a year collecting data and testing numerous hypotheses (see sidebar "About the research"). We expected that we would expand current concepts and add several new ones, which led to the number of measured practices growing from 37 to 43 (exhibit). This process revealed several fundamental and dramatic shifts in the management practices that drive organizational health. In essence, the world has changed, and the OHI captured those changes, loud and clear.

The Organizational Health Index examines a range of practices that propel nine outcomes.

Measured practices and outcomes of the OHI

● Practices reflecting 6 essential shifts



Predictions, affirmations, twists, and surprises

The six notable changes we observed were related to purpose, authoritative leadership, decision making, employee experience, technology and digital capabilities, and sustainability (see sidebar “Six shifts”). Our research also revealed actions leaders can take to adapt to these changes.

1. To create a common purpose, show your employees the ‘why’

We predicted that purpose would be added as a new practice driving direction, one of the nine outcomes, given how interest in purpose has increased in recent years. It was added, but we found that purpose also reflects an evolution of employee involvement. Thus, we combined employee involvement and purpose into one new fused practice: common purpose.

Six shifts

Practice tests: Some concepts were not supported, while others were partially supported.

Concept tested	Prediction	Finding	Conclusion	Final new concept(s)
Purpose	Purpose would be added as a new practice driving direction.	Partially supported	We added common purpose as a practice that drives direction and represents an evolution of employee involvement.	Common purpose links purpose with employee involvement, which can be shallow and transactional without it.
Authoritative leadership	Using authority and influence to get things done has been a fixture in our survey from the outset and would remain a practice that drives leadership.	Not supported	Authoritative leadership does not predict organizational health and no longer appears in our OHI model.	Decisive leadership and empowering leadership are more productive ways to get things done.
Decision making	Decision-making effectiveness and efficiency would be a new practice driving coordination and control.	Not supported	Decision making is not one new practice but several practices working together.	Data-based decision making, decisive leadership, and empowering leadership can work in tandem to improve organizational health.
Employee experience	Employee experience would be added as a separate module, and the core OHI model would remain focused on outcomes and practices.	Not supported	Employee experience was added, but as a core section of the survey.	The OHI now includes outcomes, practices, and employee experience, the latter encompassing employee well-being and productivity.
Tech and digital capabilities	Tech and digital capabilities would be added as a new practice driving the capabilities outcome, focused on the role of technology in making work easier for employees.	Partially supported	We added the enabling of tech as a practice driving the capabilities outcome that focuses on the role of technology in optimizing business performance, not just making work easier.	Tech enablement should be linked to the bottom line to increase health and business value.
Sustainability	Sustainability would be added as a new practice driving external orientation.	Partially supported	We were correct in that sustainability is important for organizational health, but this concept is too narrow.	What employees really want is social responsibility more broadly.

In the past, employee involvement was about engaging employees in the “what” and the “how” of interpreting, evolving, and executing an organization’s strategy. Our new research found that this involvement can be shallow and transactional when it isn’t tied to a deeper sense of purpose and meaning.

At the same time, organizational purpose can fall flat when employees can’t tie it to what they do and why they do it every day. To make this connection, organizations should start with the “why,” or the underlying purpose of the organization. No matter what the organization does as a business, it’s critical to articulate why it exists and the contribution that employees make through their work.

Why it matters: Articulating a common purpose helps connect people emotionally and intellectually to an organization’s direction.

Strategic plans may aim for 15 percent annual revenue growth, but that’s not a metric that resonates with people. In a rapidly changing world, leaders can motivate their workforces if they offer a North Star that helps guide them.

For example, Asian insurance company AIA’s purpose is to help millions of people live “a healthier, longer, better life.”⁵ This purpose connects the daily work employees do with protecting the well-being of those they serve. By eliciting the right behaviors from high-performing talent, the insurer reinforces its business strategy of delivering sustainable, long-term results and creating value for all stakeholders.

When an organization emphasizes a common purpose, employees are afforded more discretion to carry out their tasks. They feel empowered to use their judgment (and know where to draw boundaries) because they understand not only what the organization wants to achieve but also why it does so.

Common purpose is a strong predictor of organizational health. Organizations that emphasize common purpose are 2.4 times more likely than those that do not emphasize this practice to effectively set a clear direction and 4.1 times more likely to be healthy.⁶ This is further supported by academic research finding that organizations where employees reported both purpose and clarity around the direction of the organization saw 7.6 percent higher risk-adjusted stock returns over time.⁷

This shift in favor of purpose may become even more important given the increasing percentage of younger workers who rank meaningful work above compensation when asked why they decided to stay at their current job.⁸

⁵ “Welcome to AIA,” AIA, accessed on July 23, 2024.

⁶ McKinsey OrgHealth Refresh Survey, 3,940 English-speaking employees across the United States (2,068 participants), the United Kingdom (525 participants), Canada (519 participants), Australia (433 participants), and Singapore (395 participants), conducted from May to July 2023.

⁷ Claudine Gartenberg, Andrea Prat, and George Serafeim, “Corporate purpose and financial performance,” *Organization Science*, January–February 2019, Volume 30, Number 1.

⁸ Aaron De Smet, Marino Mugayar-Baldocchi, Angelika Reich, and Bill Schaninger, “Gen what? Debunking age-based myths about worker preferences,” McKinsey, April 20, 2023.

2. Authoritative leadership is obsolete

Authoritative leadership—using authority, pressure, and influence to get things done—has been practiced in organizations for decades, as anyone who has held a job knows. It has also been a fixture in our survey from the outset, and we predicted that it would remain a practice that drives leadership.

But in one of the biggest changes we've seen in the OHI, our prediction was not supported. Authoritative leadership does not predict organizational health and no longer appears in our OHI model. The benefits from this concept are already more effectively covered through other leadership practices, including being empowering and decisive—two new practices we did add to the OHI:

- **Empowering leadership.** Leaders should make sure those closest to the work have the autonomy to make their own decisions. Organizations that emphasize empowering leadership are 2.3 times more likely to use effective leadership to shape the actions of people in the organization and 3.4 times more likely to be healthy.
- **Decisive leadership.** Leaders should make and follow through on decisions and do so at speed. Organizations that emphasize decisive leadership are 2.5 times more likely to use effective leadership to shape the actions of people in the organization and 4.2 times more likely to be healthy.

To be clear, decisive leadership is not a rebranding of authoritative leadership; the data show that they are very different.⁹ For leaders displaying these other traits, being authoritative confers no additional measurable benefit.

Why it matters: Authoritative leadership is no longer an effective way to get things done.

For decades, the normative view was that there was a time and a place for authoritative leadership. Previous data tended to say that being directive and putting top-down pressure on people to get things done was necessary in some situations and that too little of it was bad for the organization.

The new data tell us that there is no situation in which leaders need to follow the old maxim “Do it because I said so.”¹⁰ In this era of disruption, leaders can be challenging and decisive while being supportive, consultative, and empowering. But badgering people, micromanaging them, and applying positional authority to pressure people to do more and do better is no longer effective compared with alternative ways of leading, and it doesn't drive organizational health. That's a big change at the top, with profound consequences for the whole organization.

⁹ Correlations among decisive leadership and various refinements of authoritative leadership in our survey panel ranged from 0.29 to 0.32. Concepts were determined to be distinct when correlations were lower than the proportion or percentage of variance explained by a regression was between 0.80 and 0.90, consistent with guidelines for assessing discriminant validity in Mikko Rönkkö and Eunseong Cho, “An updated guideline for assessing discriminant validity,” *Organizational Research Methods*, January 2022, Volume 25, Number 1.

¹⁰ Aaron De Smet, Arne Gast, Johanne Lavoie, and Michael Lurie, “New leadership for a new era of thriving organizations,” *McKinsey Quarterly*, May 4, 2023.

3. Navigate uncharted territory with facts and data, not intuition

We predicted that decision-making effectiveness and efficiency would make up a new practice driving the outcome of coordination and control. It turns out that decision-making excellence, while crucial, is not one new practice but several practices working together to drive organizational health. These include the new practices of empowering and decisive leadership, plus the addition of data-driven decision making.

Data-driven decision making refers to basing business decisions on hard data rather than relying on intuition or personal experience. Although we expected this practice to align with the coordination and control outcome, we found that it more strongly predicted innovation and learning.

That makes sense: innovation is about the art of the possible and data are about predicting the future. The business world is moving at a faster pace and there is more data-based knowledge swirling out there. Even the most experienced leaders can't rely only on intuition in this environment or just trust their gut when it comes to innovation, because they don't have pattern recognition for what's truly novel. But using good data and facts creates an accurate feedback loop that can lead to innovation.

Why it matters: An unbiased approach to change makes organizations better at innovation.

Organizational leaders are successful people who often believe their intuition has helped them get where they are. Yet when in uncharted territory, intuition can keep leaders anchored on the status quo—or in the past. Before jumping into decision making, it's critical to first identify and gather the necessary data.

The fact that there are so much data out there means that if leaders aren't careful, they may cherry-pick metrics to tell the story they want to tell. In that case, what looks like data-based decision making really isn't.

Instead, they can agree on the right metrics up front to ensure that the insights gathered do not confirm an existing bias but rather uncover previous blind spots and remedy them. A level of alignment, clarity, and transparency is crucial before data can effectively guide decisions that lead to innovation.

Healthy organizations demonstrate proficiency at rapid-fire innovation by launching a test or piloting a program and using data to tell them if what they're doing is working. A data-driven feedback loop helps them get faster and better at innovation.

This is a notable organizational shift: modern, healthy organizations use data to inform how they innovate and learn over time.

4. Help employees be at their individual best every day

In the latest update, we asked whether the OHI should include a third aspect of organizational health, beyond outcomes and practices: employee experience. We hypothesized that measuring employees' perceptions of their own well-being and productivity would be useful as a reflection of a new organizational emphasis that goes

beyond satisfaction and engagement measures. At the same time, we believed this measure was unlikely to add any incremental value beyond management practices in predicting organizational health.

This prediction was not supported because the data show that employee experience does add unique value in driving organizational health. For example, career-related employee experience concepts add unique value beyond talent-related practices in predicting health. The OHI model now includes a new employee experience section that reflects employees' sense of well-being, commitment, and professional growth.

Why it matters: Organizations that create the conditions for employees to thrive are the ones that retain and attract talent.

As organizations use automation and AI (including generative AI) to handle routine tasks, people's work will involve higher levels of cognitive and social–emotional skills. These skills, which include judgment, creativity, and collaboration, mean that people will need to thrive, not just avoid burnout.

To address this profound shift in how work gets done, organizations can move away from treating employees as cogs who hit their deliverables to using an artists-and-athletes model, which inspires people to produce at the highest levels. This was not part of organizational health previously, but it's becoming more important to retain and attract the best talent.

People need to be at their best to do their work, but what that means is different for everyone. Employee experience is more than engagement; it is an individual experience. It includes how employees feel about their jobs and the growth opportunities available at their organization; their well-being, including energy levels and burnout; and the purpose behind their work.

For example, if an employee wants to start work at 4:00 a.m. because that's their creative zone, the organization should seriously consider letting them do so. Not just because it will make the employee happier but also because it could make their work better. Happiness is a bonus.

Questions that many organizations ask employees about their level of engagement tend to revolve around their supervisors and whether the employees receive recognition for their work. The new research indicates that the questions that matter focus on whether employees feel psychologically safe, whether they are getting the professional growth they want, and if they have found a sense of purpose in their work.

People don't just want career opportunities; they want to be able to customize a path for themselves. If they are used to customized shopping options, why shouldn't they have that at work? This is new.

And as it turns out, these facets of employee experience are highly predictive of health because they are not just good for workers. They also help organizations. Even a leader who is a hard-nosed numbers person should still care about creating an employee experience that helps people reach their full potential because that will also help deliver better numbers.

5. Spend on technology only when there's a strong business case

We predicted that tech and digital capabilities would be added as a new practice driving the capabilities outcome, focused on the role of technology in making work easier for employees. Our prediction was partially supported. We added tech enablement as a practice, but the focus is on how technology optimizes business performance.

The data show that technology should not be focused on making employees happy, just as a distinctive employee experience reflects thriving in a role, psychological safety, and other factors. Investments in technology should be linked to the bottom line to drive health and business performance. Making work easier through technology is not as predictive of overall organizational health.

Why it matters: Investing in tech and its enablement is a waste of resources unless it directly boosts business performance.

Many organizations invest in technology and tech enablement for better employee or customer experience, thinking that if they create a better experience, employee and customer loyalty will follow. The research shows that if this investment isn't supported by a solid business case, it's not worth doing. Leaders should ruthlessly prioritize tech enablement in furtherance of the organization's business strategy, including capabilities and platforms.

Some technology that helps people do their jobs better will also help the bottom line. But some won't. What our research shows is that leaders should figure out which is which. They should tie tech to a business case or some aspect of performance that is financial or tangible beyond the fact that employees like it.

This might seem surprising. Why wouldn't an organization do something that makes employees happy? What we find is that if employee happiness is the sole reason to offer a particular tech tool, it might waste a lot of money. Instead, there should be a clear understanding of how the technology enables value creation and drives efficiency gains. These improvements can boost productivity and, as a result, contribute to employee happiness.

6. Act responsibly

We predicted that sustainability would be added as a new practice driving external orientation. We were right that sustainability is important for organizational health, but the concept is too narrow. The research shows that what employees really want is a broader concept of social responsibility.

Employees want to know that their organization is doing its part to make the world a better place by acting responsibly.¹¹ Organizations emphasizing social responsibility are 1.9 times more likely to respond effectively to competitors and have high customer loyalty, and they are 3.3 times more likely to be healthy.¹²

¹¹ "From there to here: 50 years of thinking on the social responsibility of business," McKinsey, September 11, 2020.

¹² McKinsey OrgHealth Refresh Survey, 3,940 English-speaking employees across the United States (2,068 participants), the United Kingdom (525 participants), Canada (519 participants), Australia (433 participants), and Singapore (395 participants), conducted from May to July 2023.

This practice, together with government and industry relations, allows for a more comprehensive view of how the organization engages with government and community groups. These issues should no longer be viewed exclusively through the lens of compliance; rather, social responsibility and sustainability should be recognized as strategic and operational imperatives.¹³ For example, Decathlon, one of the world's largest sporting goods retailers, views social responsibility as core to its operations, treating its efforts with the same level of importance as financial performance.¹⁴

Why it matters: Employees are looking for organizations to take a stance on social responsibility.

The Edelman Trust Barometer has shown decreased trust over the past ten years in organizations headquartered in global powers. At the same time, people see these businesses playing a critical role in society, trusting them more than other institutions, including government and media, to integrate innovation into society.¹⁵

Workers of all ages place a new emphasis on how organizations show up in the world, indicating that social responsibility will only grow as a central factor in organizational health.

How leaders can think about building a healthy organization

First, it's important to avoid leadership don'ts. Those who refuse to adapt to new ways of leading risk harming their organizations. Those who don't engage employees in a common purpose to empower them or who define social responsibility narrowly risk the same.

Making these paradigm shifts and others requires a refreshed understanding of an organization's strengths and how they tie into its aspirations. Once this new baseline is established, leaders can support the mindset shifts that are needed to implement the changes.

This journey can begin with coaching leaders across all levels to address these shifts and ensuring that they reflect what the organization should be prioritizing. Change can be scary or exciting; it's up to leaders to carve a path that allows the organization to embrace the future.

Many of the practices and outcomes that have defined organizational health remain the same. However, changes in six areas—purpose, leadership, decision making, employee experience, technology, and social responsibility—strongly reflect the evolving dynamics

¹³ Aaron De Smet, Wenting Gao, Kimberly Henderson, and Thomas Hundertmark, "Organizing for sustainability success: Where, and how, leaders can start," McKinsey, August 10, 2021.

¹⁴ "Entrepreneurship at all levels: How Decathlon innovates for the future," McKinsey, April 26, 2023.

¹⁵ 2024 Edelman Trust Barometer: Global report, Edelman Trust Institute, 2024.

we see occurring in the modern workplace. Leaders shouldn't view addressing these six areas as optional. Rather, they should provide a leadership checklist for organizational health now. How leaders navigate these changes may well dictate whether their organizations simply survive or truly thrive. [Q](#)



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