

Competing Values™ Framework



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The Competing Values Framework: Creating Value Through Purpose, Practices, and People

Part 1. Value Creation

CHAPTER 1. INTRODUCING THE COMPETING VALUES WAY OF THINKING

Explaining why frameworks are necessary, the basic dimensions and elements of the Competing Values Framework, and the meaning of value.

CHAPTER 2. CLARIFYING THE MEANING OF VALUE

Explaining the basic meaning of value creation, and introducing the difficulty in adopting a single-minded approach.

CHAPTER 3. THE QUADRANTS IN THE COMPETING VALUES FRAMEWORK

Explaining the characteristics of the quadrants in the Competing Values Framework, especially emphasizing the tensions between diagonal quadrants.

CHAPTER 4. TENSIONS AND TRADEOFFS: FROM EITHER-OR TO BOTH-AND THINKING

Moving from either/or thinking to both/and thinking through integration and interpenetration, thus developing a more mature and complex understanding of the framework.

CHAPTER 5. CREATING VALUE THROUGH NEW LEADERSHIP BEHAVIORS

Uncovering the deepest and most enriched level of understanding of the framework, in which new ways to create value are developed by pursuing integrated positive opposites.

Part 2. Techniques for Application

CHAPTER 6. PREDICTING VALUE CREATION AND FINANCIAL PERFORMANCE

Explaining financial measures that exceed normal indices in predicting shareholder value, and identifying opportunities to improve financial performance.

CHAPTER 7. MEASURING LEADERSHIP COMPETENCIES AND ORGANIZATIONAL CULTURE

Explaining the survey instruments that create profiles of leader competencies and organizational culture and that provide guidance for change.)

CHAPTER 8. APPLYING LEADERSHIP LEVERS FOR ORGANIZATIONAL CHANGE

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CHAPTER 9. CONCLUSIONS ABOUT THE STRUCTURE OF VALUE

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PART I
VALUE CREATION

Chapter 1

Introducing the Competing Values Way of Thinking

Ralph Waldo Emerson (1850) declared: “It is the last lesson of modern science, that the highest simplicity of structure is produced, not by few elements, but by the highest complexity.”

This statement suggests that simplicity and complexity can often be confused with one another. In the case of novices, for example, a superficial or cursory understanding of something leads to a simple explanation. Simplicity in this sense results from lack of awareness, naiveté, or under-appreciation. Explanations are simple because complexity is ignored, and such explanations tend to have limited application and value.

Experts, on the other hand, are cognizant of the complexity of a phenomenon and, therefore, are aware of the multiple and complicated elements. Their explanations tend to be characterized as elaborate and intricate. They demonstrate a much greater degree of understanding than the novice. It is often difficult to capture their understanding or meaning, however, because their explanations are more complicated and convoluted than those of the novice. Experts can convey the complexity of things, but not in simple terms.

Masters understand in much greater depth and detail what novices and experts observe, but their explanations also have much more value and application. They organize complexity into profoundly simple terms. Their explanations represent what Emerson described—the simplicity that lies at the

heart of complexity. They understand the phenomenon so completely that they are able to explain complicated things in simple terms. The difference between the simplicity of novices and the simplicity of masters lies not in the surface presentation but in the profound depth of understanding that lies beneath it.

We pay masters many times more than we pay experts. When we approach masters for explanations, we tend to be profoundly influenced by what they say—not because it is more complex but because it is profoundly simpler. Masters share the simple structure embedded within complexity.

Value

Creating value is an enormously complex endeavor both for leaders and for organizations. Yet, despite its complexity, value creation is the objective of every enterprise, every worker, and every leader. All employees are judged by their ability to create value. Traditionally, value creation is defined in terms of financial measures—profitability, revenue increases, or cost savings.

Considering only the financial part of value creation, however, is similar to the simplicity of the novice. It is accurate but incomplete. Experienced executives know that value creation represents much more complexity than straightforwardly measured financial indicators.

Experienced executives adopt a more complex view. They may, for example, speak of the need to assess “intangible” assets as well as “tangible” assets, and to consider value creation in a “balanced scorecard” kind of way. They recognize that a variety of indicators are associated with value creation, but

the diversity and complexity of these indicators make them difficult to understand and communicate. The simple structure underlying value creation is obscured by an awareness of the complexity that is associated with it.

In this book, we attempt to represent the role of a master. That is, we try to convey the profound simplicity associated with value creation. We show that there is a profoundly simple underlying the factors that produce the most value in individuals and organizations. To understand this underlying structure is to begin to grasp the highest levels of complexity in ways that can be useful and practical.

We explain a framework that can help leaders understand more deeply and act more effectively in creating value. This framework—The Competing Values Framework—helps leaders see, in the tensions of organizational life, levels of potential that others do not see. Leaders can become more like masters in that they can detect ways to create value in unexpected ways. This ability to see the profound simplicity in complexity is the essence of mastery.

In short, this book is intended to help leaders discover the structure of value by becoming familiar with the Competing Values Framework, its implications, and its practices. In order to do this the book is divided into two parts. In the first five chapters, we discuss the core elements of the Competing Values Framework and focus on rethinking the notion of value. In the next five chapters we emphasize specific tools and techniques leaders can use to make sustainable change.

In Chapters 2 through 5 we show how the dimensions of the Competing Values Framework help leaders expand their leadership repertoire and broaden their definitions of value. Because everyone has a tendency to pay attention to certain phenomena more than others—for example, central figures get more attention than background in photographs—we provide tools and techniques that help leaders learn to broaden their thinking in ways that lead to more creativity, understand more complexity, and create more value.

In Chapters 6 through 9 we offer three methods for leading change and creating value. The first method uses financial measures to show how organizations can markedly enhance financial value and shareholder wealth, and it explains how the Competing Values Framework can be used to predict stock price. Using this information, it is possible to build a change strategy informed by more rigorous economic arguments. Economic data from major corporations are used to illustrate this process.

A second method builds on the first and derives from 25 years of research and intervention in major organizations (Cameron and Quinn, 2005). It identifies the cultural and organizational competencies that give rise to value creation. It explains how cultural and leadership competencies can be profiled which, in turn, can lead to a diagnosis of culture gaps, cultural congruence, and cultural strength. Techniques for culture change are explained. The discussion also shows how this kind of culture and management analysis can be used to accurately predict the success of mergers and acquisitions.

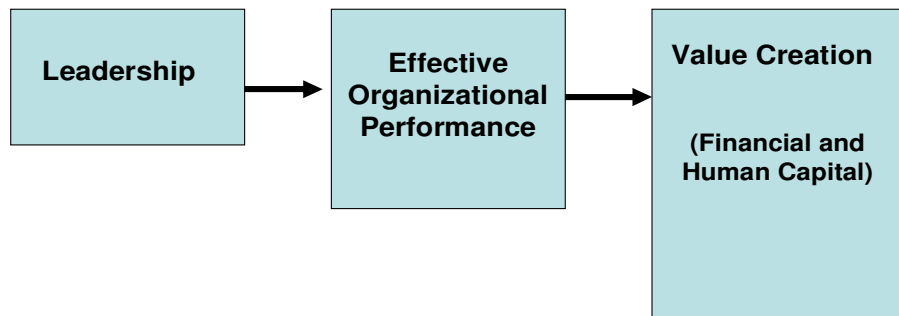
The third method identifies some daily practices that help foster the leadership, cultural, and organizational competencies that produce a desired financial outcome. It provides basic levers that are readily accessible to leaders which can enhance individual and organizational performance and foster the creation of value.

In short, the book provides a language of value creation, a simple structure of value, and a set of techniques and practices for enhancing value. The Underlying Competing Values Framework helps leaders think differently about value creation and shows them how to clarify purpose, integrate practices, and lead people.

The Competing Values Framework

The *Competing Values Framework* has been named as one of the forty most important frameworks in the history of business (*Financial Times*, 19--). It has been studied and tested in organizations for more than twenty five years by a group of thought leaders from leading business schools and corporations (Quinn and Rohrbaugh, 1983; Quinn and Cameron, 1983; Quinn, 1988; Cameron and Quinn, 2005). Currently used by hundreds of firms around the world, the Competing Values Framework emerged from studies of the factors that account for highly effective organizational performance. It was developed in response to the need for a broadly applicable model that would foster successful leadership, improve organizational effectiveness, and promote value creation (see Figure 1.1).

Figure 1.1 The Relationship Between Leadership, Effective Performance, and Value Creation



Competing Values Book
Figures

The Competing Values Framework serves as a map, an organizing mechanism, a sense-making device, a source of new ideas, and a learning system. It has been applied by researchers and practitioners to many aspects of organizations such as value outcomes, corporate strategy, organizational culture, core competencies, leadership, communication, decision making, motivation, human resources practices, quality, and employee selection (see Cameron & Quinn, 2005). From the Competing Values Framework comes a theory about how these various aspects of organizations function in simultaneous harmony and tension with one another. The framework helps identify a set of guidelines that can enable leaders to diagnose and manage the interrelationships,

congruencies, and contradictions among these different aspects of organizations. In other words, the framework helps leaders work more comprehensively and more consistently in improving their organizations' performance and value creation.

More than two decades of work on the Competing Values Framework has produced a set of intervention processes, measurement devices, and change techniques that capture a comprehensive view of the organization, its outcomes, and its leadership. As we explain below, the framework highlights the inherent tensions and contradictions that face organizations and leaders as they navigate their complex and changing environments. It predicts the future success of enterprises with significantly greater accuracy than alternative models currently on the market. It goes beyond the capabilities of other approaches to leadership development, organizational change, or financial valuation in its ability to forecast, measure, and create positive value in organizations.

Core Dimensions

As mentioned previously, statistical analyses have confirmed the robustness and applicability of this framework to a broad array of human and organizational phenomena. That is, the same dimensions that emerged from research on organizational effectiveness also emerged when studying a wide variety of other aspects of human and organizational activities, including shareholder value, mergers and acquisitions, approaches to learning, organizational culture, leadership competencies, organizational designs,

communication styles, organizational virtues, creativity, financial investments, and information processing. The underlying dimensions that organize each of these various phenomena are not only consistent, but they can be diagrammed similarly as in Figure 1.2 below. This figure is labeled the Competing Values Framework.

All organized human activity has an underlying structure. Completely haphazard actions, or randomly dispersed elements, for example, are said to be without organization. Hence, organization, by definition, connotes patterns and predictability in relationships. Identifying the underlying dimensions of organization that exist in almost all human and organizational activity is one of the key functions of the Competing Values Framework. It helps uncover the underlying relationships that reside in organizations, leadership, learning, culture, motivation, decision making, cognitive processing, creativity, and so on.

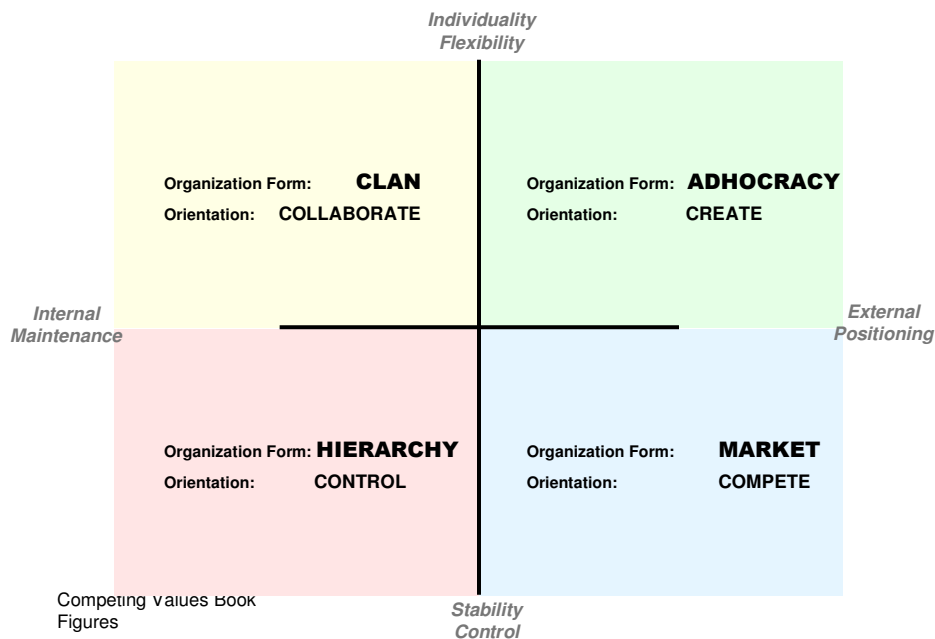
Other writers have made similar claims—that a universal underlying structure can be identified. Two recent ones are colleagues Paul Lawrence and Nitin Noria (2002), who identified the four biologically determined drives located in the brain that account for all human behavior—drives to bond, to learn, to acquire, and to defend. These four motivations replicate precisely the dimensions of the Competing Values Framework, and the drives can be categorized exactly in the four quadrants in the framework. A second is philosopher Ken Wilber (1999) who asserted in his book—modestly entitled, *A Theory of Everything*—that the universe can be explained on the basis of a single

framework, represented in four quadrants—social systems, organic brain activity, culture and worldliness, and self-consciousness. Again, Wilber’s framework reproduces precisely the dimensions of the Competing Values Framework.

Unlike Lawrence, Noria, and Wilber, we do not claim to have developed a universal theory of everything, nor do we claim to explain all human motivation and action, but we do maintain that the Competing Values Framework can be useful to almost all leaders. It can help them understand the simple structure that underlies all organizing activities. It can also help them create new and more effective patterns of organizing.

The basic framework consists of two dimensions that express the tensions or “competing values” that exist in all organizations. Graphically, one dimension can be drawn vertically and the other drawn horizontally—resulting in a two-by-two figure with four quadrants. When studying the effectiveness of organizations more than two decades ago, we noticed that some organizations were effective if they demonstrated flexibility and adaptability, but other organizations were effective if they demonstrated the opposite—stability and control. Similarly, we discovered that some organizations were effective if they maintained efficient internal processes whereas others were effective if they maintained competitive external positioning relative to customers and clients. These differences represent the different ends of two dimensions, each with opposing anchors, and these dimensions constitute the rudiments of the Competing Values Framework.

Figure 1.2 Core Dimensions of the Competing Values Framework



More specifically, one dimension of the framework differentiates an orientation toward flexibility, discretion, and dynamism from an orientation toward stability, order, and control. For example, on the one hand, some organizations are viewed as effective if they are changing, adaptable, and organic—for instance, neither the product mix nor the organizational form stays in place very long at firms such as Microsoft or Nike—since agility and volatility typify their performance and are keys to their success.

Other organizations are viewed as effective if they are stable, predictable, and mechanistic—for instance, most universities, government agencies, and organizations such as the New York Stock Exchange, Coca-Cola, and Anheuser

Busch are characterized by longevity and steadiness in both design and output—so performance is consistent and even.

One dimension of the Competing Values Framework, in other words, represents a continuum ranging from versatility and pliability on one end to consistency and durability on the other end. When referring to individuals, this dimension differentiates people who learn inductively, communicate with animated and speculative ideas, and process information by searching for innovative applications, on the one hand, compared to people who learn deductively, communicate with rational and considered ideas, and process information methodically, on the other hand (Lawrence & Noria, 2002).

The second dimension of the framework differentiates an orientation toward a focus on internal capability and the integration and unity of processes on the one hand, from an orientation toward a focus on external opportunities and differentiation from and rivalry with outsiders on the other hand. That is, some organizations produce value associated with their harmonious internal characteristics—for instance, Dell and Hewlett-Packard have traditionally been recognized for a consistent “Dell-way” or “H-P way.” Other organizations produce value primarily by focusing on challenging and competing with rivals outside their boundaries—for instance, Toyota and Honda are known for “thinking globally but acting locally” when competing with American car companies, or for encouraging units to adopt the attributes of local environments instead of a centrally prescribed approach.

This dimension ranges, in other words, from cohesion and consonance on the one end to separation and independence on the other. When referring to individuals, this dimension differentiates people who learn by examining familiar information, communicate using harmonizing strategies, and processing information by analyzing consistencies and congruencies on the one hand, from people who learn by searching for unfamiliar elements, communicate using confronting strategies, and process information by analyzing uniquenesses, aberrations, and dissimilarities on the other hand.

In order to create value in organizations, it is sometimes effective to focus on expanding options, creating new ideas, self-organizing, and collaborative learning (i.e., focusing on the Collaborate and Create quadrants in Figure 1.2). Coping successfully with the changing conditions of twenty-first century environments, for example, requires constant adaptability and flexibility. The half life of almost any technology on the planet is less than six months, so conservative thinkers and laggards in new product development will most certainly be left behind. Just ask leaders in 3-M, Microsoft, or Amazon.com.

Other times value is best pursued by focusing on maintaining objectivity, gathering and analyzing data, and carefully monitoring progress (i.e., focusing on the Control and Compete quadrants in Figure 1.2). Just as constant change requires the identification of something stable to be effectively managed (Cameron, 2006), so also organizations require predictability and reliability to produce lasting value. Companies that consistently outperform the market over

time are those that have stable cultures, consistent visions, and dependable processes, including firms such as Harley-Davidson, Rubbermaid, and Walgreens (Collins & Porras, 1998).

Creating value also can be pursued by focusing on external opportunities such as acquisitions, identifying future trends, pursuing innovative ideas, and competing for market share and growth (the Create and Compete quadrants in Figure 1.2). The focus is on the right side of the framework, or on opportunities located outside the boundaries of the organization. General Electric, for example, has remained one of the world's most successful firms by constantly engaging, acquiring, and competing with entities outside its the traditional market niches (Tichy & Sherman, 1994).

On the other hand, value creation may also occur through an emphasis on internal capability, or on systems, culture, cost reduction, continuous quality improvement, and human development (the Collaborate and Control quadrants in Figure 1.2). The focus is on the left side of the framework, or on elements located inside organizational boundaries. General Electric is also a good example of a company that created enormous value by adopting an internal six-sigma quality initiative, implementing a massive efficiency-producing program called "workout," and fostered a wholesale adoption of the internet as a way of doing business.

Together these two core dimensions form four quadrants, each representing a distinct cluster of criteria—whether referring to leadership,

effectiveness, value creation, structure, learning, or other organizationally-relevant factors. The resulting framework represents the way people *evaluate* organizations, the way they *process information* and *learn* about their environments, the way they *organize* and *lead* others, the kinds of *value created* for customers, the clustering of *organizational elements*, and what people see as *good, right, and appropriate*. It captures the fundamental values—or culture—that exist in organizations (Cameron & Quinn, 2005). Most importantly, for our purposes, it identifies the multiple ways in which value can be created and measured in organizations.

What is notable about these four quadrants is that they represent *opposite* or *competing* assumptions. Each continuum highlights value creation and key performance criteria that are opposite from the value creation and performance criteria on the other end of the continuum--i.e., flexibility versus stability, internal focus versus external focus. The dimensions, therefore, produce quadrants that are also contradictory or competing on the diagonal.

The upper left quadrant in Figure 1.2, for example, identifies value creation and performance criteria that emphasize an internal, organic focus, whereas the lower right quadrant identifies value creation and performance criteria that emphasize external, control focus. Similarly, the upper right quadrant identifies value creation and performance criteria that emphasize external, organic focus whereas the lower left quadrant emphasizes internal, control value creation and performance criteria. These competing or opposite elements in

each quadrant give rise to one of the most important features of the Competing Values framework, the presence and necessity of paradox.

Each of the four quadrants has been given a label in order to characterize its most notable characteristics for creating value. The original formulation of the Competing Values Framework used terms derived from the scholarly literature in organizational studies to define each quadrant—*Clan* (upper left), *Adhocracy* (upper right), *Market* (lower right), and *Hierarchy* (lower left) (Cameron & Quinn, 2005). In communicating to practicing leaders and managers, however, we have found it helpful to substitute action verbs as labels which can cue leaders as to the kinds of dominant activities that relate to value creation in each quadrant—*Collaborate*, *Create*, *Compete*, and *Control*. We will use the latter verbs through this book.

As noted in Figure 1.2, the *Collaborate* quadrant is at the upper left, the *Create* quadrant is at the upper right, the *Compete* quadrant is at the lower right, and the *Control* quadrant is at the lower left. The two upper quadrants share in common an emphasis on flexibility and dynamism, whereas the two bottom quadrants share an emphasis on stability and control. The two left-hand quadrants focus on internal capability whereas the two right hand quadrants focus on external opportunity. What is important to remember is that the quadrants represent clusters of similar elements and similar orientations, but those elements and orientations are contradictory to those in the diagonal

quadrant. The dimensions in the framework, in other words, separate opposite, competing, or paradoxical elements on the diagonal.

Colors

In teaching the framework we often have found it useful to rely on colors to identify the quadrants. On the cover of this book, for example, a colored version of the framework is displayed. The Collaborate quadrant is yellow, the Create quadrant is green, the Compete quadrant is blue, and the Control quadrant is red. People frequently find it handy to refer to the quadrants in terms of these colors. Since the text of this book is in black and white, however, we do not refer to the colors as we explain the framework, but leaders may find them handy as they use the framework in their own organizations.

Dynamics

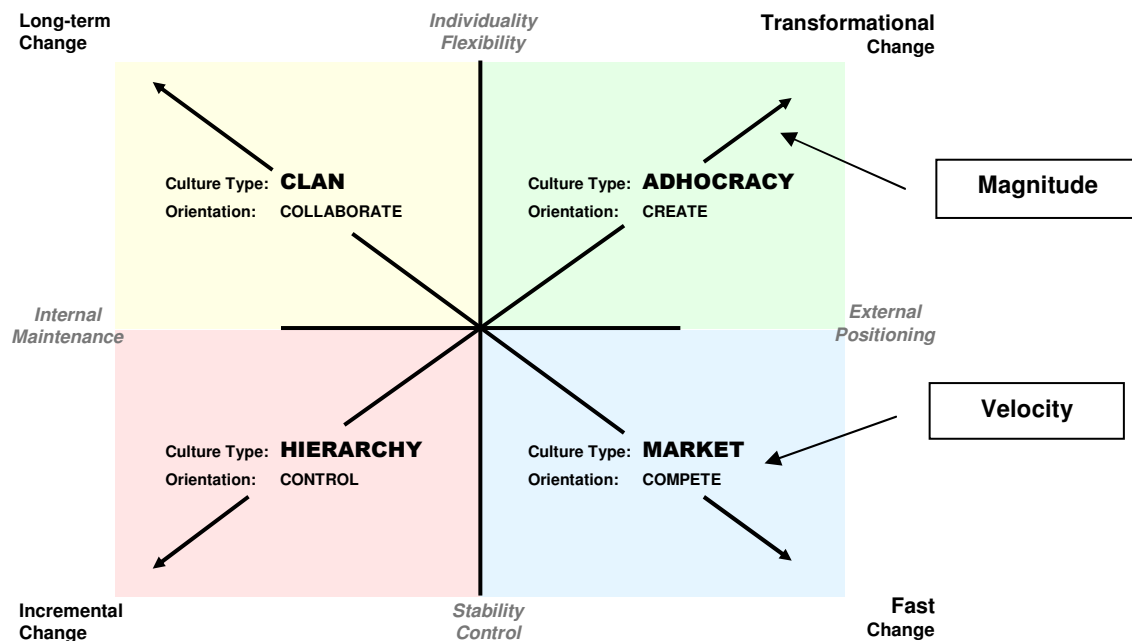
One of the most important applications of the Competing Values Framework is as a guide for change. Hundreds of organizations have used the framework to diagnose and implement culture change, establish competitive strategy, motivate employees, facilitate organizational development and change, implement quality processes, develop high potential leaders, and so on. Using the framework to guide change initiatives has uncovered the existence of two secondary dimensions. These dimensions can help explain what to guide the improvement in performance and create value.

One of these secondary dimensions identifies key differences in *dynamics*, or approaches to change. Specifically, think of a continuum stretching from the upper right quadrant in the framework to the lower left quadrant. This continuum separates an emphasis on change that is new, innovative, unique, and transformational from small incremental change that emphasizes efficiency, predictability, and continuity in the lower left quadrant. This continuum separates a focus on the *new* from a focus on the *better*. Some organizations such as Cisco and 3-M create value by focusing primarily on new product development and creating new market niches (*being new*), whereas other organizations such as CH2MHill and Wal-Mart focus primarily on rationalizing processes and continuously improving existing services and delivery systems (*being better*).

Now think of a continuum stretching from the lower right quadrant to the upper left quadrant. This continuum separates an emphasis on fast, short-term, immediate change (lower right) from an emphasis on long-term, developmental, sustained change (upper left). This continuum separates a focus on *speed* from a focus on *long-term development*. Companies celebrated by *Fast Company Magazine* or *Inc. Magazine*, for example, are recognized because of their emphasis on reducing cycle times and producing value in ever more rapid time frames. Speed drives value creation activities. By contrast, firms such as McDonalds, Rubbermaid, Walgreen's, and Berkshire Hathaway are recognized for their emphasis on staying power over time and the value they place on

endurance and toughness. Resiliency drives value creation. Figure 1.3 illustrates these dimensions.

Figure 1.3 Secondary Dimensions of the Competing Values Framework – Approaches to Change



The dynamics dimension separates value creation strategies on the basis of speed and scope of action. Two key questions addressed are: “How quickly must we act to create value?” (*velocity*) And: “How much change must we initiate to create value?” (*magnitude*). The velocity of value creation activities separates rapid, short-term value creation (the Compete quadrant) from deliberate, long-term value creation (the Collaborate quadrant), and the magnitude of value creation separates dramatic transformation (creating new

value) from incremental improvement (producing increasing value). That is, the Create quadrant is juxtaposed with the Control quadrant by this continuum.

As leaders consider ways in which they must respond to or anticipate opportunities in their organizations, both *speed* and *scope* issues represent critical choices upon which value creation will depend. For example, at the beginning of this past decade, Reuters was required to engage in an immediate, rapid-fire transformation in order to reverse the downward spiral of investor confidence that threatened the survival of the firm. High-velocity, large-magnitude change was essential. On the other hand, even in the face of a major threat to its credibility resulting from fictitious stories being passed off as factual news, the *New York Times* approached change efforts in methodical, incremental ways so that a continued foundation of stability and security was maintained. A more deliberate, developmental strategy was pursued.

Rapid-fire, short-term value creation activities (high velocity) focus on immediate, measurable results typical of the Compete quadrant. Long-term development (low velocity), on the other hand, focuses on sustainability and qualitative improvement, more typical of the Collaborate quadrant. Measurement criteria in the former case are often objective and quantitative, whereas the measurement criteria in the latter case are more likely to be subjective or qualitative.

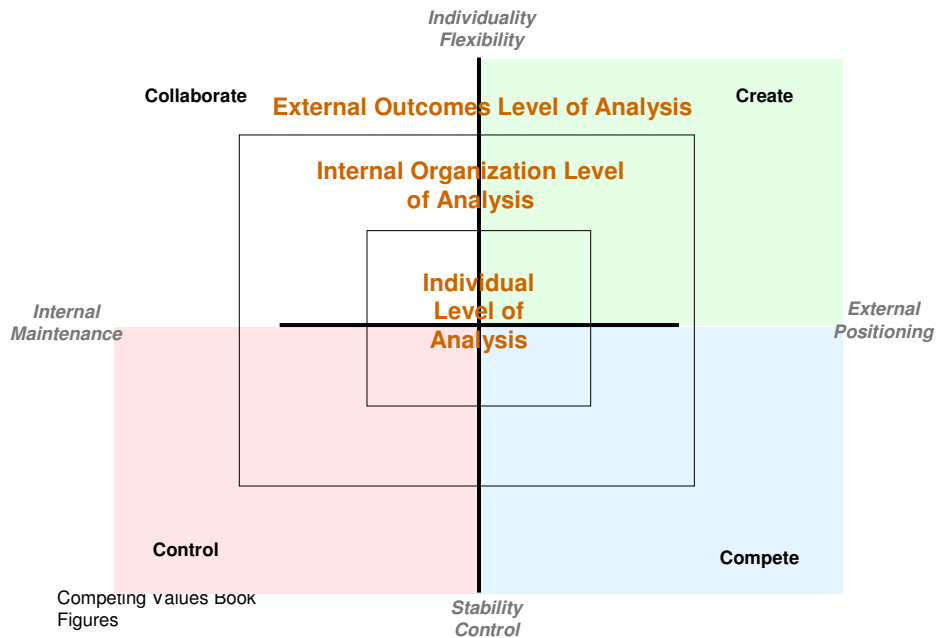
Incremental contributions to value creation (low magnitude) emphasize improving and enhancing existing processes, products, and services as

continuity is maintained, typical of the Control quadrant. Breakthrough or transformational value creation (high magnitude), on the other hand, emphasizes radical innovations and extending processes, products, and services into previously unexplored arenas, which typify the Create quadrant. Measurement criteria in the former case are easier to quantify and record, whereas measurement criteria in the latter case often need to be invented or created anew.

Level of Analysis

A second supplemental dimension in the Competing Values Framework refers to the different levels of analysis that also is useful to consider by leaders who desire to create value. Whereas the issue of level of analysis is not unique to the Competing Values Framework and has been of central concern in management and organizational studies for decades (Cameron, 1980), the Competing Values Framework highlights the need for congruence among individual dynamics, organizational dynamics, and different types of outcomes associated with value creation. Figure 1.4 illustrates the dimension relating to levels of analysis.

Figure 1.4 Secondary Dimensions of the Competing Values Framework – Levels of Analysis



The figure highlights three major levels of analysis—an *external outcomes* level, an *internal organization* level, and an *individual* level. Each level emphasizes different elements in value creation which, when aligned in a congruent way, reinforce and enhance one another.

For example, in Figure 1.4, the outside layer illustrates factors that relate to valued external outcomes produced by the organization, such as customer loyalty, innovative products, shareholder return, brand identity, or global competitiveness. These outcomes refer to different kinds of value created by organizations that have an effect beyond the boundaries of the organization

itself. They stand in contrast to the internally-focused outcomes that are often used to determine effectiveness—sales, profits, or efficiency.

The Competing Values Framework makes clear that achieving valued outcomes in each of the quadrants is crucial for organizational effectiveness over the long term. Leaders should consider multiple outcomes in each of the quadrants, in other words, as they pursue value creation strategies. Narrowly defining value to include only financial outcomes, for example, often ends up producing only short-term results while compromising long-term value creation. Research findings that confirm this conclusion are explained in Chapter 6. The development of a well-rounded outcomes portfolio (Gadiesh & Gilbert, 1998) guided by the Competing Values Framework, in other words, is an important prescription for ensuring long-term success and value enhancement. More is said about this prescription in Chapter 6.

This does not mean that all organizations must be equally balanced in all four quadrants to be successful. An organization such as Dell focused traditionally on mastery in the Control and Compete quadrants to create value. As conditions changed, however, competencies in other quadrants became important for sustaining value creation. For example, Dell had to creatively adapt to declining PC sales and sagging employee morale in 2003. It did so by becoming more innovative in marketing and outsourcing processes (the Create quadrant), and by reformulating the office of the CEO (appointing Kevin Rawlins

as CEO) and the organization's global culture. It created a more collaborative culture to balance the company's Control/Compete strengths.

The *internal organizational level of analysis* refers to elements inside the organization that facilitate value creation. Examples include organizational design, the cultural profile, production processes, incentive systems, strategic initiatives, and core competencies, all of which must be considered as value creation is pursued. The discussion in Chapter 8 provides more detail about this level of analysis.

The Competing Values framework helps guide leaders in identifying which elements within the organization—for example, efficiency measures (Control quadrant), employee engagement activities (Collaborate quadrant), innovation strategies (Create quadrant), or approaches to customer service (Compete quadrant)—can be emphasized, and to what degree they should be emphasized as value creation strategies are formulated and implemented. Without such a framework to guide strategies and initiatives, leaders risk ignoring important elements in the value creation process. It is also important to keep in mind that not only must internal dynamics in each quadrant be considered, but the congruence between organizational factors and desired outcomes must also be aligned.

The *individual level of analysis* refers to factors such as personal leadership competencies, learning styles, skills and abilities, and attitudes that are associated with the individuals in the organization. These factors focus on

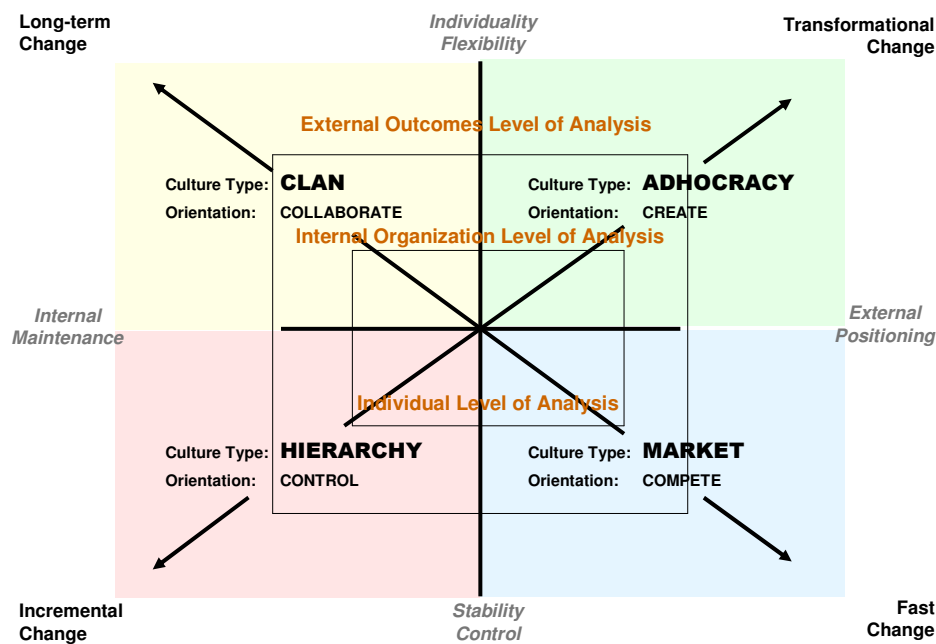
the attributes of individual members in the organization, as separate from the organization's attributes or outcomes. Developing individual leaders, retaining highly valued employees, and fostering a highly energized workforce require attention to individual attributes, and the Competing Values Framework helps identify the importance of a comprehensive view of individual factors for value creation. Focusing on a single motivational technique, one incentive system, or a lone leadership approach without consideration for other approaches suggested by the remaining quadrants inhibits long term success. Chapter 7 provides more detail about the development of individual leadership strength in the pursuit of value creation.

In sum, aligning different levels of analysis—as represented by desired external outcomes, internal organizational dynamics, and individual attributes—is an important condition for effective performance and value creation, and using the Competing Values Framework to help organize those elements makes the alignment more straightforward and unambiguous. The different levels of analysis each should be considered in value creation activities, and alignment among them is an important part of successful strategy. Considering which level of analysis upon which to focus value creation attempts, in addition to aligning individual competencies with organizational capabilities and desired outcomes, are key choices of leaders wishing to increase value.

Figure 1.5 summarizes the core and secondary dimensions of the Competing Values Framework. These dimensions illustrate the tradeoffs and

tensions inherent in value creation activities, and they highlight the comprehensive nature of effective leadership when value creation and effective performance are the desired results.

Figure 1.5 Core and Secondary Dimensions of the Competing Values Framework



An Illustration of Competing Values

In 1937, Kiichiro Toyoda founded the Toyota Motor Company in Japan as a spin-off from Toyoda Automatic Loom Works to manufacture cars roughly based on the designs of Chrysler and Chevrolet. Toyota emerged from the rubble of war in the late 1950s to become Asia's premiere manufacturing company and swiftly moved from a regional to a global brand. Gaining a foothold in the United States during the oil embargo of the 1970s, Toyota systematically

extended its product array from compact cars, like the Corolla, to mid-size sedans. In the late 1980s, Toyota accomplished the previously unimaginable by successfully introducing Lexus, a luxury car line to compete with European blue bloods, BMW and Mercedes. In fact, the newly introduced Lexus established previously unimaginable initial quality records, and may be said to have been the car that most sparked the quality revolution in the North American auto industry. At the time, the initial quality level for luxury automobiles averaged approximately 148 defects per 100 cars. The first Lexus introduced had an initial quality record of 79 defects per 100 cars . . . an almost unbelievable achievement. Today, Toyota is Japan's biggest carmaker with over \$120 billion in annual sales.

Toyota is one the few companies that has demonstrated an ability to pursue several directions simultaneously. The traditional organizational identity at Toyota was highly control focused and internally directed. Perfecting "lean production" and "just in time" manufacturing techniques, Toyota became symbolized by quality and efficiency which made it a benchmark for automobile manufacturing worldwide. Engineering, extensive product testing, and process redesign are competencies for which Toyota has become renowned. More recently, Toyota became more adaptive in order to respond to external challenges confronting the firm. In the face of internal calls for protectionism, Toyota diversified its manufacturing and assembly plants from its core location in Toyota City in Aichi, Japan, to new plants in many regions of the world. To survive the worldwide recession and Asian currency crisis of the late 1990s,

Toyota introduced innovative “flexible platform” manufacturing to manage global supply and demand for their products at optimal prices regardless of currency fluctuations. Recently, Toyota has also ventured into non-auto areas such as financial services, and it now runs the Internet portal, Gazoo.com.

The value creation story of Toyota represents both ends of the core dimensions and dynamics of the Competing Values Framework. Toyota’s initial approach to value creation was characterized by internally focused, incremental, and control oriented activities. Fine-tuning production and reducing defects were chief areas of concern. Thereafter, however, the introduction of a luxury car—which exceeded by a substantial margin the quality and design standards of competitors in Europe and the United States—coupled with a dramatically successful global manufacturing and distribution strategy and a rapid automobile design process, put Toyota squarely on the opposite side of the *dimensions* and *dynamics* continua. The company, in other words, created value by responding simultaneously to competing tensions and opposites. It was both fast and slow, incremental and transformational. It created value with flexibility and anticipation as well as with stability and control. It exemplifies a focus on both internal and external concerns. It focused on the future and the past, the short-run and the long-run, quick results and long-lasting results, change and stability, transformation and incrementalism.

Summary. This brief overview of the core and secondary dimensions that comprise the Competing Values Framework introduces a way to think about

creating value in organizations. It helps uncover the simple structure of value creation. It helps explain why companies such as Toyota have enjoyed such dramatic success. The remainder of the book helps clarify how, by utilizing the Competing Values Framework, leaders can enhance their own and their organization's effectiveness and increase value. Considering paradoxical tensions simultaneously, aligning multiple levels of analysis, and thinking in expanded ways about synchronizing opposites are examples of ways in leaders can improve their effectiveness by utilizing this framework, and a more exhaustive discussion will follow in the remaining chapters.

A Roadmap for the Book

In the remaining chapters, we explain the Competing Values Framework in more detail, including an elaboration of how positively deviant results, or extraordinary levels of success, can be produced. We identify three different approaches to leadership related to the Competing Values Framework: *either/or strategies*, *both/and strategies*, and *interpenetration strategies*. We also provide instruments and measurement devices that can help managers and leaders diagnose and measure the value creation processes, competencies, and outcomes in their own organizations. The book contains intervention tools and techniques designed to enhance and improve value creation in organizations, as well as a discussion of financial measurement devices for assessing value creation. These tools, techniques, and approaches are designed to help leaders

develop ways to think about the challenges of leadership, effectiveness, and value creation.

More specifically, in Chapter 2 we discuss the meaning of value, and we identify the challenges inherent in value creation as well as the need to think beyond mere financial value as an indicator of organizational effectiveness. Chapter 3 explains the primary characteristics of the four Competing Values quadrants in order to demonstrate the necessity of considering trade-offs and tensions in creating value. Chapter 4 shifts from a focus on either/or thinking and competing demands to a both/and way of thinking about value creation. Chapter 5 supplements the discussions in the previous two chapters by identifying how the Competing Values Framework can help leaders create new ways to think, new strategies to lead, and new ways to create value.

The second half of the book focuses on tools and techniques for applying the Competing Values Framework. Chapter 6 discusses the tools and techniques associated with financial assessment and the increase of shareholder value. Research comparing organizations' financial performance using the Competing Values Framework to organizations that do not is reported. Chapter 7 contains measurement devices to assess individual leadership competencies, organizational culture, change strategies, and performance outcomes using the Competing Values Framework. These measurement tools can be useful to leaders in organizations responsible for designing strategies, implementing change processes, and managing cultural transformations. Chapter 8 provides

leadership tools and techniques designed to help organizations excel in value creation. Examples of extraordinarily successful performance are provided resulting from the application of these tools and techniques in organizations. Chapter 9 provides a summary of the Competing Values Framework and identifies implications for leaders of the future.

