

DIAGNOSING AND CHANGING ORGANIZATIONAL CULTURE

based on
The Competing Values Framework

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CHAPTER 1 An Introduction to Changing Organizational Culture

The Need to Manage Organizational Culture

Much of the current scholarly literature argues that successful companies--those with sustained profitability and above-normal financial returns--are characterized by certain well-defined conditions. These conditions include having (1) high barriers to entry (e.g., high costs inhibit other firms from entering the market, so few, if any, competitors exist), (2) non-substitutable products (e.g., others cannot duplicate the firm's product and no alternatives exist), (3) a large market share (e.g., the firm can capitalize of economies of scale and efficiencies by dominating the market), (4) buyers with low bargaining power (e.g., purchasers of the firm's products become dependent on the firm because they have no other alternative sources) (5) suppliers with low bargaining power (e.g., suppliers to the firm become dependent because they have no other alternative customers), and (6) rivalry among competitors (e.g., incentives to improve are a product of rigorous competition) (see Porter, 1980).

Unquestionably, these are desirable features that clearly should enhance financial success. However, what is remarkable is that the most successful U.S. firms in the last 20 years have had *none* of these competitive advantages. The top five performers in the last two decades--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).

Think of it. If you were going to start a business and wanted to make a killing, what markets will you most likely *avoid*? Airlines, discount retailing, consumer electronic sales, publishing. The list of industries represented by these five companies looks like an impending disaster for new entrants--massive competition, horrendous losses in the industry, widespread bankruptcy, virtually no barriers to entry, little unique technology, many substitute products and services, and a non-leadership position in market share. Yet, these five firms have out-performed everyone even with no special competitive advantages.

What differentiates these extraordinarily successful firms from others? How have they been able to make it when other have failed? How did Wal-Mart take on Sears and K-Mart, the two largest retailers in the world, and literally 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 thrive when several of its competitors went belly-up (e.g., Eastern, Pan-Am, Texas Air, People Express)? 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 every case is something less tangible, less blatant, but more powerful than the market factors listed above. The major distinguishing feature in these companies, their most important competitive advantage, the factor that 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 company values; less to do with competitive positioning than personal beliefs; less to do with resource advantages than vision. In fact, we defy you to name 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 to entrepreneurial start-ups--for example, Coca Cola, Disney, General Electric, Intel, McDonalds, Merck, Microsoft, Pixar, Rubbermaid, Sony, Toyota. Without exception, virtually every leading firm you can name has developed a distinctive culture that is clearly identifiable by its employees. This culture is sometimes created by the initial founder of the firm

(e.g. Disney). Sometimes it is developed consciously by management teams who decide to improve their company's performance in systematic ways (e.g., G.E.). Simply stated, successful companies have developed something special that supersedes corporate strategy, market presence, or technological advantages. They have found the power that resides in developing and managing a unique corporate culture.

Parenthetically, most organizational scholars 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 in enhancing organizational performance (for reviews see Cameron & Ettington, 1988; Denison, 1990; and Trice & Beyer, 1993). Near the end of this book (Chapter 7), we summarize several of those scientific studies that report a positive relationship between dimensions of organizational culture and organizational effectiveness. For those interested in the scholarly evidence that supports our assessment procedures and culture change method, Chapter 7 will be a helpful review of the empirical literature.

In addition to organization-level effects, the impact of organizational culture on individuals--e.g., employee morale, commitment, productivity, physical health, and emotional well-being--is also well-documented (for a review see Kozlowski, Chao, Smith, & Hedlund, 1993). With health care costs still sky-rocketing, burn-out at an all-time high, erosion of employee loyalty to firms costing millions of dollars a year in replacement and retraining, lost organizational secrets 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. We focus in this book, however, on the organization-level issues related to culture change as opposed to the individual and psychological effects.

To repeat, we limit our discussion to *organizational* culture. Our purpose is to assist you in understanding a way in which culture can be diagnosed and changed in order to enhance organizational performance. Since culture is such a crucial factor in the long-term effectiveness of organizations, it is imperative that those charged with studying and/or managing organizational culture be able to measure key dimensions of culture and to develop a strategy for changing it.

We begin by discussing the critical need for culture change in most modern organizations. The chaotic, rapid-fire vacillations in the external environment creates the risk that yesterday's organizational culture inhibits rather than contributes to 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 what 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. 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 will assist you in working through a systematic culture diagnosis and change effort. It helps profile the current state of organizational culture, a preferred culture for the future, and it outlines a process for moving from the current to the preferred state. It also serves as a source guide in the sense that it helps explain the core dimensions of culture, a theoretical framework for understanding culture forms, and it illustrates the power of culture in enhancing organizational effectiveness.

The Need for Culture Change

No organization in the 1990s would boast about its constancy, sameness, or status quo standing 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 that is now associated with staying the same.

Such 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 100 companies at the beginning of the 1900s, for example, only 16 are still in existence. Of the firms on *Fortune Magazine's* first list of the 500 biggest companies, only 29 firms would still be included. During the last 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 ever in 1991, for example, companies spent more money on computing and communications gear than the combined monies spent on industrial, mining, farm, and construction equipment. Whereas in the 1960s, approximately half of the workers in industrialized countries were involved in making things, by the year 2000, it is estimated that no developed country will have 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 has been produced in the last 20 years than was produced in the previous 5000 years. A weekday edition of the *New York Times* or the *Herald Tribune* contains more information than the average person was likely to come across in a lifetime during the 17th century. The total amount of information available to the average person doubles every 5 years.

The rate of technological change associated with this information explosion has created an environment intolerant of the status quo. A musical greeting card that plays "Happy Birthday" has more computer power than existed in the entire world before 1950. The average watch contains more computing power than existed in the entire world before 1960. The average home video camera has more processing power than the original IBM 360 mainframe. The average in-home video-game system now has more power than the original Cray supercomputer. 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 or not to change, but how to change in order to increase organizational effectiveness. The demise of some of the Fortune 500 companies, no doubt, resulted simply from slow, laggard, or wrong-headed change efforts.

For instance, organizations that have implemented quality initiatives in order to enhance effectiveness have, by and large, fallen short (see Cameron, 1997, for a listing of studies, some

of which follow). To illustrate, 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 30 quality programs by McKinsey (another consulting firm) found that two-thirds had stalled, fallen short, or failed. Ernst and Young's study of 584 companies in four industries (autos, banks, computers, 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.

Similarly, nearly every organization of moderate size or larger has engaged in downsizing in the last 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 1980s actually lagged the industry average at the beginning of the 1990s. 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 1468 firms in still another survey indicated that productivity deteriorated after downsizing. A majority of organizations that downsized in a third 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 to these studies).

A third common approach to enhancing organizational performance has been reengineering, or the attempt to redesign completely 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 1245 companies in Europe were polled. The survey found 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, the study reported that 85 percent of those firms found 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 of 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.

The point we are illustrating with these examples is that without another kind of fundamental change, namely, the change of the culture of an organization, there is little hope of enduring improvement in organizational performance. A primary reason for the failure of so many efforts to improve organizational effectiveness is that, whereas the tools and techniques may be present and the change strategy implemented with vigor, failure occurs because the fundamental culture of the organization remains the same. As evidence, consider the studies by Cameron and his colleagues (Cameron, Freeman, & Mishra, 1991; Cameron, 1992; Cameron, 1995) in which empirical studies were conducted in more than 100 organizations that had engaged in TQM and downsizing as strategies for enhancing effectiveness. The results of those studies were unequivocal. The successful implementation of TQM and downsizing programs, as well as the resulting effectiveness of the organizations' performance, depended on having the improvement strategies embedded in a culture change. When TQM and downsizing were implemented

independent of a culture change, they were unsuccessful. When the culture of these organizations was an explicit target of change, so that the TQM and/or downsizing initiatives were a part of an overall culture change effort, they were successful. Organizational effectiveness increased. Culture change was the key.

This dependence of organizational improvement on culture change is due to the fact that when the values, orientations, definitions, and goals stay constant--even when procedures and strategies are altered--the organization returns quickly to the status quo. Without an alternation of the fundamental goals, values, and expectations of the organization, change remains superficial and short-term in duration. And failed attempts to change, unfortunately, frequently produce cynicism, frustration, loss of trust, and deterioration in morale among organization members. As Cameron and his colleagues found in their research, the organization may be worse off than had the change strategy not been attempted in the first place. Modifying organizational culture, in other words, is a key to the successful implementation of major improvement strategies (e.g., TQM, downsizing, reengineering) as well as adaptation to the increasing turbulent environment faced by modern organizations.

Illustrating the Power of Culture Change

Take General Motors' plant in Fremont, California as an example. In the 1950s General Motors had embarked on what they called a "sunbelt strategy." This means that plants were built in the southern and western states in the U.S. Because these are all "right-to-work" states (i.e., few unions), the United Auto Workers union (UAW) viewed this as a union-avoidance move on the part of the company. It was interpreted as a "leave the UAW in the upper-Midwest, and we'll avoid having to deal with them by moving West" strategy. However, not only were those G.M. plants organized by the UAW, but they became among the most hostile, conflict-ridden plants in the entire corporation. In particular, a plant had been built in Fremont, California, in which the Chevrolet Nova car was assembled. It was a huge facility with several million square feet under roof. By the year 1982, the plant was operating at a disastrously low level. To illustrate, consider the following indicators. Approximately 5000 grievances were filed each year by employees in the plant. With 5000 workers employed, that's an average of one per person per year. It also works out to about 21 formally filed grievances each working day! More than 2000 of those grievances were unresolved. Three or four times each year a wildcat strike occurred (people just walked off the job). Costs of assembling the car were 30 percent above the Japanese competitors, sales trends were negative, the monthly quality audit put Fremont on the bottom of the entire corporation, and productivity was the worst in the company. Customer satisfaction with the Chevy Nova was at rock-bottom levels.

A variety of improvement programs had been tried--quality circles, employee relations initiatives, statistical process control, new incentive systems, tighter controls, downsizing, and a variety of other improvement programs. Nothing worked. Quality, productivity, and satisfaction levels remained abysmal. Of course, it doesn't take a rocket scientist to figure out that the company could not afford to continue operating at that level of performance. The reputation of the entire corporation and all its divisions (i.e., Cadillac, Buick, Oldsmobile, Pontiac, Chevrolet, and GMC) were being negatively affected by the poor quality product, the cost of simply keeping the plant running was overly burdensome, and management had nothing but grief from this group of employees. The decision was made to close the plant at the end of 1982.

Then GM did something interesting. The company approached its best competitor, Toyota, and offered to design and build a car together. GM was losing market share to Toyota, the Toyota production system was generally regarded as the best in the world at the time, and GM just didn't know how to fix its disastrous performance record, especially with the now-defunct Fremont

plant. Toyota jumped at the chance. After all, GM was the world's largest company with the world's largest supplier and dealer networks, and it was a chance for Toyota to plant its feet firmly on U.S. soil. GM offered to use the Fremont facility, but the plant was not to be remodeled. Old equipment had to be used. Toyota said, "Fine." GM indicated that because of the labor agreement, the joint venture couldn't hire just anyone. UAW workers had to be hired first, and they came back on the basis of seniority. The oldest and most recalcitrant employees, the ones who had complained the longest, were given first crack at jobs. Toyota said, "Fine." Toyota had just one request, and that was to allow Toyota managers to run the place, not GM managers. GM said, "Fine." In late 1985 the plant was opened. The name was changed to NUMMI--New United Motors Manufacturing Incorporated. For the first two years the Chevy Nova was the product produced, then it was phased out and replaced by the Geo Prism and the Toyota Corolla. Here are the performance data after one year of operation at the end of 1986.

Whereas the same union steward was in office as before the shutdown, only two grievances had been filed, and none were outstanding. Half the number of employees was working, but they were producing 20 percent more cars. Assembly costs were the same as in Japan, sales trends were positive, quality and customer satisfaction were the highest in the company, the Toyota Corolla had fewer things-gone-wrong than the comparable car produced in Japan, and productivity doubled the corporate average. To date more than a decade later, the NUMMI plant continues to lead the company (in most months) in quality and productivity. It still serves as an example to all of GM of the level of improvement that is possible.

How did the turnaround occur? What accounts for the dramatic reversal of performance?

Of course, multiple factors are relevant, but the best explanation of the most important factor can be illustrated by an interview with one of the production employees at NUMMI. He had worked in the facility for more than 20 years. He was asked to describe the difference he experienced between the plant while it was managed by GM and the plant after the joint venture was formed. This UAW employee said that prior to the joint venture, he would go home at night chuckling to himself about the things he'd think up to mess up the system. He'd leave his sandwich behind the door panel of the car, for example. "Six months later the customer would be driving down the road and wouldn't be able to figure out where that terrible smell was coming from. It would be my rotten sandwich in the door," he chuckled to himself. Or, he would put loose screws in a compartment of the frame that was to be welded shut. As the customer rode in the car, she or he would never be able to tell exactly where that rattle was coming from because it would reverberate throughout the entire car. "Ha, ha, ha. They'll never figure it out," he said.

"Now," he said, "because the number of job classifications has been so dramatically reduced, we have all been allowed to have personal business cards and to make up our own titles. The title I put on my card is 'Director of Welding Improvement'." His job was to monitor certain of the robots that spot-welded parts of the frame together. "Now, when I go to a San Francisco Forty-Niners game, or a Golden State Warriors game, or go down to Disneyland, I look for Geo Prisms and Toyota Corollas in the parking lot. When I see one, I take out my business card and write on the back of it: '>I made your car. Any problems, call me.' I put it under the windshield wiper of the car. I do it because I feel that those are my cars."

The difference between Fremont in 1982 and Fremont in 1992, at the time the interview was conducted, is a reflection of an organizational culture change. It was a gut-level, values-centered, in-the-bones change from viewing the world in one way in 1982 to viewing it entirely differently a decade later. People simply had adopted a different way to think about what the company was about and their role in it. Productivity, quality, efficiency, and morale followed directly from this change in the firm's culture.

This is the kind of change that this book addresses. Unless it is integrated with other types of change initiatives--e.g., TQM, downsizing, reengineering--it is unlikely that they will be successful. The status quo will prevail. Without culture change, we repeat, there is little hope of enduring improvement in organizational performance.

The Meaning of Organizational Culture

It was not until the beginning of the 1980s that organizational scholars began paying attention to the concept of culture (e.g., Ouchi, 1981; Pascale & Athos, 1981; Peters & Waterman, 1982; Deal & Kennedy, 1982). This is one of the few areas, in fact, in which organizational scholars led practicing managers in identifying a crucial factor affecting organizational performance. In most instances, practice has led research, and scholars have focused mainly on documenting, explaining, and building models of organizational phenomena that were already being tried by management (e.g., TQM, downsizing, reengineering, information technology). Organizational culture, however, has been an area in which conceptual work and scholarship have provided guidance for managers as they have searched for ways to improve their organizations' effectiveness.

The reason organizational culture was ignored as an important factor in accounting for organizational performance is that it refers to the taken-for-granted values, underlying assumptions, expectations, and definitions present in an organization. It represents "how things are around here." It reflects the prevailing ideology that people carry inside their heads. It conveys a sense of identity to employees, provides unwritten and, often, unspoken guidelines for how to get along in the organization, and enhances the stability of the social system that they experience. Unfortunately, people are unaware of their culture until it is challenged, until they experience a new culture, or until it is made overt and explicit through, for example, a framework or model. This is why culture was ignored for so long by managers and scholars. It is simply undetectable most of the time.

Of course, there are many kinds or levels of culture that affect individual and organizational behavior. At the broadest level, a global culture, such as a world religion's culture or the culture of the Eastern hemisphere, would be the highest level. At a less general level are national cultures (e.g., French culture) or subgroup cultures such as gender-based cultures (i.e., distinctive ways in which men and women view the world), ethnic group cultures (e.g., differences between blacks and whites), occupational cultures (e.g., police culture), or socioeconomic group culture (e.g., rich versus poor). Each of these cultures is generally reflected by unique language, symbols, and ethnocentric feelings. Still less broad is the culture of a single organization, which is the level at which this book is aimed. An organization's culture is reflected by what is valued, the dominant managerial and leadership styles, the language and symbols, the procedures and routines, and the definitions of success that make an organization unique. This level of culture analysis is of primary interest in this book.

Inside an organization, subunits such as functional departments, product groups, or even teams may also reflect their own unique cultures. Difficulties in coordinating and integrating processes or organizational activities, for example, are often a result of culture clashes among different subunits. For example, it is common in many organizations to hear of conflicts between marketing and manufacturing, or to hear of disparaging comments about the fuzzy-headed HR department, or to hear put-downs of the white-coats in R&D. One reason is that each different unit often has developed its own perspective, its own set of values, its own culture. It is easy to see how these cultural differences can fragment an organization and make high levels of

effectiveness impossible to achieve. Emphasizing subunit cultural differences, in other words, can foster alienation and conflict.

On the other hand, it is important to keep in mind that each subunit in an organization also contains common elements typical of the entire organization. Similar to a hologram in which each unique element in the image contains the characteristics of the entire image in addition to its own identifying characteristics, subunit cultures also contain core elements of the entire organization's culture in addition to their own unique elements. There is always an underlying glue that binds the organization together. In assessing an overall organization's culture, therefore, one can focus on the entire organization as the unit of analysis, or it is possible to assess different subunit cultures, identify the common dominant attributes of the subunit cultures, and aggregate them. This combination can provide an approximation of the overall organization's culture.

In this book we are interested primarily in helping managers identify ways in which their organization's culture can be diagnosed and changed. The relevant level of cultural analysis, therefore, is the level at which change efforts are directed. This may be at the overall organization level or it may be at the level of a subunit supervised by a manager. The target is the level at which culture change is required for organizational performance to improve.

Overall Purpose of the Book

This book provides three things: (1) a validated instrument for diagnosing organizational culture, (2) a framework or theoretical model for understanding organizational culture, and (3) a systematic strategy for changing organizational culture. It is intended to be a workbook in the sense that you can complete the instruments and plot your own the culture profile in the book itself, and you can use it as a resource for leading a culture change process. It can also serve as an information source for explaining culture and its importance in organizational improvement. In Chapter 2, 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, based on a theoretical framework of how organizations work and the kinds of values upon which their cultures are founded. The OCAI identifies what the current organizational culture is like as well as what your organization's preferred, future culture should be like.

Chapter 3 provides a more thorough explanation of the theoretical framework upon 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 include structure, quality, leadership, and management skills.

Chapter 4 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 1000 organizations is provided for comparison purposes.

Chapter 5 provides an example of how one organization used the OCAI to diagnose its current and preferred organizational cultures, and how it designed a strategy to change the current culture to better match the preferred culture. This example helps illustrate how managers can

approach the task of changing their own organization' culture. A five step procedure for guiding a culture change strategy is presented in this chapter.

Chapter 6 provides some practical hints about how organizational culture change can be achieved. These hints have emerged from our own work with scores of organizations ranging from multinational corporations to government agencies and colleges. The intent is to help managers identify ways in which the current organizational culture can become more like the preferred, future culture.

Chapter 7 contains a more rigorous and scientifically based discussion of the OCAI and the Competing Values Framework. It's intent is to provide researchers and organizational scholars with the evidence they'll need to use this instrument in studying organizational cultures and culture change. Evidence for the validity and reliability of the OCAI is provided in this chapter as well as a discussion of cultural definitions and the power of cultural change to impact effectiveness. This chapter may be of more interest to researchers and organizational scholars than to managers and change agents.