

**FORMULATING COMPANY HEALTH ASPIRATION
TO ACHIEVE ORGANIZATIONAL EXCELLENCE BY USING ORGANIZATIONAL
HEALTH INDEX (OHI) : CASE STUDY AT PT BIO FARMA (PERSERO)**

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Abstract – McKinsey Company found that if an organization want to sustain for a long term, it needs to keeps not only their performance but also its health. As the company that has been sustained for more over 122 years, PT. Bio Farma needs not only sustain but also excellence to achieve their vision to become a global company. PT. Bio Farma needs to knows and then maintains their organizational health in order to keep having high performance for a long term. By using Organizational Health Index (OHI) that has been formulized by McKinsey, PT. Bio Farma could find out their organizational health level and then take some action related to the result. Business recommendation developed as action taken will help PT. Bio Farma to keep having high performance. Organizational Health Index (OHI) contains nine elements that consist of direction, leadership, culture and climates, accountability, coordination and control, capabilities, motivation, external orientation, innovation and learning. There are 37 organizational health practices under the nine elements that measure organizational effectiveness. This research found that PT. Bio Farma has surpassed the requirement of healthy organization but not excellence yet. The company needs to apply some management practices to become its health aspiration. From the analysis, PT. Bio Farma health aspiration recommended is leadership driven. By focus and done well in leadership driven archetype model, PT. Bio Farma is believed can become a sustainable excellence organization.

Keywords: Organizational Health Index (OHI), health aspiration, sustainable excellence organization, McKinsey.

1. Introduction

PT. Bio Farma (Persero) is a state-owned enterprise which is owned 100% by Indonesian Government. PT. Bio Farma is the only vaccine producer in Indonesia and as the biggest in Southeast Asia. Its position as the only manufacturer of vaccine and anti sera in Indonesia does not make Bio Farma complacency. To face the global competition, PT. Bio Farma keeps to adaptable and innovates in various ways. By producing new products with biotechnology-base to meet the market needs, PT. Bio Farma believes it becomes the key success in the future. Being one of 30 companies that has prequalification from World Health Organization (WHO) from total 200 vaccine producer companies of the world made PT. Bio Farma shows its existence. As stated by the board of directors at annual report 2011, the prospect of vaccine industry is still promising, however PT. Bio Farma should aware to global competition by doing several refinements in organization. They also stated that one of the main focus aspects in management to support company performance improvement is Human Resources.

A. Core Business

PT. Bio Farma core business is to produces vaccine and anti sera that are classified in five categories, vaccine, anti sera and diagnostic, which are viral vaccine, bacterial vaccine, combination vaccine, anti sera and diagnostic. The distribution of its products cover the national needs and has entered international market. In recent time, PT. Bio Farma has 12 distributors for domestic market and five international agents for global market.

Refer to some researchers and evidences by McKinsey Company, there is finding that if an organization want to sustain for a long term, it needs to keeps not only their performance but also health. Scott Keller and Collin Price, senior executives of McKinsey Company, stated in their book, *Beyond Performance* that for companies to achieve sustainable excellence they must be healthy; this means they must actively manage both their performance and their health (2011:5).

B. Business Issue

Some may know that in Indonesia, Minister of State-owned Enterprise has regulated how to measure the healthy level of State-owned Enterprise. Based on Decision Minister of State-owned Enterprise, PT. Bio Farma (Persero) got score 94 which means "Health AA" for year 2012, a little bit lower than the previous year, the company got score 95,1 that means "Health AAA". The health level criteria are assessed in three aspects, financial, operational and administration. Unfortunately this three aspects only measure the performance level of the company.

As the company that has been sustained for more over 122 years, PT. Bio Farma needs not only sustain but also excellence to achieve their vision to become global company. Author has interviewed and discussed to Head division of Human Resources related to this issue that PT. Bio Farma needs to knows and then maintains their organizational health in order to keep having high performance for a long term. The lower score of State-owned Enterprise Minister's assessment in 2012 might because PT. Bio Farma has not concerned yet to their organizational health. By using Organizational Health Index (OHI) that has been formulized by McKinsey Company, PT. Bio Farma could find out their organizational health level and then takes some action related to the result. Business recommendation developed as action taken will help PT. Bio Farma to keep having high performance (AAA) in order to become a sustainable excellence company in the future.

2. Business Issue Exploration

In this part, author attempts to find out factors so assumed to be the root of business issue. Such factors form conceptual framework of his/her final project. By analyzing factors found in such conceptual framework, the student could identify one or several significant factors affecting the business issues. Description concerning conceptual framework and analysis is described as follows.

C. Conceptual Framework

This research started from nine element of Organizational Health Index (OHI) that has been developed by McKinsey Company to measure the healthiness of organizations. There are 37 organizational health practices under the nine elements that measure organizational effectiveness. Organizational effectiveness is measured from the process of 37 organizational health practices in this model. There are two outcomes of organizational effectiveness, those are healthy and unhealthy organization. The organization needs to be healthy first to have a change for being sustainable excellence organization. Once the organization measured healthy, then it needs to choose and apply the archetype driven of the company. The archetype drive is the formula to help companies to become sustainable excellence organizations.

D. Method of Data Collection and Analysis

Author uses mixed method research that is combined the quantitative and qualitative research.

- Quantitative research
The quantitative research is conducted by process the quantitative data from questionnaires. The validated data is analyzed to find the existing OHI result of PT. Bio Farma. This existing result then compared with the archetypes model to be chosen.
- Qualitative research
The qualitative research is conducted by doing gap analyzing of current OHI result of PT. Bio Farma with the archetype chosen. The gap analysis is used to formulate the solution that would be validated by expert judgement in PT. Bio Farma.

The primary data that is used in this research were obtained directly by the author through questionnaires distribution and interview and discussion with senior managers and managers in PT. Bio Farma. The questionnaire is developed by interpreting from the definition of organizational health that is consists of nine elements and 37 organizational practices. The nine element of OHI and 37 practices as follows:

Table 1. Organizational Health Index

Elements	Practices
1. Direction	1. Shared vision
	2. Strategic clarity
	3. Employee involvement
2. Leadership	4. Authoritative leadership
	5. Consultative leadership
	6. Supportive leadership
	7. Challenging leadership
3. Culture and climates	8. Open and trusting
	9. Internally competitive
	10. Operationally disciplined
	11. Creative and entrepreneurial
4. Accountability	12. Role clarity
	13. Performance contracts
	14. Consequence management
	15. Personal ownership
5. Coordination and control	16. People performance review
	17. Operational management
	18. Financial management
	19. Professional standards
	20. Risk management
6. Capabilities	21. Talent acquisition
	22. Talent development
	23. Process-based capabilities
	24. Outsourced expertise
7. Motivation	25. Meaningful values
	26. Inspirational leaders
	27. Career opportunities
	28. Financial incentives
	29. Rewards and recognition
8. External orientation	30. Customer focus
	31. Competitive insight
	32. Business partnership
	33. Government and community relations
9. Innovation & Learning	34. Top-down innovation
	35. Bottom-up innovation

	36. Knowledge sharing
	37. Capturing external ideas

The questionnaire was developed into two types of instruments based on OHI model as describes above. The first type is about health outcomes which ask about respondents extent to which they agree. This questionnaire consist of nine elements of OHI which has five possible response as follows:

Table 2. Health Outcomes Scale

Likert Scale	Possible Answer
1	Strongly disagree
2	Disagree
3	Neutral
4	Agree
5	Strongly agree

The second type is about organizational health practices that are consist of 37 practices which are asks the respondents how often the practices are demonstrated at their organization. Respondents are asked the extent to which it is true of their organization where there are 5 possible responses as follows:

Table 3. Organizational Practice Scale

Likert Scale	Possible Answer
1	Never
2	Seldom
3	Sometimes
4	Often
5	Always

The questionnaire is represented into 48 items that accommodate both health outcomes (9 items) and organizational health practices (39 items). The organizational health practices have 37 variables that interpreted into 39 statements in the questionnaire. There are 36 variables represented 36 statements and there is one variable – people performance review – that represented three statements. People performance review represented into three statements due to its description could not be represented in single statements. Characteristic of the respondents are the permanent employees who have a strategic position in the company such as, Division Head, Department Head, Section Head, Staff and Young Staff. PT. Bio Farma has five directorates that consist of 24 divisions where there are 489 people that meet that respondents' characteristic. As much as 115 questionnaire copies of respondents valid to be analysis. The respondents participated are showed as follows:

- | | |
|-------------------------|---------------------|
| 1. Division Head (9) | 5. Young Expert (5) |
| 2. Department Head (17) | 6. Young Staff (16) |
| 3. Section Head (31) | 7. Staff (26) |
| 4. Medium Expert (8) | |

E. Analysis of Business Situation

Keller and Price explained in their book that when an organization sets aspirations for its health that are as clear and explicit as those for its performance, it significantly increases its chance of achieving a successful transformation (2011:58). McKinsey research indicates that organizations need to achieve a threshold level of health across all nine elements of organizational health. Specifically, the organizations need to be above the bottom quartile on each of the 37 practices that drive the

outcomes on these elements. In the other words, an organization must be above the threshold level of health on all 37 of the management practices defined in the survey. The threshold level of the bottom quartile is 1,25. The research has shown that organizations do not need to excel in every aspect of health. They found that a company that is in the top quartile for six or more practice has 80% likelihood of being in the top quartile for overall health, which in turn drives superior business performance. So the health minimum standard is above the bottom quartile on all practices, but they need to have six practices at the top quartile to achieve excellent organizational health.

There are four recipes that can be used as foundation to build the excellent organizational health. The recipes are labeled as “archetype”. The four archetypes are leadership driven, execution edge, market focus, and knowledge core.

After filtering the top quartile, then it needs to be sorted from the biggest mean value to the smallest to find out what is the strength priority practices of PT. Bio Farma (Persero). There are 13 top practices that are spread in 3 different archetypes as follow:

1. Leadership driven, there are 5 practices fit and has the highest score, 193. The practices are: Open and trusting, Performance contract, Operationally diciplined, Operational management and Consultative leadership.
2. Knowledge core, there are 3 practices fit and has score 102. The practices are: Role clarity, Performance contract, Professional standard
3. Execution edge, there are 3 practices fit and has the lowest score, 73. The practices are: Creative and entrepreneurial. Talent development. Top-down innovation.

a. Health Aspiration

The questionnaire result found that all of 37 items practices of PT. Bio Farma are above the bottom quartile (1,25) and there are 13 items are laying on the top quartile (above 3,75). It is mean that PT. Bio Farma has met the requirement condition of health.

Leadership driven reached the highest score and become as the dominant archetype in PT. Bio Farma which mean the company strength. Keller and Price also mention at their finding, that it is harder for an organization to change its archetype than to go from unhealthy to healthy within its archetype (2011:71). It means that easier for PT. Bio Farma to be a sustainable excellence company by doing the leadership driven archetype rather than have to move to the other archetypes.

b. Root Cause

As discussed before, to be a sustainable excellence organization, PT. Bio Farma needs to achieve well in their performance and health. To make limitation in this research, PT. Bio Farma is assumed has a high performance due to its achievement score of State-own Enterprise health level assessment got “Health AAA” in 2011 and “Health AA” in 2012. Refers to this assumption, this research discussion focus to health aspects of the organization.

Due to the OHI result where PT. Bio Farma has surpassed the requirement of healthy organization but not excellence yet, then it needs to determine which archetype that should be chosen and done well in the company. This archetype will be the health aspiration to be focused in order enable people reach the performance aspiration of the organization.

As a healthy organization, PT. Bio Farma does not have to change their business strategy, so that it does not need to make a transformational change. The needs of PT. Bio Farma is choosing the archetype to be focused and applied well in the company in order to become excellence and achieve their vision.

3. Business Solution

F. Alternative of Business Solution

Refers to the archetypes model, leadership driven has the biggest result of aspiration in PT. Bio Farma. This archetype is recommended to be applied due to its domination rather than the other archetype – execution edge and knowledge core - in the organization. As discussed at the previous chapter, PT. Bio Farma would easier to become organization excellence by keeping on the line of their strength at leadership driven archetype model. They do not need to make a transformational change while still on their dominant archetype to develop.

G. Analysis of Business Solution

To achieve the priority as same as the archetype model, there should be a target to be designed. Comparing the target with OHI existing result, table 4 shows the gaps within it.

Table 4. Leadership Driven Gap

No.	Leadership Driven	Mean	Target	Gap
1	Career opportunities	3,43	4,25	0,82
2	Open & trusting	4,04	4,04	0,00
3	Performance contract	3,90	4,00	0,10
4	Inspirational leaders	3,69	3,90	0,21
5	Strategic clarity	3,48	3,85	0,37
6	People performance review	3,47	4,00	0,53
7	Operational management	3,76	3,76	0,00
8	Operationally disciplined	4,21	4,21	0,00
9	Consultative leadership	3,87	3,87	0,00
10	Consequence management	3,29	4,00	0,71

Target is determined by considering the priority of the practices in its archetype. The target is used to know the gap between existing situation and future condition recommended to PT. Bio Farma. At this archetype, there are four practices that PT. Bio Farma has already achieve well compared with the model, which are open and trusting, operationally disciplined and consultative leadership. Open and trusting is at the second place as match as the archetype model. The other practice – operationally disciplined – is at the first place, much higher than the archetype model. It is also happened to consultative leadership and operational management which are at the fifth and sixth, higher than the archetype model where placed at seventh and ninth. It means that there is no gap to be filled in this archetype. PT. Bio Farma needs to keep maintaining these four practices.

On the other side, performance contract is in PT. Bio Farma top practices but there is gap with the priority of the archetype model. Its rank – fifth – are lower than the requirement – third, so this practice also needs development to fill the rank gap. Five practices remain – career opportunities, inspirational leaders, strategic clarity, people performance review and consequence management – in the leadership driven model are laying in second quartile, not in the top practices of PT. Bio Farma. So that, it needs more effort to fill the gaps because the company have to leverage it from second quartile to the top quartile first.

▪ *Career Opportunities*

The company needs to develop this practice and make it to be the highest priority. It is because the highest priority of the leaders in this archetype is to build a pipeline of future leader by creating career opportunities. This archetype guide people in the company to be a leader where the leadership is learned by doing. PT. Bio Farma should providing career and development opportunities in order to motivate employee.

The career path programs recommended are:

1. Individual Career Path
2. Internal Movement Program
3. Job Tender Program

The development career program recommended are:

1. Management Trainee (MT)

2. Management Development Program (MDP)

▪ *Performance Contract*

The following are the strategy to develop performance contract (Jim Jose Associate, 2003):

1. Start with performance expectations - goals.
2. Include milestones.
3. Schedule accountabilities sessions.

At the end of the evaluation period, individuals and groups are evaluated based on how closely the actual performance met the performance contract.

▪ *Inspirational Leadership*

The inspirational leader program will help leaders build the leadership skills they need to inspire and motivate their teams to greater success. To develop the inspirational leaders, the management has to understanding what qualities that are necessary. Training and development program are necessary to create inspirational leaders continuously.

▪ *Strategic Clarity*

PT. Bio Farma should ensure five steps of strategy management process (Batemen and Zeithaml, 1990:185) – internal assessment, environmental analysis, strategy formulation, strategic control – are running well to achieve the strategic clarity target. The most important step is how to implement and control the strategy, because no matter how great the strategy plan it means nothing if it does not implement and control well.

The managers should create strategy map to describe the strategies formula to be shared to their people. An integrated system connected to all divisions can be used for sharing all the strategies information (e.g., goals, targets) to all employees. The strategies are accessible to all parties of the company with some privilege based on job position. The monitoring step is also done in this system, where the managers should report all the strategies progress through the system.

▪ *People Performance Review*

As part of performance management system, this practice are strongly related to performance contract practice. The deficiency in recent appraisal system can be enhanced by using the result approach. The result approach focuses on managing the objective, measurable results of a job of work group.

The subjectivity can be minimized from the measurement process, relying on objective, quantifiable indicators of performance where the result are the closest indicator of one's contribution to organizational effectiveness.

Through this practice, PT. Bio Farma should has:

1. People performance assessment program
2. People performance review
3. Individual appraisal

▪ *Consequence Management*

Consequence management program is linking rewards and punishment to individual performance. Consequence management practice is divided into positive consequence (rewards, incentive and recognition) and negative consequence (punishment). An appropriate consequence is when the employees achieve their performance contract, the company praise, encourage, recognize and reward them. On the other hand, when they are not doing what they committed in performance contract, the company gives them negative consequence and engages them in a conversation to understand why progress has not been made.

PT. Bio Farma has to ensure the rewards and punishments are given as the objective consequences of individual performance. It is the essential of consequence management practice.

▪ *Expert Judgement*

To validate the business solution recommendation, author conducted interview and discussion to managers from Human Resources division and several senior managers in PT. Bio Farma.

4. Conclusion and Implementation Plan

H. Conclusion

There are several points to be concluded in this thesis research:

- PT. Bio Farma is measured as a healthy organization based on Organization Health Index (OHI) model.
- The highest score of management practices PT. Bio Farma is operationally discipline and the lowest is employee involvement.
- PT. Bio Farma has 13 management top practices recognized as the strength spread into 3 archetypes model – leadership driven, execution edge, knowledge core – where the dominant is leadership driven.
- PT. Bio Farma should apply and done well the leadership driven archetype to be a sustainable excellence organization in the future.
- There are six management practices in PT. Bio Farma that need development and four practices need to keep maintaining. The six management practices need development are:
 1. Career opportunities
 2. Performance contract
 3. Inspirational leaders
 4. Strategic clarity
 5. People performance review
 6. Consequence management
- PT. Bio Farma has validated the result and agreed to consider implement the business solution recommended.
- PT. Bio Farma should conduct the OHI survey again after one year implementation of the program. It purposes to evaluate and measure the program effectiveness.

I. Implementation plan

After validated the business solution recommendation, the implementation plan of the programs are showed at table below:

Table 5. Implementation Plan

No	Leadership driven	Program to develop	PIC	Time
1	Career opportunities	Career path	TM	Oct 2013
		1. Individual career path		
		2. Internal movement		
		3. Job tender		
		Development	KM	Sept 2013
		Management Development Program (MDP)		
2	Performance contract	Performance contract	PM	Oct 2013
3	People performance review	1. Assessment program	PM	Oct 2013
		2. Performance review		
		3. Performance appraisal		

No	Leadership driven	Program to develop	PIC	Time
4	Consequence management	Consequence to individual performance	PM	Oct 2013
5	Inspirational leaders	1. Training program	KM	Jan 2014
		2. Development program		
6	Strategic clarity	Implementing Strategic Management Process	CS, OD, IT	Oct 2013

Person in Charge (PIC)

TM : Talent Management Department
 PM : Performance Management Department
 KM : Knowledge Management Department
 OD : Organization Development Department
 CS : Corporate Strategy Division
 IT : Information Technology Department

▪ *Budgeting*

Budgeting is needed for proposing the programs budget that have not allocated in 2013. Career path, performance contract, people performance review and consequence management already have allocated the budget in 2013. These programs are planned to be finished at September and will be implemented at October 2013. The other programs – MDP, inspirational leaders and strategic clarity – have not allocated the budget in 2013, so that these program need to set budgeting to be proposed in 2014.

▪ *Socialization*

Socialization is necessary for all program proposed. It needs to be understood well to all people in entire company to meet the objectives of the programs. The PICs of the programs have minimum duration one month before implementation to ensure the socialization is received and understand well to all division of PT. Bio Farma.

▪ *Evaluation*

Evaluation is the important part of the implementation plan. The evaluation is done by conducting OHI survey at the end of 2014. This survey will measure the effectiveness of the programs and how close the programs' effectiveness to meet the target to be a sustainable excellence organization.

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