A distinctive aspect of the way that an organization functions, which shapes its overall performance as well as the feelings which individuals have about it, is its culture. This is the pattern of basic assumptions developed by an organization as it learns to cope with problems of external adaptation and internal integration. These assumptions are taught to new members as the correct way to perceive, think and feel in order to be successful. They cover a wide range of issues: how to dress, how much to argue, how far to defer to the boss's authority, what to reward and what to punish, are some of them. Organizations develop very wide differences on these topics.

Leaders play a key role in maintaining and transmitting the culture. They do this by a number of powerful mechanisms. What they pay attention to, measure and control; how they react to a range of crises; who they recruit, promote, excommunicate; all these send important messages about the kind of organization they are running. The key to leadership is managing cultural change.

The considerable difficulties that almost inevitably beset the establishment of an effective organization after a merger of two companies underline the need to understand the nature of cultural differences and how cultural change can be consciously managed. The big danger is that the acquiring company will not only impose its own structures and procedures but also its own philosophy, value systems and managerial style on a situation for which it has no intuitive 'feel'. Thus, a large packaged-foods manufacturer purchased a chain of successful fast-food restaurants. They imposed many of their manufacturing control procedures on the new subsidiary, which drove costs up and restaurant managers out. These were replaced by parent-company managers who did not really understand the technology and hence were unable to make effective use of the marketing techniques. Despite ten years of effort they could not run it profitably and had to sell it at a considerable loss.

Similar problems occur when organizations diversify into new product lines, new areas or new markets. Afterwards managers frequently say that cultural incompatibilities were at the root of the troubles, but somehow these factors rarely get taken into account at the time. One reason is that the culture of an organization is so pervasive that it is very difficult for members to identify its components in their own situation. They only recognize their own characteristics when they run up against problems due to differences in others. Schein presents a series of diagnostic procedures which would enable managers (usually with the help of an outside consultant) to uncover the cultural assumptions of their own organization and thus gain insight into its compatibility with others.

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