Diagnosing and Changing Organizational Culture

Based on the Competing Values Framework

REVISED EDITION

The Jossey-Bass Business & Management Series

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Kim S. Cameron
Robert E. Quinn
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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 style and capabilities with the demands of the organization’s future environment. This book, therefore, may be appropriate for the college classroom, the training and development center, the executive’s bookshelf, or the conference table 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 also serve as an information source for explaining a robust framework of culture types. This framework 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 else how it can 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 six 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 cul-
ture 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 six-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 an instrument that 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. The instrument is the Management Skills Assessment Instrument (MSAI). 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 merely 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 be used as part of the culture change initiative.

September 2005
Ann Arbor, Michigan

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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, Michael McGrath, Carlos Mora, John Rohrbaugh, Gretchen Spreitzer, Michael Thompson, David Ulrich, Arthur Yeung, and Ray Zammuto. Outstanding insights and suggestions were provided on 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 very competent support team led by Jessie Mandle at Jossey-Bass. Of course, even though we would like to blame these folks for any mistakes, oversights, or wrong-headed thinking that might remain in the manuscript, we accept responsibility for it. They have done their best with us.

Most important, we want to acknowledge and thank our sweethearts, Melinda and Delsa, and our children, Katrina Cameron Powell, Tiara Cameron Wartes, Asher Cameron, Cheyenne Cameron Robertson, Brittany Cameron Corbett, 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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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, 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.

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, to accurately predict the future, and to 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). 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. Third, a
large market share enhances 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. Fifth, suppliers have low levels of bargaining power. When suppliers, like 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. The sixth and final 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).

Unquestionably, these are desirable features that clearly should enhance financial success. They seem pretty much common sense. However, what is remarkable is that the most successful U.S. firms in the past twenty years have had none of these competitive advantages. The top five performers in the past two decades—those who have literally blown away the competition in financial returns—have not been the recipients of any of the so-called prerequisites for success. These highly successful firms are Southwest Airlines (21,775% return), Wal-Mart (19,807% return), Tyson Foods (18,118% return), Circuit City (16,410% return), and Plenum Publishing (15,689% return) (Compustat Data Services, 2005).

Think of it. If you were going to start a business and wanted to make a killing, the markets you will most likely avoid are airlines, discount retailing, food distribution, consumer electronic sales, and publishing. The list of industries represented by these five 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 these five firms have outperformed all rivals, even with no special competitive advantages.

What differentiates these extraordinarily successful firms from others? How have they been able to make it when others have failed? How did Wal-Mart take on Sears and Kmart—the two largest retailers in the world—and, figuratively speaking, eat their lunch? While Wal-Mart prospered, its largest rivals were forced to sell off divisions, replace CEOs (more than once), downsize dramatically, and close stores wholesale. How did Southwest Airlines thrive when several of its competitors went belly-up (remember Eastern, Pan Am, Texas Air, PeopleExpress)? How did Circuit City, Tyson Foods, and Plenum Publishing succeed when their competitors have gone out of business so rapidly that it’s hard to keep up? The key ingredient in each case is something less tangible, less blatant, but more powerful than the market factors listed earlier. The major distinguishing feature in these companies, their most important competitive advantage, the most powerful factor they all highlight as a key ingredient in their success, is their organizational culture.

The sustained success of these firms has had less to do with market forces than with company values, less to do with competitive positioning than with personal beliefs, and less to do with resource advantages than with vision. In fact, it is difficult to name even a single highly successful company, one that is a recognized leader in its industry, that does not have a distinctive, readily identifiable organizational culture. Name the most successful firms you know today, from large behemoths like Coca-Cola, Disney, General Electric, Intel, McDonald’s, Microsoft, Rubbermaid, Sony, and Toyota to small entrepreneurial start-ups. Virtually every leading firm you can name, small or large, has developed a distinctive cul-
ture that is clearly identifiable by its employees. This culture is sometimes created by the initial founder of the firm (such as Walt Disney). Sometimes it emerges over time as an organization encounters and overcomes challenges and obstacles in its environment (as at Coca-Cola). Sometimes it is developed consciously by management teams who decide to improve their company’s performance in systematic ways (as General Electric did). Simply stated, successful companies have developed something special that supersedes corporate strategy, market presence, and technological advantages. Although strategy, market presence, and technology are clearly important, highly successful firms have capitalized on the power that resides in developing and managing a unique corporate culture. This power abides in the ability of a strong, unique culture to reduce collective uncertainties (that is, facilitate a common interpretation system for members), create social order (make clear to members what is expected), create continuity (perpetuate key values and norms across generations of members), create a collective identity and commitment (bind members together), and elucidate a vision of the future (energize forward movement) (see Trice and Beyer, 1993).

Most organizational scholars and observers now recognize that organizational culture has a powerful effect on the performance and long-term effectiveness of organizations. Empirical research has produced an impressive array of findings demonstrating the importance of culture to enhancing organizational performance (for reviews, see Cameron and Ettington, 1988; Denison, 1990; and Trice and Beyer, 1993).

Kotter and Heskett (1992) interviewed seventy-five highly regarded financial analysts whose job is to closely follow certain industries and corporations. Each analyst compared the performance of twelve highly successful firms to ten lower-performing firms. Although analysts are stereotyped as focusing almost exclusively on hard data, only one of the seventy-five indicated that culture had little or no impact on firm performance. All acknowledged culture as a critical factor in long-term financial success. In Appendix A,
we summarize several scientific studies that report a positive relationship between dimensions of organizational culture and organizational effectiveness. For those interested in empirical evidence that supports the assessment procedures and culture change methodology explained in this book, Appendix A will be a helpful review of the academic literature.

In addition to organization-level effects, the impact of organizational culture on individuals (employee morale, commitment, productivity, physical health, emotional well-being) is also well documented (for a review, see Kozlowski, Chao, Smith, and Hedlund, 1993). With health care costs still skyrocketing, burnout at an all-time high, erosion of employee loyalty to firms costing millions of dollars a year in replacement and retraining, organizational secrets lost due to sabotage and defections, and lawsuits and other forms of retribution by disaffected employees, the impact of an organization's underlying culture on individuals is also an important area of concern. Moreover, we will explain later in the book that culture change, at its root, is intimately tied to individual change. Unless managers are willing to commit to personal change, the organization's culture will remain recalcitrant.

Our main focus in this book is on helping managers, change agents, and scholars facilitate and manage organizational culture change. Our purpose is to help individuals adopt effective ways of diagnosing and changing culture in order to enhance organizational performance. We provide a framework as well as a methodology for implementing this change process, and we integrate a model of individual-level change as a way to foster cultural transformation and to align personal managerial behavior with the culture change. Since culture is such a crucial factor in the long-term effectiveness of organizations, it is imperative that the individuals charged with studying or managing organizational culture be able to measure key dimensions of culture, develop a strategy for changing it, and begin an implementation process. This book helps accomplish those aims.

We begin by discussing the critical need for culture change in most modern organizations. Frequent and chaotic vacillations in the external environment create the risk that the existing organi-
zational culture will inhibit rather than contribute to future corporate success. We also briefly address the meaning of the term organizational culture. To understand how culture change can enhance organizational performance, it is important that we make clear what is and isn’t culture. All this establishes a groundwork for introducing our framework of the core dimensions of organizational culture. Along with that framework, we introduce an instrument and a method for diagnosing and initiating cultural change, and we supplement that with a personal management competency assessment instrument and improvement tool that is congruent with the framework. We provide some examples of companies that have successfully implemented our methodology, and we provide some practical hints for how others might successfully implement culture change.

This book, in other words, serves both as a workbook and as a source guide. It is a workbook in the sense that it assists managers and change agents to work through a systematic culture diagnosis and change effort. It helps profile the current state of organizational culture and a preferred culture for the future, and it outlines a process for moving from the current to the preferred state. It also links a personal change methodology to an organizational change methodology.

The book serves as a source guide in the sense that it helps explain the core dimensions of culture and presents a theoretical framework for understanding culture forms. That is, the book explains what to look for when initiating culture change and the ways in which individual change and organizational change are linked. For individuals interested in examining the validity of this approach to culture change, a summary of scientific evidence is presented in Appendix One.

**The Need for Culture Change**

As mentioned earlier, change in organizations is pervasive because of the degree and rapidity of change in the external environment. The conditions in which organizations operate demand a response without which organizational demise is a frequent result. Of the largest one hundred companies at the beginning of the 1900s, for
example, only sixteen are still in existence. Of the firms on Fortune magazine’s first list of the five hundred biggest companies, only twenty-nine firms would still be included. During the past decade, 46 percent of the Fortune 500 dropped off the list.

Such dramatic change in organizational survival and effectiveness is understandable when considering the shift in the developed world from an industrial-age economy to an information-age economy. For the first time, beginning in the 1990s, companies spent more money on computing and communications gear than on industrial, mining, farm, and construction equipment combined. Whereas in the 1960s, approximately half of the workers in industrialized countries were involved in making tangible things, by the year 2000, no developed country had more than one-eighth of its workforce in the traditional roles of making and moving goods. This shift away from industrialization and toward information is also illustrated by the fact that more information was produced last year than was produced in the previous five thousand years. A weekday edition of the New York Times or the International Herald Tribune contains more information than the average person was likely to come across in a lifetime during the eighteenth century. The total amount of information available to the average person doubles every year.

The rate of technological change associated with this information explosion has created an environment intolerant of the status quo. Today’s average wristwatch contains more computing power than existed in the entire world before 1960. The technology currently exists to put the equivalent of a full-size computer in a wristwatch or to inject the equivalent of a laptop computer into the bloodstream. The newest computers are relying on etchings onto molecules instead of silicone wafers. The mapping of the human genome is probably the greatest source for change, for not only can a banana now be changed into an agent to inoculate people against malaria, but new organ development and physiological regulations promise to dramatically alter people’s lifestyles. Over a hundred animals have been patented to date, and four million new patent ap-
Applications are filed each year related to bioengineering (Enriquez, 2000). Almost no one dares predict the changes that will occur in the next ten years. Moreover, not only is change ubiquitous and unpredictable, but almost everyone assumes that its velocity will increase exponentially (Cameron, 2003; Quinn, 2000). Such rapid and dramatic change implies that no organization can remain the same for long and survive. The current challenge, therefore, is not to determine whether to change but how to change to increase organizational effectiveness. The demise of some of the Fortune 500 companies undoubtedly resulted from slow, laggard, or wrongheaded change efforts.

For instance, the three most common organizational change initiatives implemented in the last two decades are TQM initiatives, downsizing initiatives, and reengineering initiatives (Cameron, 1997). Organizations that have implemented quality initiatives in order to enhance effectiveness, however, have by and large fallen short. Rath and Strong (a consulting firm) surveyed Fortune 500 companies and found that only 20 percent reported having achieved their quality objectives, and over 40 percent indicated that their quality initiatives were a complete flop. A study of thirty quality programs by McKinsey (another consulting firm) found that two-thirds had stalled, fallen short, or failed. And Ernst and Young’s study of 584 companies in four industries (autos, banks, computers, and health care) in the United States, Japan, Germany, and Canada found that most firms had not successfully implemented their total quality practices. Most firms labeled TQM a failure and were actually cutting back their quality budgets (see Cameron, 1997, for details of various studies, including those mentioned here).

Similarly, nearly every organization of moderate size or larger has engaged in downsizing in the past decade. Downsizing has been another attempt to improve productivity, efficiency, competitiveness, and effectiveness. Unfortunately, two-thirds of companies that downsize end up doing it again a year later, and the stock prices of firms that downsized during the 1990s actually lagged the industry average a decade later. A survey of corporate executives in six industrialized
countries found that less than half had achieved their cost-cutting goals and even fewer met operating objectives such as improved productivity. Another survey found that 74 percent of senior managers in downsized companies said that morale, trust, and productivity suffered after downsizing, and half of the 1,468 firms in still another survey indicated that productivity deteriorated after downsizing. Almost three-quarters of firms in another study were found to be worse off in the long term after downsizing than they were before. A majority of organizations that downsized in a fourth survey failed to achieve desired results, with only 9 percent reporting an improvement in quality. These outcomes led one editorialist to accuse organizations of “dumbsizing” instead of downsizing and another writer to conclude that “downsizing, as commonly practiced, is a dud” (see Cameron, 1997, for complete references).

A third common approach to enhancing organizational performance has been reengineering, the attempt to completely redesign the processes and procedures in an organization. Similar to TQM and downsizing initiatives, however, evidence suggests that this approach to change has also had a checkered success record. A survey was conducted of reengineering projects by the consulting firm that invented the reengineering change process (CSC Index, 1994). In all, 497 companies in the United States and another 1,245 companies in Europe were polled. The results showed that 69 percent of the firms in the United States and 75 percent of the firms in Europe had engaged in at least one reengineering project. Unfortunately, 85 percent of those firms reported little or no gain from their effort. Less than half, for example, achieved any change in market share, one of the primary goals. The authors concluded that reengineering was not enough to achieve desirable change. It had to be integrated with an overall approach to changing an organization’s culture. In other words, the failure of reengineering (as well as TQM and downsizing) occurred in most cases because the culture of the organization remained the same. The procedure was treated as a technique or program of change, not as a fundamental shift in the organization’s direction, values, and culture.