Competing Values Framework and
OCAI (Organizational Culture Assessment Instrument)

Why is culture important?
Extensive research has shown that many organizations fail to achieve their performance goals when they are unable to execute their strategy *fully*. In other words, the organization may have a well-formulated strategy but might lack an enabling culture to execute it. On the other hand, organizations achieve much higher performance when their strategies and cultures are well aligned.

Further, as organizations grow, if they do not evolve, adapt, and change elements of their culture, the culture could actually become a constraint on the strategy. The very culture that created success in the first place, might make it harder for the organization to respond to new challenges in the growth phase.

All organizations own a culture—it forms either by design or default. The key question for leadership is: Do you want to carefully choose your own values and create a culture that suits your business and strategy?

What is culture?
Culture is a set of deeply embedded, self-reinforcing behaviors, shared beliefs and mindset that determines how people think, act, and conduct day-to-day business in an organization. It defines an organization's distinctiveness.

Imagine a business situation, say, emergence of a new market, faced by two competing organizations. Will they approach the same problem in the same way? If we go deeper, their individual approaches will be driven by own unique cultures. For instance, for one firm, customer acquisition might be so important that it would be willing to overlook some potential quality issues ("we will resolve them later") while for another firm, it might be a simple "no" because it is not consistent with their core value of excellence in quality ("we cannot risk our reputation; we will rather wait").

Culture drives an organization to make strategic choices.

Conceptual framework: Competing Values[1]
Researchers have always been interested in a fundamental question: What makes an organization effective? Kim Cameron and Robert Quinn, both at university of Michigan, analyzed some 39 indicators of effectiveness and the result was clusters around two major dimensions:

- One dimension differentiates effectiveness criteria of flexibility and discretion from stability and control.
- The second dimension differentiates effectiveness criteria of internal focus and integration from external focus and differentiation.

Together, these two dimension form four quadrants (see Exhibit 1), each representing a distinct set of effectiveness indicators. They define the core values, on which an organization's culture can be assessed.

Exhibit 1: Culture Types

For example, many technology firms, including Google, are considered effective if they are changing, adaptable and innovating. On the other hand, many firms, such as Boeing, are characterized by predictability of outputs.

For long periods, companies like IBM and HP showed a remarkable internal consistency, even labeled as the "IBM way" or the "HP way". Toyota and Honda, on the other hand, were characterized by market led decisions including scaling back centralized control over local operations in geographically dispersed markets.

Four distinct culture types

The four quadrants discussed above represent four distinct types of organizational culture:

1. **Hierarchy Culture**
   Organizational with hierarchy culture operate based on formal structure, rules, policies and procedures. Long-term goal is stability, predictability, and efficiency. Maintaining a smooth running organization is important.

For example, McDonalds and other fast food companies typify this culture. Jobs are neatly organized in a clear hierarchy. Key values center around maintaining an efficient, reliable, fast, and smoothly flowing operations. For almost everything, a detailed manual is available to serve as a guide.

2. Market Culture

The key characteristic of such a culture is focus on external stakeholders, such as, customers, suppliers, contractors, licensees, regulators, etc. Establishing and maintaining these relationships through contracts, partnerships, licensing arrangements, etc. is an important goal. Profitability, bottom-line results, strength in market segments, stretch targets, and loyal customer base are primary objectives. Core values are competitiveness and productivity. Leaders are hard drivers and tough. Winning is important.

Most FMCG companies like Unilever typify this kind of culture—battle for market share, sales growth and profit numbers drive behaviors.

3. Clan Culture

With clan culture, organization focuses on developing human resources and creating harmonious team environment. Management works to empower and develop employees, while emphasizing commitment and loyalty.

Founder-led companies exemplify this kind of culture to a great extent with emphasis on the development of human resources and nurturing long-term employee relationships.

4. Adhocracy Culture

Organizations with adhocracy culture believe they are in the business of developing new products and services, and that innovation will lead to success. Therefore, management focuses on encouraging entrepreneurship and creativity. Employees are encouraged to show adaptability, flexibility and the ability to deal with ambiguity.

Google, Facebook and many other tech companies are role models of such a culture. In these organizations, power is not centralized but rather flows from team to team, individual to individual, as the emphasis is on continuous innovation. Risk taking is a desirable behavior.

Overall, all organizations show a culture profile with a mix of four culture types, but what really drives key behaviors is one or two dominant styles.

Assessing culture: OCAI (Organizational Culture Assessment Instrument)

Approximately 10,000 organizations, worldwide, have used OCAI to assess organizational culture, and undertaken culture change programs. By far the most used culture assessment tool, OCAI has been used in a wide variety of industries, educational institutions, military, etc. It is a highly reliable and valid instrument to assess culture and undertake a culture change program.

OCAI assesses an organization on six key dimensions:
1. Dominant characteristics
2. Organizational leadership
3. Management of employees
4. Organizational glue
5. Strategic emphases
6. Criteria of success

OCAI questionnaire is simple to understand and administer. For each of the above dimensions, it asks an employee to divide a total of 100 points over four culture types. It thus compels the participant to rate "competing values" to represent the cultural reality. In the first go, participants rate "now," which is the current state. Afterwards they rate the "future", the desired culture. Participants can be chosen to represent various functions, divisions, locations, etc. See Exhibit 2, for a typical culture profile.

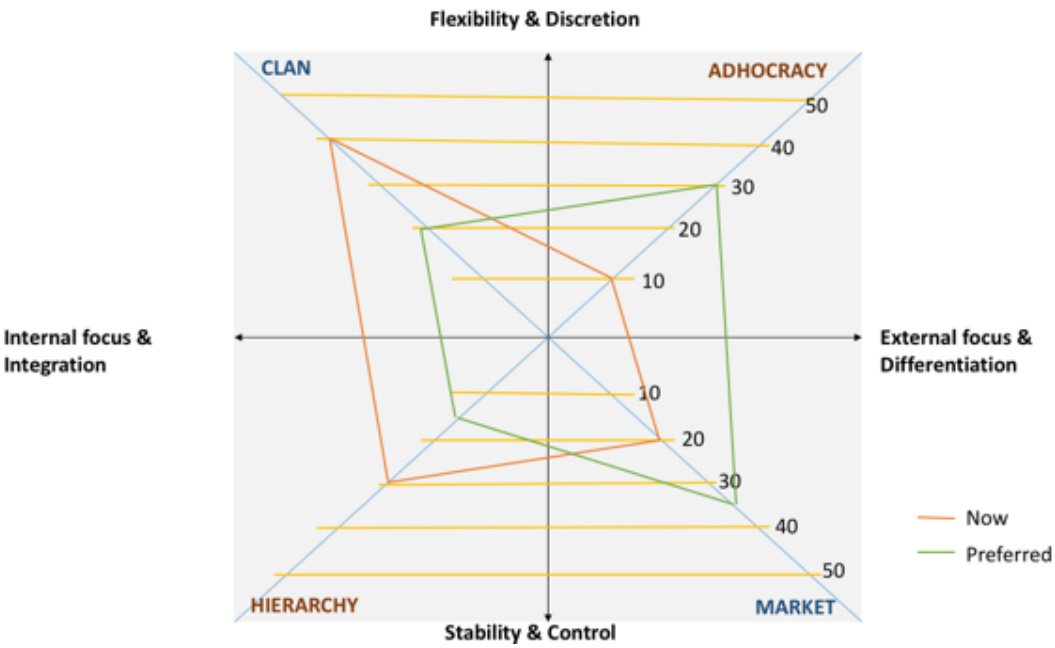

Exhibit 2: Culture profiles

For this illustrative organization, the present culture is dominated by clan and hierarchy. You can expect to find a very harmonious work environment, a rules and process driven work culture, and emphasis on development of people. Many firms operating as monopolies (e.g., protected by patents or regulatory environment) exhibit these characteristics.

The preferred profile, however, indicates that present culture is not aligned with new market challenges and strategy. It is easy to see that firm's monopoly is under threat (e.g., shrinking market share). Assuming that it is facing aggressive competition from new players, there is clearly a need to reorient the firm towards adhocracy and market culture, to remain successful.

This visual depiction gives an overall view of gap between the present and the preferred cultural profile. OCAI then enables an organization to transform its culture by systematically moving towards the desired culture.

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1. Source: Kim S. Cameron and Robert E. Quinn's book "Diagnosing and Changing Organizational Culture" (John Wiley & Sons, 2011). Some examples have been adapted.