

FY26 PERFORMANCE BRIEF

Performance is *a Human System*

Why execution — not strategy — is where organizational performance is won or lost, and what leaders can do about it.



Institute
for Human
Excellence

EXECUTIVE SUMMARY

Leaders across industries are being asked to solve a familiar set of challenges: margin compression, workforce instability, AI-driven restructuring, and rising expectations from customers, boards, and employees alike. On the surface, these look like financial and operational problems. And they are. But underneath them sits a more fundamental question, one that is easier to overlook because it lives inside the work itself:

How well is the organization actually functioning, day to day, under pressure?

For years, most organizations could absorb a degree of operational friction. Decisions that required revisiting. Misalignment across functions that created rework. Conversations that took longer than they should. These dynamics were rarely ideal, but they were manageable. That margin is disappearing.

As financial pressure becomes structural — driven by inflation, rising cost of capital, AI-accelerated disruption, and tightening labor economics — the system has less capacity to carry friction. What was once invisible becomes measurable. What was once tolerated becomes consequential.

THE CENTRAL ARGUMENT

Performance in any organization is, at its core, a human system. In the current environment, the organizations that understand and strengthen that system will not only operate more effectively, but also sustain performance when others struggle to hold it.



The prevailing models of organizational performance are still largely built around structure: strategy, process, technology, and organizational design. Although each is essential, they share a common, but flawed, assumption: that people operating within those structures will communicate clearly, align consistently, and execute effectively under pressure. Increasingly, that assumption is where performance begins to break. This brief makes that dynamic visible and offers a framework for what organizations can do about it.

1. The system has changed but how we think about performance has not

Business is entering a structurally different operating environment. Most organizations are still trying to solve it with legacy models of performance. There have always been pressures in enterprise: economic cycles, labor shortages, regulatory shifts. Historically, these pressures moved in waves. Organizations adapted, recalibrated, and continued forward. **What is different now is not the presence of pressure, but its permanence.**

\$10T

annual cost of low employee engagement to the global economy — roughly 9% of global GDP

Gallup, State of the Global Workplace 2026

50–200%

of annual salary to replace a single employee; up to 213% for executive roles

SHRM & Center for American Progress, 2025

\$1.2T

estimated annual cost of poor communication to U.S. businesses alone

Grammarly / Harris Poll, State of Business Communication 2025

Inflation remains sticky across inputs, labor, and capital. AI adoption is moving faster than workforces, governance, and job architecture can adapt. In fact, the Organisation for Economic Co-operation and Development (OECD) reports that nearly 30% of roles in advanced economies are now structurally mismatched with the realities of AI-enabled work. Administrative complexity continues to grow, increasing the cost of doing business even as top-line growth slows.

At the same time, workforce strain has not recovered. Global engagement fell to 20% in 2025, its lowest level since 2020.

Manager engagement dropped a full five points year-over-year, the steepest decline of any role group (*Gallup, 2026*).

This is not cyclical pressure. It is structural compression. Most organizations are still responding with familiar tools: cost containment, operational efficiency, strategic prioritization. These are necessary, but they are incomplete.

They assume performance is driven primarily by structure and strategy. In constrained environments, that assumption increasingly fails.

When financial pressure becomes structural, performance is no longer defined by what organizations plan — but by how effectively they operate inside the plan.



2. Performance does not live in strategy

Performance is not a strategic construct. It is an emergent property of how people interact, decide, and coordinate in real time. Across industries, leadership teams rarely lack strategic clarity. Priorities are well-articulated. Initiatives are well-resourced. And yet, outcomes vary — often dramatically — between teams operating within the same company, under the same leadership, with access to the same tools. **The difference is not intent. It is interaction.**

Performance lives in the moment a project handoff is made between teams. In the way a manager frames a concern. In whether a group aligns before acting — or assumes alignment and proceeds.

These moments are constant. They are small. And they are largely invisible in formal reporting structures. But they determine how work flows — and whether it flows at all. Research consistently reinforces this.

A McKinsey-cited study found that 86% of employees and executives name poor

communication as the leading cause of workplace failures. Business leaders estimate their teams lose the equivalent of nearly an entire workday each week to poor communication — roughly \$12,500 per employee per year in lost productivity (Grammarly/Harris, 2025).

THE EVIDENCE

In environments where communication and coordination improved, perceived strong collaboration increased from 42% to 93% — with corresponding improvements in clarity, decision-making speed, and execution consistency.



The implication is significant. Organizations investing in strategy, technology, and process are building the right structures. But structures only perform as well as the interactions happening inside them. Without addressing the quality of those interactions, structural investment has a ceiling. **Strategy sets direction. Interaction determines whether anything actually moves.**

3. Friction is the hidden variable in organizational performance

Workload is real. But it is not the whole story. Burnout is typically attributed to volume — too many tasks, too many meetings, too few hours. Yet research increasingly shows that burnout is strongly influenced not by how much work people do, but by how that work is experienced: the presence of inefficiency, lack of clarity, and persistent misalignment.

Operational friction, not workload alone, is the primary driver of performance breakdown, burnout, and hidden cost.

Friction emerges when:

- Communication is unclear, requiring follow-up and clarification that absorbs time and attention
- Decisions are made without alignment, then revisited under pressure
- Assumptions diverge across teams, creating rework and delay
- Coordination gaps force individuals to compensate through extra effort that isn't visible in staffing models. Each instance is small. But friction compounds. And at scale, it becomes something more serious than inefficiency.

2.6 x

more likely to be actively looking for a new job — employees experiencing burnout vs. those who are not

Gallup workplace analytics

80%

of the global workforce — employees and leaders — report they lack the time or energy to do their jobs

Microsoft Work Trend Index 2025

\$9.3K

per employee, per year: estimated cost of miscommunication — ~\$9.3M annually per 1,000 employees

Grammarly, The Productivity Shift 2025

THE EVIDENCE

In environments where communication and coordination improved, burnout declined by approximately 8% year-over-year — resulting in significant cost avoidance tied to workforce stability and reduced replacement costs.

More than half of employees report burnout in environments where communication is inconsistent or ineffective. Deloitte's 2025 Workforce Intelligence report identifies mental fatigue, cognitive strain, and decision friction as the leading indicators of burnout, surpassing workload volume for the first time. The connection between communication quality and exhaustion is well-documented, and it points to something organizations can directly address. **What feels like fatigue is often friction. And friction, at scale, becomes cost. The good news: You can reduce friction, unlike workload, without adding resources.**

4. Human behavior is not a soft variable — it is performance infrastructure

The behaviors that shape communication, decision-making, and alignment function as infrastructure, determining whether systems operate as designed. Organizations have invested heavily in systems, from operating frameworks and technology platforms to management rituals and transformation programs. The sophistication of those systems continues to grow. But every system assumes something fundamental: that the people operating within it will communicate clearly, align effectively, and respond well under pressure. When those assumptions hold, systems perform. When they do not, systems degrade, regardless of how well-designed they are.

You can have the right strategy, the right technology, and the right people — and still underperform. The difference is usually invisible. It lives in how people work together.



Every system assumes people will communicate clearly, align effectively, and respond well under pressure. That assumption is silent. It doesn't appear in process diagrams, technology roadmaps, or strategic plans. But it is the single biggest variable in whether any of those investments perform at the level they were designed to deliver.

When leaders describe inconsistent performance across teams using the same systems, the same strategy, and the same tools, they are describing a difference in human infrastructure. **The structures are identical. The interactions are not. And the outcomes follow the interactions, not the structures.**

This is where human capability becomes critical — not as a cultural aspiration, but as a functional requirement. Not “soft” skills that organizations invest in when resources are available. But core performance infrastructure: the conditions through which everything else either works or doesn’t. Gallup research shows that employees who are thriving in their work environments have turnover rates nearly half that of those who are struggling. Disengagement and lack of clarity increase absenteeism, reduce productivity, and create

the kind of quiet instability that compounds invisibly across teams and functions.

The organizations that treat human capability as infrastructure — investing in it with the same rigor they apply to technology or process — are building the most durable form of competitive advantage available in a constrained environment. **Human skills are not soft skills. They are the infrastructure through which performance flows.**

IHE EVIDENCE

When communication and leadership behaviors become more consistent, emotional thriving increases by 29% — reflecting a restored capacity for individuals to remain engaged and effective under the same level of pressure. This is not a soft outcome. It is restored performance capacity.

5. Performance improvement is not about adding more — it is about unlocking what exists

In periods of constraint, the instinct is to add: more staff, more systems, more initiatives. But in many organizations, significant capacity already exists. It is simply constrained by inefficiency, misalignment, and inconsistent execution.

When communication improves, time is recovered.

When decisions align, rework decreases.

When coordination improves, throughput increases, without additional staffing.

The financial implications are measurable and, in constrained environments, significant.

IHE EVIDENCE

IHE’s work has demonstrated more than \$1.5 million in retention-related value in certain environments, driven by improved workforce stability, reduced burnout, and the downstream reduction in replacement and onboarding cost.

This reframing matters strategically. Performance improvement in constrained environments is not a resource problem. It is a system performance problem. The question is not what to add — it is what is preventing the existing system from operating at its potential. Organizations that ask that question — and answer it by addressing the human dynamics underneath performance — will find that the capacity they need is already present. It simply needs the conditions to operate.

*Performance is not a function of adding more.
It is a function of enabling what already exists
to operate effectively.*

CONCLUSION & TAKEAWAYS

In a constrained environment, competitive advantage will come not from differentiated strategy, but from differentiated execution under pressure. Most organizations are working from similar information, facing similar constraints, and pursuing similar strategic priorities. The documents look alike. The initiatives rhyme. The ambitions are largely the same.

*What will differ is how those strategies are
carried into the work.*

In some organizations, pressure will amplify fragmentation. Communication will become more transactional. Decisions will become inconsistent. Performance will erode not because the strategy failed, but because the system of interaction could not hold it.

In others, something different will happen, not because the environment is easier, but because the system of human interaction is more stable.

Conversations remain clear. Decisions align more quickly. Teams operate with shared understanding across roles, functions, and levels of the organization.

These organizations will not eliminate complexity. But they will function more effectively within it. **And in an environment where everyone is managing complexity, functioning well within it is the advantage.**



THE BOTTOM LINE

Performance is *a Human System*

In environments like this, the system determines the outcome.

The question is not simply what organizations will do. It is how well they will function while doing it. Because performance is not created in strategy. It is created in the work itself — in every conversation, every decision, every moment of coordination under pressure.

ABOUT THE INSTITUTE FOR HUMAN EXCELLENCE

The Institute for Human Excellence partners with healthcare systems and non-clinical organizations to strengthen the human dynamics that drive performance. Through evidence-based programs in communication, leadership, and organizational culture, IHE helps organizations unlock the capacity that already exists in their people — and build the conditions for it to sustain.

IHE's work spans RELATIONS® for Transformation, Solutions for Thriving, and Revitalizing Leaders — a continuum of offerings designed to address performance challenges at the team, organizational, and leadership levels.

To explore how IHE works with organizations like yours: iheteam.com

