November 2018

McKinsey Quarterly

THE SYMBIOTIC RELATIONSHIP BETWEEN ORGANIZATIONAL HEALTH AND SAFETY

Management practices focusing on "hard" incentives, rewards, and consequences, as well as on employees' mind-sets and values, make workplaces safer.

by Randy Lim, Jean-Benoît Grégoire Rousseau, and Brooke Weddle

We have long observed that while safety standards in the workplace generally improve across industries over time, individual organizations improve at different speeds. Many companies, moreover, struggle to improve their safety performance beyond a certain level.

A high level of safety for all employees is important in itself, of course, and when companies fall short they expose themselves to greater liability, reputational risk, and the danger of burdensome regulation. What distinguishes companies that do well in safety from those that don't?

It may come as little surprise to learn that companies with superior organizational health—those that align most successfully around a clear strategy, execute it well, and renew themselves over time—also tend to have the best safety records. But recently, when we looked more closely at this relationship for companies with similar risk profiles such as those in the global energy and materials (GEM) sector, what struck us was not only the extent of the connection but also the interesting mix of management practices most correlated with safety performance.

Companies in the top quartile in organizational health, we discovered, have six times fewer safety incidents than those in the bottom quartile, which have almost three times as many incidents leading to lost work time as companies in the top quartile.

Successful actions to improve safety predictably include "harder" health-related practices, such as habit-reinforcing incentive systems. But companies that have achieved unusually high safety standards also tend to focus on "softer" practices, such as encouraging employees to "own" safety problems and to take leadership in the search for solutions. They also embed strong values among their employees.

Health and safety

McKinsey's Organizational Health Index (OHI), our unique database tracking thousands of companies across sectors and regions, provides ample evidence that organizational health improves financial and operating results.[1] We measure it by aggregating the views of employees and managers about nine key organizational

dimensions that have proved critical to health ("what employees see"), as well as 37 management practices that promote those outcomes ("what leaders and managers do").

To test the link between organizational health and safety, we drew upon two widely accepted measures of safety: the total recordable incident rate and the lost-time incident rate.[2] The US Occupational Safety and Health Administration and writers of environmental, social, and governance reports use these metrics to compare industries and groups.

McKinsey has both safety and OHI data—responses from almost 100,000 managers and employees—for 52 companies in our database. When we analyzed them, we found a strong relationship between organizational health and safety (exhibit). Companies with good safety records outperform their counterparts on all nine key organizational outcomes that contribute to organizational health. In addition, they are eight points above the sector benchmark in outcomes related to innovation and learning. We also tested the relationship in a single global mining company and discovered that better organizational health was associated with safety improvements at the site level.

Health and safe management practices

Leaders of organizations where safety is important, such as those in the GEM sector, all recognize the importance of corporate cultures. They might strive to create a culture of interdependence—a term widely used by safety practitioners to describe a high state of safety maturity, in which employees look out for one another from genuine concern. Yet it is sometimes unclear how companies should create such a culture. Our analyses of the management practices associated with good safety outcomes are therefore instructive.

With the help of statistical techniques, we have developed a short list of critical management practices correlated most strongly with safety. These can be grouped into three broad themes.

Financial and nonfinancial incentives

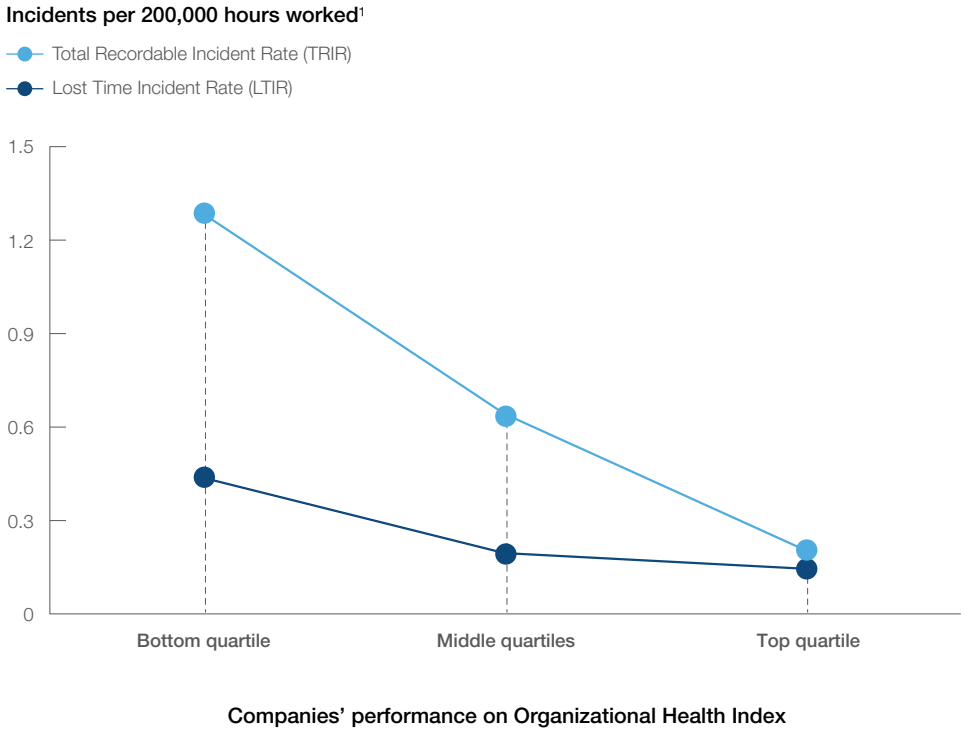
We found that consequence management (creating accountability by linking rewards and consequences to the performance of individuals and teams) is a critical management practice associated with safety. So far, so predictable. Interestingly, however, two practices—providing both financial incentives and nonfinancial rewards and recognition—are also important. Many companies focus a lot of effort on consequence management to, for example, try to mitigate unsafe employee behavior. But our findings suggest that it is equally important to identify, reward, and explicitly recognize the sort of behavior that encourages safety, not least because it forces managers to think through what kind of behavior is required.

Employee ownership of solutions and learning

Another important group of management practices emerging from our data encourages employees to take ownership of innovation and learning.[3] Bottom-

Exhibit

Top-quartile companies on organizational health perform better on health and safety metrics.



[1] Global energy and materials sector example based on responses from almost 100,000 managers and employees in 52 companies. LTIR and TRIR figures were standardized per 100 full-time-equivalent employees, with the assumption that employees work 40 hours a week and 50 weeks a year.

Source: McKinsey Organizational Health Index

up innovation involves encouraging and rewarding employee participation in the development of new ideas and improvement initiatives. Top-down innovation means that senior leaders actively and publicly champion and sponsor high-priority initiatives. Both are particularly correlated with safety. Knowledge sharing and a culture that emphasizes creativity and entrepreneurship are other key ingredients.

Some organizations worry that fostering innovation might jeopardize safety by introducing change, which many see as a source of risk. Our results, however, highlight the significance of line ownership: in our experience, one of the most effective bulwarks against accidents is the use of "near miss" programs, which encourage employees to identify hazardous situations and propose solutions before safety is jeopardized. Engaging employees in the identification of problems and involving them in the design of solutions raises the organization's awareness, lowers its tolerance for risk, and improves the chances of actually adopting a solution.

Leading with values

Cultivating meaning—in other words, ensuring that employees know how their work fits into the bigger picture—also emerged as a critical management practice for safety. So did supportive leadership, exemplified by leaders who build positive environments marked by harmonious teams and care for the welfare of employees.

Change programs of all kinds, including those designed to improve safety, can succeed only when employees see their leaders as authentic. When actions follow words, employees take note. By promoting safety as a value—as something that follows you home—leaders create a true sense of commitment and increase their chances of fostering conviction among employees. Supportive leaders also help to create the learning culture essential for improving safety. Ultimately, organizations focused on safety want employees to speak up and share their concerns with one another. That can't happen without support from the top.

These research findings show that healthy organizations are safer places to work than unhealthy ones and that building organizational health ultimately improves safety standards. Companies need to balance traditional hard incentives with actions such as providing supportive leadership and encouraging employee ownership. They should remember, moreover, that bolstering innovation and creativity isn't necessarily at odds with robust safety procedures and high safety standards. Q

---

[1] See Chris Gagnon, Elizabeth John, and Rob Theunissen, "Organizational health: A fast track to performance improvement," *McKinsey Quarterly*, September 2017, McKinsey.com.

[2] Both numbers, standardized per 100 full-time-equivalent employees, assume that employees work 40 hours a week and 50 weeks a year.

[3] These practices are central to a continuous-improvement performance culture, one of four winning combinations of practices (which we call "recipes") that we identified through the OHI.

Randy Lim is an analyst in McKinsey's New York office, **Jean-Benoît Grégoire Rousseau** is a partner in the Montréal office, and **Brooke Weddle** is a partner in the Washington, DC, office.

The authors wish to thank Hortense de la Boutetière and Pawel Poplawski for their contributions to this article.

Copyright © 2018 McKinsey & Company. All rights reserved.