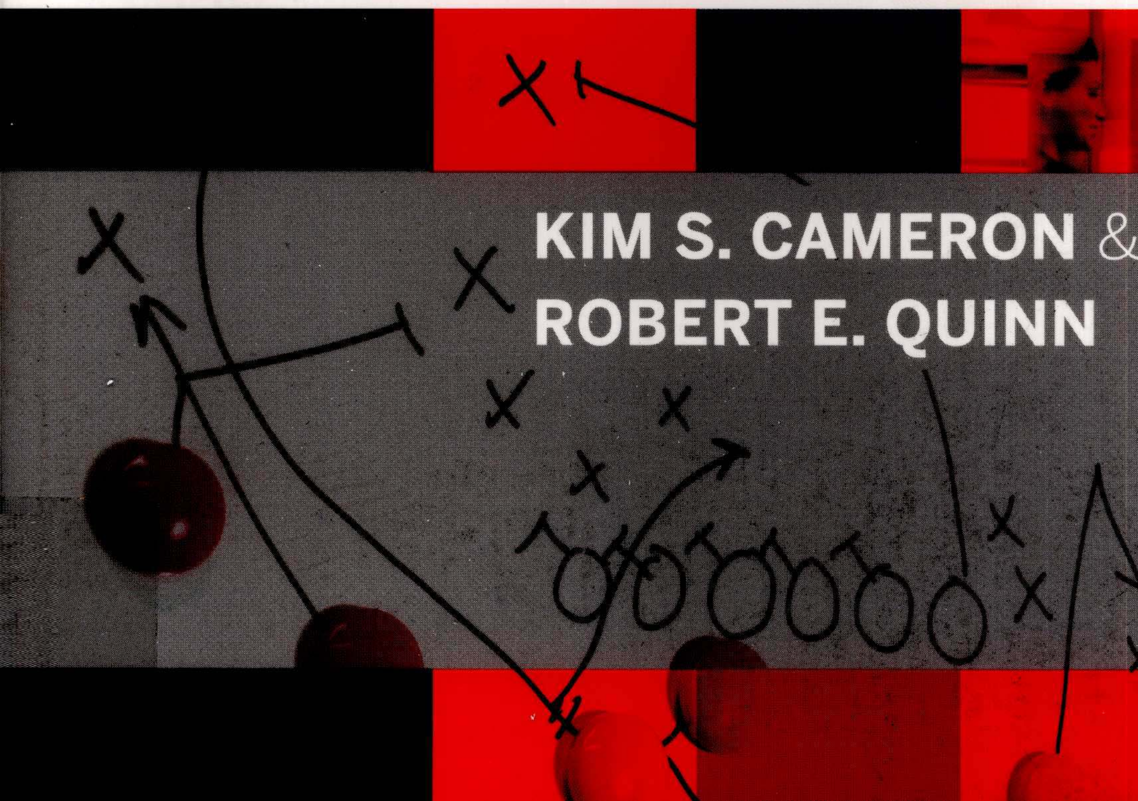
THIRD EDITION

DIAGNOSING AND CHANGING ORGANIZATIONAL CULTURE

BASED ON THE

COMPETING VALUES FRAMEWORK



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Preface

This book was written to help you diagnose and initiate change in organizational culture, whether you are a manager, teacher, consultant, or change agent. We were motivated to write this book because of our own observation that organizations often fail in their change and improvement efforts because of their inability to bring about culture change. We were also motivated because of our conviction that the Competing Values Framework can be effectively applied to several important aspects of organizational and personal performance. We know of consulting firms in several countries that have adopted the framework as a key part of their services. And we know of business, government, and educational organizations that have dramatically improved their performance as a result of applying the processes and approaches explained in the book, as well as individual managers who have become more effective by personalizing the principles we discuss. Of course, we don't claim to have found a silver bullet or a panacea for all organizational and managerial problems. Rather, we have written the book to share a set of tools and procedures that our own empirical research and consulting experiences have found to be useful in assisting with cultural and personal change in organizations.

This book will be most useful to (1) consultants and change agents charged with helping organizations and managers implement change and with making sense of their own culture; (2) teachers interested in helping students understand organizational culture, the change process, and the power of theoretical frameworks in guiding change efforts; and (3) managers who are interested in identifying ways to effectively lead a culture change effort while finding ways to match their personal competencies and capabilities with the demands of the organization's future environment. This book therefore may be appropriate for college classrooms, training and development centers, executives' bookshelves, and the conference tables around which employees meet to participate in the culture change process.

This book offers you three contributions: (1) validated instruments for diagnosing organizational culture and management competency, (2) a theoretical framework for understanding organizational culture, and (3) a systematic strategy for changing organizational culture and personal behavior. It is intended to be a workbook in the sense that you can complete the instruments and plot your own culture profile in the book itself, and you can also use it as a resource for leading a culture change process. The management competency assessment instrument also helps facilitate personal change in support of the desired culture change. The book can serve as well as an information source for explaining a robust framework of culture types. This framework is probably the most frequently applied framework in the world for assessing culture, and it has proved to be very useful to a variety of companies in clarifying the culture change process as well as instigating significant managerial leadership improvement.

In Chapter One, we discuss the importance of understanding organizational culture and its central place in facilitating or inhibiting organizational improvement efforts. We illustrate how culture change can foster dramatic improvement in organizational effectiveness—or be the major obstacle that keeps organizations from fulfilling their objectives.

In Chapter Two, we provide the instrument for diagnosing organizational culture and instructions for how to complete and score it. This instrument, the Organizational Culture Assessment Instrument (OCAI) produces an overall organizational culture profile. Six dimensions of organizational culture are assessed. The dimensions are based on a theoretical framework of how organizations work and the kinds of values on which their cultures are founded. The OCAI identifies what the current organizational culture is like, as well as what the organization's preferred or future culture should be like.

Chapter Three provides a more thorough explanation of the theoretical framework on which the OCAI is based. This framework—the Competing Values Framework—explains the underlying value orientations that characterize organizations. These value orientations are usually competing or contradictory to one another. The chapter explains how these values, and the organizational cultures that emerge from them, change over time and how the framework is applicable for making sense of a variety of organizational phenomena, including structure, quality, leadership, and management skills.

Chapter Four contains a step-by-step process for producing an organizational culture profile, identifying the ways in which the organization's culture should change, and formulating a strategy for accomplishing that change. Information about the cultures of almost one thousand organizations is provided for comparison purposes.

Chapter Five provides a nine-step methodology for guiding a culture change strategy. Also presented are examples of how several different organizations used the OCAI to diagnose their current and preferred organizational cultures. We illustrate how the organizations designed a strategy to change their current culture to better match their preferred culture. These examples and the methodology provide systematic guidelines to managers and change agents who are charged with changing their own organization's culture.

Chapter Six focuses on the personal change needed to support and facilitate culture change. It explains critical management competencies that are typical of effective managers, and it provides a methodology for helping managers develop a personal improvement agenda. Included is a diagnostic instrument that has been used with managers in more than a thousand organizations worldwide. Use of the diagnostic instrument is an important element in aligning managerial competencies with desired culture change.

Chapter Seven summarizes the key points in the book and provides a condensed summary formula to guide culture change efforts.

We provide five appendixes. Appendix A contains a more rigorous and scientifically based discussion of the OCAI and the Competing Values Framework. Its intent is to provide researchers and organizational scholars with the evidence they may require in order to use this instrument to study organizational cultures and culture change. Evidence for the validity and reliability of the OCAI is provided, as well as a discussion of cultural definitions and the powerful impact of cultural change on effectiveness. This material may be of greater interest to researchers and organizational scholars than to managers and change agents.

Appendix B provides the Management Skills Assessment Instrument (MSAI), which helps managers identify the key competencies they will need to develop or improve in order to foster organizational culture change. A discussion of the instrument's validity and usefulness precedes the presentation of the questions themselves. Information is provided for obtaining scoring and feedback reports for managers who are involved in the culture change effort as part of the strategy to align management competencies with the organizational culture change initiative.

Appendix C provides suggestions for initiating culture change in each of four types of cultures. These suggestions are provided as thought starters and idea generators when extra help is needed. They have come from managers and change agents who have engaged in the culture change process described in this book.

Appendix D provides lists of suggestions for improving management skills and competencies associated with the MSAI. These suggestions were generated by managers who have successfully implemented personal change efforts in improving their own managerial competencies.

Appendix E contains some extra plotting forms and profile forms to use in culture change initiatives.

This third edition provides updated examples of organizations that have experienced successful culture change, as well as descriptions of interventions that have helped produce culture change. We also have provided updated comparison statistics based on our continuing data-gathering activities using the OCAI and the MSAI. Approximately 100,000 respondents are now available in the reported data set. Particular industry culture profiles have been included in case readers desire to compare their own organization's culture profile to an industry average. Our explanation of the process for leading a culture change effort has also been refined somewhat. This is based on recent intervention and research projects, so that the steps described in leading a culture change effort are now more tightly aligned with the most effective change practice.

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Acknowledgments

We have been educated and informed by many colleagues in our work on organizational culture over the years. In particular, Jeff De Graff, Robert Hooijberg, and Frank Petrock have helped us think through the culture change methodology. Several of our colleagues have conducted insightful and informative research on our framework, including Wayne Brockbank, Lee Collett, Dan Denison, Susan Faerman, Sarah Freeman, Jack Krackower, Katherine Lawrence, Trevor Leutscher, Michael McGrath, Carlos Mora, John Rohrbaugh, Gretchen Spreitzer, Michael Thompson, David Ulrich, Arthur Yeung, and Ray Zammuto. Outstanding insights and suggestions were provided on previous editions of the book manuscript by Dick Beckhard, Ed Schein, and Jon Van Maanen, and helpful reviews by Peter Frost, Tom Gregoire, and Deone Zell. Particular thanks are due to our editor, Kathe Sweeney at Jossey-Bass, for her continued support and friendship, and to a competent support team led by Mary Garrett at Jossey-Bass. Of course, although we would like to blame these folks for any mistakes, oversights, or wrong-headed thinking that might remain in this book, we accept responsibility for it. They have done their best with us.

Most important, we acknowledge and thank our sweethearts, Melinda and Delsa, and our children, Katrina Cameron Powley, Tiara Cameron Blodgett, Asher Cameron, Cheyenne Cameron Robertson, Brittany Cameron Gillingham, Austin Cameron, and Cam Cameron, as well as Shauri Quinn, Ryan Quinn, Shawn Quinn, Kristin Quinn Ellis, Travis Quinn, and Garrett Quinn. Their love of one another and of us has created a culture that we never want to change.

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Kim S. Cameron is the William Russell Kelly Professor of management and organization in the Ross School of Business at the University of Michigan and professor of higher education in the School of Education at the University of Michigan. He has served as dean and Albert J. Weatherhead Professor of Management in the Weatherhead School of Management at Case Western Reserve University, as associate dean and Ford Motor Co./Richard E. Cook Professor in the Marriott School of Management at Brigham Young University, and as a department chair and director of several executive education programs at the University of Michigan. He also served on the faculties of the University of Wisconsin-Madison and Ricks College. He organized and directed the Organizational Studies Division of the National Center for Higher Education Management Systems in Boulder, Colorado.

Cameron's past research on organizational virtuousness, downsizing, effectiveness, culture, and the development of leadership excellence has been published in more than 120 articles and 14 books. The most recent books include *Positive Organizational Scholarship* (Berrett-Koehler, 2003), *Leading with Values* (Cambridge University Press, 2006), *Competing Values Leadership* (Elgar, 2006), *Making the Impossible Possible* (Berrett-Koehler, 2006), *The Virtuous Organization* (World Scientific, 2008), *Positive Leadership* (Berrett-Koehler, 2008), *Developing Management Skills* (7th edition, Prentice Hall, 2010), and *Organizational Effectiveness* (Elgar, 2010). His current research is on the positive dynamics in organizations that lead to spectacular performance. Specifically, he has been funded to study virtuousness in organizations and its relationship to performance.

Cameron received his bachelor of science and master of science degrees from Brigham Young University and his master of arts and doctoral degrees from Yale University. He served on the National Research Council, was president of Bay Asset Funding Corporation, and was a Fulbright Distinguished Scholar. He is a graduate of Leadership Cleveland Class of 2000 and a recipient of the Organizational Behavior Teaching Society's Outstanding Educator award. He currently consults with a variety of business, government, and educational organizations in North America, South America, Asia, Europe, and Africa.

He is married to the former Melinda Cummings and has seven children.

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Robert E. Quinn holds the Margaret Elliot Tracey Collegiate Professorship at the University of Michigan and serves on the organization and management faculty in the Ross School of Business at the University of Michigan. He is one of the cofounders of the Center for Positive Organizational Scholarship. Quinn's research and teaching interests focus on organizational change and effectiveness. He has published fourteen books on these subjects.

He is particularly known for his work on the Competing Values Framework, recognized as one of the forty most important models in the history of business. Using his approach, researchers have generated numerous books and articles to clarify complex dynamics surrounding topics in many disciplines. Practitioners across all sectors and in many organizations have used his work to transform both culture and practice. Furthermore, thousands of managers have trained in his methods at the University of Michigan and through the use of his textbooks. He has personally assisted numerous large organizations in the process of change.

His B.S. and M.S. degrees were obtained from Brigham Young University and his Ph.D. from the University of Cincinnati. He and his wife, Delsa, have six children: Shauri, Ryan, Shawn, Kristin, Travis, and Garrett.

In recent years, Quinn has completed a trilogy of books on personal and organizational transformation: the best-seller *Deep Change: Discovering the Leader Within* (1996), *Change the World: How Ordinary People Can Accomplish Extraordinary Results* (2000), and *Building the Bridge as You Walk on It: A Guide to Change* (2004). His most recent book, *Lift: How to Become a Positive Force in Any Situation* (2009), was coauthored with his son Ryan. At the Center for Positive Organizational Scholarship, he is currently working on questions concerning extraordinary performance.

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1

AN INTRODUCTION TO CHANGING ORGANIZATIONAL CULTURE

No organization in the twenty-first century would boast about its constancy, sameness, or status quo compared to ten years ago. Stability is interpreted more often as stagnation than steadiness, and organizations that are not in the business of change and transition are generally viewed as recalcitrant. The frightening uncertainty that traditionally accompanied major organizational change has been superseded by the frightening uncertainty now associated with staying the same.

The father of modern management, Peter Drucker, concluded that "we are in one of those great historical periods that occur every 200 or 300 years when people don't understand the world anymore, and the past is not sufficient to explain the future" (quoted in Childress and Senn, 1995, p. 3) Unremitting, unpredictable, and sometimes alarming change makes it difficult for any organization or manager to stay current, accurately predict the future, and maintain constancy of direction. The failure rate of most planned organizational change initiatives is dramatic. It is well known, for example, that as many as three-quarters of reengineering, total quality management (TQM), strategic planning, and downsizing efforts have failed entirely or have created problems serious enough that the survival of the organization was threatened (Cameron, 1997). What is most interesting about these failures, however, is the reported reasons for their lack of success. Several studies reported that the most frequently cited reason given for failure was a neglect of the organization's culture. In other words, failure to change the organization's culture doomed the other kinds of organizational changes that were initiated (Caldwell, 1994; CSC Index, 1994; Gross, Pascale, and Athos, 1993; Kotter and Heskett, 1992).

Our purpose in this book is not to offer one more panacea for coping with our turbulent times or to introduce another management fad. We agree with Tom Peters that in the current high-velocity environment, "If you're not confused, you're not paying attention." Confusion abounds, as do prescriptions and proposed panaceas. Instead, our intent in this book is both more modest and, we believe, potentially more helpful. The book provides a framework, a sense-making tool, a set of systematic steps, and a methodology for helping managers and their organizations adapt to the demands of the environment. It focuses less on the right answers than it does on the methods and mechanisms available to help managers change the most fundamental elements of their organizations. It provides a way for managers almost anywhere in the hierarchy of an organization to guide the change process at the most basic level—the cultural level. It provides a systematic strategy for internal or external change agents to facilitate fundamental change that can then support and supplement other kinds of change initiatives.

The Need to Manage Organizational Culture

Most of the scholarly literature argues that successful companies—those with sustained profitability and above-normal financial returns—are characterized by certain well-defined conditions (originally identified by Porter, 1980; Barney, 1991). At least six such conditions are believed to be crucial.

The first is the presence of high barriers to entry. When other organizations face difficult obstacles to engaging in the same business as your organization—for example, high costs, special technology, or proprietary knowledge—few, if any, competitors will exist. Fewer competitors means more revenues for your firm.

A second condition is nonsubstitutable products. When other organizations cannot duplicate your firm's product or service and no alternatives exist—for example, you are the sole supplier of a product or service—it stands to reason that revenues are likely to be higher. Similarly, if your product or service is inimitable, or difficult for others to imitate or duplicate, you will have fewer competitors and therefore more revenues.

Third, a large market share contributes to success by allowing your firm to capitalize on economies of scale and efficiencies. The biggest player in a market can negotiate concessions, sell at a discount, vertically integrate, or even purchase smaller competitors, thereby generating more revenues.

A fourth condition is low levels of bargaining power for buyers. For example, if purchasers of your firm's products become dependent on your company because they have no alternative sources, higher revenues are an obvious result. If I can get natural gas from only one source, I am dependent on whatever price the supplier decides to charge.

Fifth, suppliers have low levels of bargaining power. When suppliers, similar to customers, become dependent on your company because they have no alternative, you will have higher levels of financial returns. They must sell to you, making it possible for your firm to negotiate favorable prices and time schedules, higher levels of quality, or more proprietary features.

A sixth condition is rivalry among competitors. Rivalry helps deflect attention away from head-to-head competition with your company. Competitors struggle against one another instead of targeting your firm as the central focus of attack. Equally important, stiff competition is likely to raise the standards of performance in the entire industry. Incentives to improve are a product of rigorous competition (see Porter, 1980; Barney, 1991).

Unquestionably, these are desirable features that clearly should lead to financial success. They seem pretty much common sense. However, what is remarkable is that many of the most successful U.S. firms in the past thirty years have had none of these competitive advantages. The top performers in the past three decades—those who literally blew away the competition in financial returns—were not the recipients of any of the so-called prerequisites for success. These highly successful firms, taken from *Money* magazine's list of the best-performing stocks between 1972 and 2002, include Southwest Airlines (annual average return of 25.99 percent), Walmart (annual average return of 25.97 percent), Kansas City Southern (annual average return of 25.61 percent), Walgreen (annual average return of 23.72 percent), Comcast (annual average return of 21.99 percent), and Kroger (annual average return of 21.16 percent).

Think of it. If you were going to start a business and wanted to make a killing, the markets you would most likely avoid are airlines, discount retailing, transportation, media distribution, and groceries. The list of industries represented by these highly successful firms looks like an impending disaster for new entrants: massive competition, horrendous losses, widespread bankruptcy, virtually no barriers to entry, little unique technology, and many substitute products and services. None of these firms entered the industry with a leadership position in market share. Yet they outperformed all rivals for that thirty-year period, even with no special competitive advantages.

More recently, other examples of highly successful firms have also defied the traditional competitive advantage prescriptions. Apple, a hairbreadth away from bankruptcy as recently as 1998, is now one of the five most valuable firms in the world and has surpassed Microsoft in financial value. Apple took on a marketplace dominated by well-established and highly competitive companies such as Microsoft, Motorola, Nokia, IBM, and Dell without any of the competitive advantages touted to predict successes. Similarly, Pixar, an animation studio, confronted a marketplace long dominated by Disney, and in its less-than-thirty-year history, produced eleven hit movies out of eleven attempts. This record is simply unheard of in the industry.