# Cultural Implications of INGO Mergers and Acquisitions

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*Civil society organizations in general—and international non-governmental organizations (INGOs) in particular—are facing unprecedented challenges that jeopardize their ability to deliver meaningful and sustainable impact to the lives of millions of people. Many are responding by combining forces through mergers or acquisitions (M/As), affiliations, and other types of joint ventures that they believe will mitigate or, in some cases, take advantage of these threats. While this paper is intended for leaders serving in civil society, we will draw on what we have learned from decades of working with organizations in both the private and civil society sectors who have turned to M/As to advance their strategic agendas. In particular, we examine the role that organizational culture plays in the ultimate success or failure of an M/A consolidation in the INGO space.*

While M/As have not historically been a prominent feature of the civil society landscape, more and more leaders today are contemplating some form of consolidation. Some are drawn to this as a way to realize their organization's mission, while others feel forced into considering an M/A due to the threat of insolvency or other types of organizational distress. Still other INGOs pursue M/As for the same reasons as private sector companies: to increase their organization's capabilities, expand its footprint, improve its effectiveness and efficiency, and/or mitigate current or anticipated threats.

No matter the motivation, private sector experience has shown that the majority of these efforts fall far short of accomplishing their strategic goals. This doesn't mean important gains don't materialize—in fact, in the vast majority of cases, M/As achieve a measure of their intended outcomes. The problem is that despite making some gains, many of these endeavors fail to live up to their full value potential.

In the for-profit arena, falling short of M/A integration targets translates into metrics like lost market share, lower profits, and/or reduced job security. INGOs also face similar consequences for missed M/A targets, but even more is at stake—if civil society M/As falter on stated objectives, the lives of those being served are placed in jeopardy.

While many obstacles can threaten the success of M/A initiatives, one of the most powerful is culture—specifically, bringing two potentially disparate cultures together to form a combined one that is better able to support the newly amalgamated enterprise. When M/A ventures don't meet expectations, it is often because the cultural integration component is:

1. Underappreciated and, therefore, under-resourced in terms of time, mindshare, and other resources by senior leaders (if not ignored altogether), or

2. Recognized as a vital component to success but left unaddressed because leaders lack the knowledge necessary to create and execute an effective plan of action.

These errors and shortcomings are especially relevant in the INGO sector, where M/As are relatively rare, and management consequently has little experience or expertise in executing them successfully. The intent of this paper, therefore, is to shed light on the ways in which culture impacts M/A outcomes, and to offer guidance on what steps INGO leaders can take to increase the likelihood that their cultural integration efforts build toward a successful outcome.

# THE BASICS OF CULTURE

At its simplest, culture is "the way we do things around here." In the context of an INGO pursuing strategic change like a merger or acquisition, culture is best defined as *the patterns of mindsets and behaviors shared by people in an organization*.

**Mindsets** are shared frames of reference, which lead to shared priorities that have a bearing on behaviors. They are more challenging to identify than behaviors, but also arguably more influential when culture is being formed.

**Behaviors** are the actions people take as a consequence of their mindsets and constitute how they conduct themselves on a daily basis. Behaviors offer more easily accessible information, but without the accompanying mindsets, this picture of culture is incomplete.

Collectively, shared mindsets and behaviors form expectations about what actions and attitudes are considered acceptable (or unacceptable) and preferred (or undesirable). These expectations can help people to work together with greater unity and are conveyed through formal means such as oral and written communications; organizational structure; and policies and procedures, as well as informal influences like who is celebrated or ignored, admired or shunned.

Because it is formed and expressed collectively, culture is self-reinforcing: the expectations that develop from shared patterns of mindsets and behaviors cause people to make decisions and behave in accordance with those expectations, thus strengthening the patterns that created the culture in the first place. As a result of this quality, a strong culture can bolster an INGO's identity in a stable environment. One such example is Medecins Sans Frontieres (aka Doctors Without Borders), an INGO with such a strong culture of autonomy that they refuse to accept funds from governments or even large foundations. However, when an INGO needs to undergo a transformation such as an M/A, that same strong culture can serve as a barrier to an organization accomplishing its intended outcomes.

Most people think of "culture" as a singular entity, but an organization's culture is actually an aggregate of subcultures that have developed in response to unique opportunities and challenges faced at various times by different groups within the organization (e.g., the culture of the INGO headquarters office versus a field or country office; the finance department versus HR; etc.). The multitude of subcultures is one of the reasons why culture at the enterprise level is inherently multifaceted and complex. Thus, while we refer to "culture" as characterizing an entire organization, it is often nuanced and varied at different levels within the organization—which can make changing an organization's culture that much more difficult.

Most mergers and many of the more significant acquisitions are transformational in nature. Consequently, the success of these endeavors is highly dependent on two cultures coming together to support the intended outcomes. When there is a mismatch between the current cultures and the mindsets and behaviors needed for the M/A to succeed, the existing culture(s) will almost always prevail. The alternative is to change one or both cultures to better align with what is required. However, this isn't easy to accomplish and comes with significant risks. Therefore, all possibilities

should be explored before any actions are taken. (For a more detailed review of when and how to attempt changing a culture, see *Organizational Culture and Its Impact on Change in the Civil Society Sector*.)

# INTEGRATION SCENARIOS

When a strategic merger or acquisition is engaged, one of two things happens. Because major change disrupts the status quo, it triggers people's natural tendency to "stay with the devil they know," and as a result—if left to their own devices—people in one or both cultures tend to contribute (intentionally or unconsciously) to defeating key aspects of the consolidation's goals in order to protect and maintain what is familiar to them.

On the other hand, if senior executives actively promote cooperation and create opportunities for collaboration, people in each organization may recognize the value of developing interdependent relationships with each other and, as a result, build bridges between the two distinct cultures.

## Three Possibilities

Whenever INGOs come together, the bridges people build (or don't build) result in three possible cultural scenarios:

- **Coexistence**: Each organization maintains its fundamental mission and cultural foundation. While certain modifications may be made at the infrastructure level (senior-level reporting lines, financial coordination, etc.), there is no expectation that either of the cultures will shift in any substantive way to accommodate the other. This is similar to a holding company structure in the commercial sector, where operational autonomy and independent cultures are highly encouraged.

- **Assimilation**: One organization is seen as being dominant over the other, and the mission and structure of the prevailing player serve as the foundation on which the new combined institution

is built. To the extent that the subordinate organization's patterns of mindsets and behaviors differ from the dominant ones, they are expected to adjust and adapt to the "parent" culture. This is how most consolidations unfold. Despite the rhetoric that might be used early on about how much the smaller entity's operations are valued, typically the dominant player's culture subsumes that of the entity being absorbed.

- **Transformation**: Two INGOs integrate their mindsets and behaviors in a way that forms a new and, hopefully, more powerful enterprise. The result is assembled through leveraging the strengths of each partner, and while mindsets and behaviors are drawn from both organizations, the transformation fundamentally changes both cultures, as fresh norms are created to address the needs of the new organization. Transformation is typically in play when M/A endeavors engage in careful examination of strategic goals, operational structure, and even the fundamental products or services being offered to determine what does/does not fit into the new endeavor.

While these three cultural scenarios are presented as discrete alternatives, M/As often blend them. For example, the formal structure of an arrangement may be that the prevailing party is purchasing, for the purpose of assimilating, the assets (people and things) of a non-dominant player. At the same time, the dominant organization may be drawn to certain aspects of the non-dominant organization's culture and view them as useful, if not essential, to realizing its future goals. In such cases, an important part of the expected ROI for the prevailing partner is to not only expand its asset base (through assimilation), but to also use the non-dominant organization to jumpstart its own cultural transformation.

Finally, it is possible for all three cultural scenarios to occur sequentially over time. For instance, a new combined organization may allow a period of time to "let the dust settle" before making transformative cultural changes. They would start with coexistence in the early days of the M/A and then gradually transition to assimilation for a period of time before ultimately undergoing transformation in the later phases of the consolidation.

Given that one, two, or all three cultural scenarios may be appropriate, there are no inherently good or bad alternatives among the three; each one or any combination can lead to astonishing success or

crushing failure. What is important is for senior leaders and board executives to make an informed and explicit decision about which scenario or combination of scenarios best serves the M/A's intended outcome.

From a cultural standpoint, coexistence is the least disruptive, least risky, and consequently "easiest" to execute because neither mindsets nor behaviors are required to change very much. That said, the most typical integration strategy is assimilation. It requires greater effort and more resources and carries a higher level of risk because it necessitates fundamental cultural changes in at least the non-dominant party, if not both organizations . . . and yet it still does not require nearly as much forethought or tenacity as transformation.

Transformation is the most difficult type of cultural consolidation. Because the reinvention process involves deep-seated shifts to the underlying cultures of both organizations, this type of integration is the costliest in terms of time, attention, and resources, and carries the greatest risk of failure. As such, it is not a task to be undertaken lightly; only when it has direct bearing on M/A success is such a venture warranted. Nevertheless, in spite of the substantial risk, this type of integration can also yield the greatest rewards, and in times of turmoil throughout the whole sector—such as what INGOs are facing today—paradigm leaps of this nature become more and more necessary.

# CULTURE EATS SYNERGY FOR LUNCH

If the first step in addressing the cultural landscape of an M/A is choosing the desired integration strategy, then step two is defining how the success of that objective will be measured.

Many M/As are pursued based on "additive calculus"— *We are already doing X, and they are doing Y. If we combine the two, we'll be able to do X + Y*. This 1 + 1 = 2 approach is an important part of any organization's continual improvement strategy and is especially appropriate for INGOs when deciding whether to use M/A to advance what they are already doing. This type of thinking helps to achieve goals such as:

- Supplementing current resources applied to existing goals, e.g., gaining access to new and potentially more endowed donors to support programs already in place

- Increasing present capabilities to fulfill existing goals, e.g., expanding the organization's ability to deliver on programs already in place or to deliver more of the same type of programs to broader populations while reducing overhead, etc.

An example of a 1 + 1 = 2 consolidation is when one INGO is acquiring another, smaller organization that conducts its operations in a part of the world that the larger INGO wants to serve. The acquisition enables the larger INGO to expand its footprint and save money on overhead, while capitalizing on the smaller INGO's expertise in the target territory.

Sometimes, rather than increasing the organization's existing capabilities, a 1 + 1 = 2 effort is really about an INGO in distress trying to avert a downward spiral. In such situations, the organization is simply looking for a partner who can help save some (or ideally all) of its capacity to make an impact. If the deal ends up being a strategic move for the partner, all the better, but for the INGO in distress, it is all about survival.

On the other end of the spectrum, strategic M/As are usually justified using "synergistic calculus"—*If we blend the capabilities of these two organizations, we can create a total value far greater than what the two could achieve separately.* This represents 1 + 1 > 2 thinking and is often intended to foster objectives like:

- Combining previously untapped and/or separate resource and talent pools in order to give rise to new, cutting-edge possibilities

- Exposing people to what, for civil society, are cutting-edge cultural norms like a sense of ongoing urgency, start-up mentality, entrepreneurial risk-taking, etc.

- Infusing diverse perspectives, fresh thinking, and innovative experimentation into the organization

REAL-WORLD EXAMPLE

## Synergistic M/A

An example of a 1 + 1 > 2 M/A unfolded when one INGO purchased a food-growing venture in a developing country as part of its entry strategy into impact investing. The business case for the acquisition was tied to securing profits that could be added to unrestricted funds, while the organization's mission would be served because the local farmers were paid more equitably, enjoyed better working conditions, and had more input into day-to-day decisions affecting their well-being. The cultural agenda was synergistic in that it drew a sense of urgency, risk-taking, and creative problem-solving from the entrepreneur-based food-growing venture while pulling a value for structured, replicable processes and leverageable consistency from the INGO. Neither end of the spectrum that the two cultures represented was sufficient to create sustained success in today's modern era, and a settlement between the two cultures that would enable them to simply tolerate each other enough for the organization to function would not suffice. What was needed—and pursued—was a genuine fusing that would create a completely new set of mindsets and behaviors that reflected the best of both organizations.

The common denominator among organizations applying synergistic calculus is their attempts to make dramatic leaps in value by consolidating previously separate organizations. This kind of $1 + 1 > 2$ thinking can only materialize, however, if the two cultures spend more time creatively collaborating than they do maneuvering to protect legacy programs and fighting turf wars. When territoriality takes precedence, the desired synergy doesn't come forward, and the results often look more like additive calculus is being applied . . . or worse, self-destructive behavior ($1 + 1 < 2$) takes over.

When additive or self-destructive results replace synergistic aspirations, it is typically because INGO leaders didn't properly attend to cultural integration when preparing their organizations for an impending M/A. The reasons for this neglect vary. Sometimes executives underestimate the power of culture to maintain the status quo, or overestimate their individual ability to affect the culture without enrolling people down and across the organization. Others view culture as "too soft and mushy" to address. Still others believe that the cultures will converge on their own once integration plans are approved. Finally, there are leaders who feel that attention to culture is not worth the effort; they bet on the cultural issues ultimately proving to be minor and rely on good luck to get them through. Most lose the wager.

M/A attempts that don't properly address the cultural implications inevitably fall short of their strategic objectives. People become overwhelmed with culture-related clashes that consume a tremendous amount of resources and often slow down or inhibit the integration progress. When this happens, the prime objectives that initially justified the endeavor simply can't materialize. Certain incremental gains may be achieved as a result of the M/A, but the promise of a dramatic, synergistic value leap forward—which was made to the board, staff, donors, and the constituency being served—won't be fulfilled.

# WHAT DOES IT LOOK LIKE WHEN SENIOR OFFICERS GET CULTURE RIGHT?

CEOs and their senior teams who properly attend to creating a culture that will foster M/A success tend to engage in similar activities. These activities are undertaken in two phases: pre-deal and post-deal.

## PRE-DEAL: Determining Desired Culture, Assessing Predisposition, and Preparing Leaders

While most leaders see cultural implications as an important variable to consider in the due diligence process, many do not know what to do and/or are unwilling to invest the time, mindshare, and resources to actually make it a critical focus. When M/As are successful, it is because senior leaders are thinking about and actively exploring the degree to which the two cultures could foster or inhibit the desired strategic outcomes from the moment a potential consolidation partner is identified.

Cultural considerations are not peripheral to deciding whether or not to proceed with a prospective union. Rather, culture remains at the forefront of deliberations at each stage of the process: in early dialogues while testing the waters, when initiating formal due diligence, when seeking board approval, when announcing intentions, and while consummating the deal.

The following steps are essential to making sure that culture is at the forefront of M/A discussions before the deal is finalized. While they are presented serially, these steps comprise what is, in reality, a much more iterative process. Each step informs the others, and while certain steps may take precedence in the early stages of planning, all are crucial to ensure that culture is a central consideration when choosing to proceed with an M/A.

### Determining Desired Culture

Contrary to what many leaders think, when first examining prospective M/A partners, the most important consideration isn't how closely the two cultures relate to each other. While comparing the

two cultures may be a worthwhile activity down the line, it isn't all that important for calculating the initial likelihood of integration success.

*What is crucial is how each culture measures up to what will be needed by the new, combined enterprise.*

To determine the culture needed to achieve the outcomes of the M/A, senior officers in both organizations must first have a clear understanding of the overall strategic intent for their respective operations. This may sound like an obvious requirement, but many M/As' attempts are sabotaged before getting off the ground because executives (and their boards) are not aligned around what their organization ultimately needs to accomplish. Only when each group independently clarifies what they want to achieve can they formulate a view of what the two organizations might create together.

Once they form a collective sense of what is possible and necessary, senior leaders in both camps can focus their attention on how best to get there. Should the integration involve coexistence, assimilation, transformation, or some combination of these options? This is not the time to create a detailed blueprint for accomplishing the integration; that comes later. Rather, this is when it is important to craft a thumbnail sketch of the desired cultural outcome that provides just enough specificity to move the consolidation process forward.

## Assessing Predisposition

In addition to declaring what the desired high-level integration narrative should be, senior leaders need to focus on the question of cultural fit. This critical step is often ignored or pushed off, to be dealt with after the M/A is decided; however, the hard reality is that cultural fit is central to engaging an M/A at all. When making this assessment, senior leaders should ask questions such as:

Are there cultural overlaps between the two organizations?

Are the cultures at odds with each other?

If the cultures are disparate, how difficult will it be for them to find common ground?

And finally, the most essential inquiry:

*Do the respective organizations demonstrate sufficient "predisposition" for achieving the intended outcomes of the M/A?*

The answer to this question has less to do with whether the organizations are currently exhibiting the new mindsets and behaviors (because, in all likelihood, one or both are not), and more to do with whether they are capable of doing so in the future. Do the organizations have strong foundations upon which to build? Do either or both have tendencies, if not strong leanings, toward certain aspects of the desired culture?

If the existing cultures show some propensity for moving in the right direction, the deal is a "GO" from a cultural standpoint. If not, even small cultural hurdles may prove insurmountable, and the cultural integration—and, ultimately, the outcome for the entire M/A endeavor—may be at risk.

## Preparing Leaders

M/A undertakings can only be successful if executive leadership effectively fulfills its role in legitimizing and fostering the desired culture from the outset. Examples of the kinds of things that must be done include:

**Shaping expectations:** Establish clear and explicit expectations about what mindsets and behaviors will be expected, why these are necessary, and when they need to be adopted.

**Legitimizing the necessary changes**: Allocate needed resources, apply meaningful (positive or negative) consequences, and recruit a cascading network of leaders who can promote the necessary culture down the organization.

**Narrowing attention:** Concentrate the organization's limited mindshare, energy, and capacity to absorb change on the mindsets and behaviors most crucial for realizing the M/A outcomes.

**Demonstrating private tenacity:** Use "behind-the-scenes" actions to demonstrate personal persistence that shows you are not just paying "lip service" to the culture you intend to develop.

**Exhibiting public conviction:** Publicly express commitment and openly demonstrate the depth of your personal determination to see the culture take root.

**Making tough decisions and taking decisive action:** Demonstrate the courage and discipline to make unpopular decisions and engage in actions that might not be comfortable or easy in order to help fully realize the change's intent.

This is by no means an exhaustive list, but it offers a general description of the kinds of undertakings that must be engaged. Unfortunately, many top executives are unprepared to deliver what is needed.

In order to fulfill their roles, leaders need to develop a deep understanding of the fundamentals of how organizational change unfolds as a result of M/A, including:

1. The critical change dynamics in play before, during, and after M/A events

2. How commitment to the new combined organization unfolds

3. Why resistance to an M/A is inevitable and how it can be leveraged

4. How to balance organizational capacity with the demands of the change

5. When and how to align culture with desired M/A outcomes

6. The most common implementation risks that jeopardize M/A success and how they should be addressed

7. Leadership's role, as well as the responsibilities of other key players during the transition

8. An understanding and acceptance of the reality that day-to-day actions of senior officers will be more influential on staff than any speeches, memos, or edicts they deliver

In case after case, we have found that this change-based frame of reference provides leaders with a deeper and broader set of questions to explore when deciding whether to proceed with an M/A. With a solid grounding in these topic areas, senior leaders are better prepared to pursue the list of activities above, which in turn helps to generate the deep, organization-wide commitment needed to fully realize the intent behind bringing their two entities together.

Regrettably, many M/A endeavors are doomed before reaching formal culmination because of inattention to or mismanagement of pre-deal activities such as determining desired culture, assessing predisposition, and preparing leaders. However, even if the deal does go through, the work is not done; successfully integrating the two organizations and their cultures comes next.

## POST-DEAL: Planning Successful Integration

Assuming enough due diligence findings fall into place and both boards approve the deal, the easy part is over. It is now time to ensure that both the structure and spirit of the desired cultural outcomes take hold throughout the new organization.

If assimilation or transformation are the objectives, this means the new leadership team must engage in a considerable effort to bring the desired culture to fruition. This process begins with identifying the combined organization's "purpose-driven context," which is comprised of:

- Vision—<u>why</u> the new combined organization will exist

- Mission—<u>what</u> it is going to accomplish

- Strategy—<u>how</u> this will be achieved

- Timeframes—<u>when</u> key milestones are to be reached

With vision, mission, strategy, and timeframes thoroughly but concisely described, the desired culture can be crafted. The function of culture is to create an environment within which purpose-driven work can flourish and the M/A can reach full realization. Therefore, formulating a new culture

means agreeing on a fine-tuned and clearly articulated set of collective mindsets and behaviors required for the new organization to achieve its purpose-driven objectives.

A common trap that INGOs can fall into at this stage is investing time and resources to try and "harmonize" the two cultures that are coming together. Instead of identifying new mindsets and behaviors required to fully realize the goals of the consolidation, leadership looks for ways to blend the two cultures by emphasizing common elements between them and trying to minimize or smooth over potential friction.

There is nothing wrong with looking for cultural elements the two organizations already share; in fact, these common elements can provide a strong foundation for the assimilation or transformation work that must be done. However, we often find that leaders take this route—and only this route—not for strategic reasons, but to avoid creating emotional discomfort among the staff of the two combining organizations. It is as if they are signaling "It's going to be all right. Don't worry, see, not much will really change."

Instead, it is vital that leadership identify what new mindsets and behaviors are required to realize the promise of the new combined enterprise, even if this will cause some discomfort or anxiety at first. This is especially true in transformational M/A scenarios, which, by definition, change some important aspects of the cultural paradigm for virtually everyone. To ignore or deliberately avoid the inevitable struggles that accompany changes in mindsets and behaviors only guarantees that the outcomes will fall short of those needed for strategic success.

## Sponsorship Duties

As the emerging culture comes into focus, it is important to clarify what leadership must do to establish and maintain the new mindsets and behaviors. Specifically, leaders need to function as "sponsors" of change—doing whatever is necessary (including crafting compelling communications and delivering meaningful positive and negative consequences) to ensure that the new culture thrives.

Powerful, consistent sponsorship is necessary throughout the organization, but this is possible only if it emanates from the top three tiers:

- The board

- The CEO

- The senior executive team

Each tier has specific sponsorship duties to ensure that intended cultural outcomes are fully realized.

**Boards** serve as uber-sponsors for all strategic consolidation and, consequently, for any new culture that needs to emerge. This calls for them to examine how (or even if) culture has been considered as part of an impending M/A action. Oftentimes, however, the board that sanctioned the consolidation is not the same one that is tasked with overseeing its execution. Therefore, the post-deal board needs to develop an understanding of, commitment to, and alignment with the decisions of the prior board before it can oversee the cultural component of the M/A.

Boards are also responsible for making sure their CEOs provide visible and effective culture-centric guidance to their executive teams and, by extension, the rest of the organization. Boards do this by:

- Ensuring the CEO has a well-formulated culture execution roadmap that clearly describes the new culture, how it will be rolled out and embodied throughout the organization, what inhibitors might pose challenges, and the risk mitigation strategies to address those challenges

- Requiring formal status updates on culture progress, including how key risk areas are being addressed

- Weaving culture-related questions into various board discussions, such as: What is being done to reinforce the new culture during the annual budgeting and planning process?

- Incorporating successful realization of the new culture into the CEO's performance criteria and compensation formula

**CEOs** also serve as sponsors. Their level of sponsorship calls for more than issuing cultural declarations and perfunctory mentions in blogs or company-wide presentations. CEOs are responsible to their boards to deliver substantive, measurable progress toward manifesting the culture needed to support desired M/A outcomes. They do this by demonstrating visible and effective culture-focused sponsorship to their organizations and ensuring that their executive teams do the same. Actions associated with this kind of sponsorship include:

- Creating clarity around the intent behind the new culture's aspirations

- Fostering people's understanding of, commitment to, and alignment around full realization of the new culture

- Taking full responsibility for his/her executive team properly communicating and applying the appropriate consequences (positive/negative) throughout the organization so people see the new culture as an absolute imperative

- Ensuring that he/she and the entire executive team are impeccable role models for the new culture

**Executive Team members** also serve as sponsors and are expected to promote the new cultural norms and monitor implementation progress. Each is counted on to demonstrate unyielding determination toward fostering the emerging mindsets and behaviors through actions such as:

- Exhibiting public conviction and private tenacity to show he/she is not just paying "lip service" to the new culture

- Making tough business and personnel decisions to ensure nothing stands in the way of the culture unfolding as it should

- Saying "no" to attractive opportunities, projects, or initiatives that are at odds with the new desired mindsets and behaviors

- Operating in a highly cohesive, synergistic manner with other senior executives so people see a united front in support of the new culture

In addition to preparing the top three tiers of leadership to play their respective roles, a step newly combined INGOs often miss is recruiting informal leaders down in the organization to promote and reinforce the new cultural norms. While most M/A initiatives take a top-down approach (that is, they lead change from the C-suite), this approach is most effective when it is paired with a strategy of identifying and recruiting people at various levels who exercise "unofficial" influence. These are managers as well as staff whose opinions are respected and sought out regardless of their formal titles. By enrolling these influencers in the new mindsets and behaviors required for the M/A to succeed, executives build a team of highly effective "culture carriers" who will recruit others throughout both organizations.

Because unrelenting sponsorship is so vital to the success of the new culture, every leader—and most crucially, those within the top three tiers—must fulfill his or her respective role. Those who are unable or unwilling to do so need to be reassigned to less critical roles or let go. INGOs rarely pursue this culling step, and the omission is a major contributing factor to consolation efforts among civil society institutions so often falling short of expectations. By failing to dismiss leaders who do not live out the designated mindsets and behaviors, the new combined organization demonstrates to staff that adopting the new culture is merely optional, effectively undermining the change at large.

## Engaging the Whole Organization

When a sufficient number of INGO leaders are committed to and aligned around sponsoring the cultural change, staff members throughout the newly formed organization need to understand what the culture change means for them and their work. This goes beyond announcing why new mindsets and behaviors are necessary and describing what they are. What is called for here is a series of cascading "enrollment" discussions where people not only hear about the new culture but are

encouraged to participate in genuine dialogue where they can ask questions, raise concerns and fears, and feel that their input is valued. These meaningful exchanges will cover many aspects of the new culture, but in particular, they must address the following:

- The purpose-driven context for the new combined enterprise, as well as the culture needed to support it

- The personal involvement required of leaders at all levels of the organization in order to ensure the culture is properly established and maintained

- The kind of role modeling the senior leadership teams have committed themselves to demonstrating

- The responsibility/accountability leaders at all levels carry to enforce and live out the new culture

- The kind of support that will be provided to people as they shift to the new mindsets and behaviors

- The need for teams and individuals to localize and personalize the new mindsets and behaviors—that is, to take the definition of the new desired culture from senior executives and make it relevant to the realities of people's local work environment, particular role, etc.

REAL-WORLD EXAMPLE

## INGO Engagement

To illustrate the process of engaging an organization in cultural change, let's look at how one INGO used a series of cascaded conversations over a 15-month period to not only introduce purpose-driven context for the new organizational vision, but to also enroll leaders and teams across the organization's

international network in the new mindsets and behaviors that would prove crucial to fully realizing the new vision.

The first conversation in the series focused on the organization's overall vision for 2030 and why changes in the organization's footprint, programs, and culture were strategic imperatives. As with all the subsequent conversations in this series, this first conversation started with the CEO reviewing with his team the overall strategic context and introducing the four new mindsets and associated behaviors that they would need to characterize their culture in the future. His direct reports then conducted similar discussions with their direct reports. Those direct reports went on to have the discussions with their direct reports (and so on and so on) until everyone in the international network had had the chance to engage with their leader on the purpose-driven context as well as the new mindsets and behaviors needed to fully realize that context.

Questions, concerns, and other significant reactions—both positive and negative—were collected as the discussions cascaded down and across the network. These data were summarized and presented to the CEO and his team as valuable feedback on how the messages were "landing" in the field. The data prompted the CEO to develop a series of video communications to highlight that he was listening to the field, to demonstrate his awareness of questions and concerns, to answer some of the most frequently raised questions, and to respond to common concerns.

Every three months, a new round of conversations was launched, again starting with the CEO and his executive team and then cascading level by level throughout the organization. Each of these subsequent discussions focused on just one of the four new mindsets required for the new vision. The objective of these conversations was to develop deeper understanding of each mindset and to begin identifying specific day-to-day behaviors that would demonstrate the presence of the mindset in each team's local context.

When this organization-wide cascade was completed, it had accomplished several key objectives: (1) it raised awareness and built a deeper understanding of the necessary changes and the culture required to fully realize their strategic intent; (2) it allowed teams to localize the new mindsets and behaviors and enabled individuals to personalize these changes; and (3) it created a powerful channel for gathering critical feedback for the executive sponsors of the culture change.

## Ongoing Activities for Driving Culture Change

New cultures don't come about through edicts passed down by senior leaders, nor can they be forced. However, they can be encouraged.

Inspiring and nurturing a new set of mindsets and behaviors can be accomplished through a variety of activities. Some of these actions are formal systemic or structural changes, such as re-branding the organization, restructuring reporting lines, or adjusting performance review criteria. Other activities—including role modeling, leveraging effective communications, and applying persuasive consequences—are ongoing in nature and are described in more detail below.

Culture change in any circumstance (and especially in an M/A situation) inevitably takes significant time and effort—often more than leaders anticipate. As one INGO leader shared with us, even after months of communicating the new mindsets and behaviors across his entire worldwide organization, he and his leadership team realized that all they had accomplished was creating a thin (and somewhat fragile) veneer of culture change. In other words, on the surface it looked like the combined organizations had adopted the new common culture, but when stressed or challenged, managers and employees tended to revert to the mindsets and behaviors of their legacy organizations; they "hunkered down." This leader's insight was that the changes his INGO was trying to realize would take additional time and effort beyond the activities of the new organizational launch.

To combat people's tendency to "backslide" into old mindsets and behaviors, sponsors of a new culture need to think of the organization as involved in an ongoing campaign over a period of months, if not years. In general, there are five key elements to such a campaign: explicit role modeling, effective communications, persuasive consequences, continual monitoring, and gap-closing plans and actions.

## Explicit Role Modeling

No matter the quality of the change or what risk mitigation plans have been drawn up, culture gaps will never be closed without leaders at every level of the organization consistently being "caught in the act" of demonstrating the desired mindsets and behaviors and requiring that others around them do the same. The executive team of one international organization worked on adopting five new specific mindsets and behaviors for a full six months before rolling them out to the rest of the organization. Their effort included working with executive coaches and receiving feedback on their progress. This preparation maximized the chances that the senior leadership team had already "walked the talk" by the time the new culture was announced more broadly. An added benefit to this approach was that it helped the top leaders to gain an appreciation for the challenges the rest of the staff would experience as they began adopting the new mindsets and behaviors.

Top executive role modeling, however, only has its intended impact if leaders explicitly call attention to their actions and create the expectation that other leaders across the organization will do the same. That is, while top executives need to embody the desired mindsets and behaviors, this cannot stop at the top level. The leaders below them must notice and be impressed by what they witness, feel accountable for demonstrating the same actions, and ensure that their own direct reports do the same. In short, role modeling needs to be more than an exhibition by upper management; it must be seen by all parties as setting new performance standards.

## Effective Communications

Every organization-wide announcement, town hall meeting, email exchange, or field visit provides an opportunity to reinforce the new mindsets and behaviors—that is, to address *why* they are so critical to fulfilling the organization's mission, *how* they will show up in day-to-day work, and *what* impact the new mindsets are having on beneficiaries. It is critical to embed culture-reinforcing messages in ongoing and day-to-day communications with staff and leaders across the organization (in addition to the more traditional communications channels such as formal organizational announcements, posters on the wall, employee newsletters, etc.) to encourage the new mindsets and behaviors to take root in the organization.

## Persuasive Consequences

All of the plans, role models, and communications in the world won't effect change in the absence of meaningful consequences. Those who contribute to the desired culture by demonstrating the new mindsets and behaviors must be rewarded, and those who resist it must be addressed. While it is never comfortable to confront those who are not acting in alignment with new culture norms, we find that this is particularly true in the civil society sector; leaders are often reluctant to apply negative consequences or let resistors go except in the most extreme circumstances. One CEO shared his regret over not more quickly addressing the behaviors of two very visible senior leaders who were consistently not acting in alignment with the new culture. Their actions (and inferred mindsets) were undermining the new organization's culture on a daily basis. While it took some time, those leaders were ultimately asked to leave the organization. This action sent a strong signal that the executive team was serious about the adoption of the cultural norms.

Persuasive consequences, however, are not always negative; it is just as critical to reward examples of the new mindsets and behaviors—and their impact—in action. Being attentive to the positive examples helps build the momentum critical to the culture change effort.

## Monitoring Progress

Ongoing monitoring and reporting of progress and problems related to establishing the new culture are vital to the success of an M/A. INGOs can leverage a variety of tools such as employee surveys, focus groups, and/or interviews to gauge the degree to which the new mindsets and behaviors are taking hold. For example, several INGOs have used their annual employee survey to compare year-over-year changes in the frequency with which people observed the new mindsets and behaviors in action.

In addition to this organization-wide monitoring, it is also crucial that senior leaders monitor themselves and hold each other accountable to track their own progress and ensure that they are seen as leading the way on the changes. It might seem more "democratic" for workers down in the organization to conduct this monitoring and tracking, but people who spend the most time around executive leaders are the ones with the deepest insight into what those executives are actually

thinking and doing—and these people happen to be other executives. For this reason, self-awareness and candid peer feedback are the best methods for monitoring the adoption and consistency of the new culture among the upper echelon.

## Gap-Closing Plans and Actions

When gaps or other issues begin to surface (revealed through formal data collection or informal observation), leaders need to ensure that plans are created and actions are taken to mitigate these risks to successful cultural integration. For instance, the INGO that conducted an annual employee survey to monitor their culture change efforts used the data from the survey to assess the relative progress of specific headquarters departments and field teams in adopting the new cultural norms. This informed their actions to: (1) identify and replicate successful practices, and (2) confront "the laggards"—i.e., those offices or teams that were not keeping pace in adopting the new culture—first privately, and then more publicly by publishing data on the progress of teams and offices across their international network.

While this is not an exhaustive list of ongoing activities that INGO leaders can take to foster the new culture following an M/A, these five categories represent essential activities of any successful integration plan. For more detail on how organizational culture can be orchestrated to support strategic change initiatives, see *Organizational Culture and Its Impact on Change in the Civil Society Sector*.

# CONCLUSION

It should be clear by now that undergoing a merger or acquisition is no small task. Many obstacles limit such an endeavor's strategic intent from being fully realized. One of the most powerful impediments is culture; creating a new culture to support a new enterprise is challenging, and forming one from two already-entrenched cultures is even more so.

Yet in light of the increased frequency with which consolidations are now occurring in the civil society sector—and perhaps because of it—INGO leaders must thoughtfully and intentionally develop a culture for the new combined enterprise that will breed M/A success. With clear objectives, pragmatic assessment, deliberate planning, thorough leadership preparation, careful execution, and unending tenacity and patience, they can forge a new culture that will ultimately serve as the backbone for the new, combined organization.

Conner Advisory will continue to monitor and study the factors that are aiding or impeding the progress of INGO leaders and their organizations as they adapt to— and hopefully thrive in—this unprecedented environment of change and disruption. We invite you to download our other research papers and follow our future insights on our website, conneradvisory.com.

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# SUGGESTED READINGS

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Daryl is founder and chairman of Conner Partners, a consulting firm specializing in strategy execution; Conner Academy, a professional development firm dedicated to helping leaders and change practitioners explore character and presence as a means for advancing their capabilities; and Conner Advisory, a consulting firm dedicated to serving leaders who are pursuing *changes that matter*.

During his 40-plus years of practice, Daryl has educated and advised strategic leaders and seasoned change practitioners in many of the world's most successful organizations. His focus has always been on helping them both understand and address the challenges and opportunities they face during transformational change.

Daryl's work is built on a strong foundation of research, extensive consulting experience, and a master's degree in psychology. He has authored two books—*Managing at the Speed of Change* (Random House, 1993) and *Leading at the Edge of Chaos* (John Wiley & Sons, 1998)—and more than 250 other publications including journal and magazine articles, monographs, book chapters, and videos.

You can read Daryl's blog on executing major change at connerpartners.com/daryl-conner/blog as well as his new essay series on the mastery path for experienced change practitioners at conneracademy.com/category/essays/.

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Ed is co-founder and CEO of Conner Advisory, a consulting firm established for the sole purpose of supporting leaders who are pursuing *changes that matter*. In this capacity, he collaborates with leaders from a diverse set of humanitarian and development organizations such as World Vision, Doctors without Borders, and Relief International, as well as associations such as InterAction and InsideNGO that support the international NGO community.

Prior to starting Conner Advisory, Ed was a partner at PricewaterhouseCoopers (PwC) where he headed up the US People and Organization consulting practice. In this role, Ed was responsible for leading a team of more than 400 practitioners who helped clients execute large-scale strategic change, transform HR into a more effective and strategic function, and optimize organizational talent. Before that, he served as President and Chief Executive Officer of The Forum Corporation, where he advised senior business teams involved in major change initiatives.

A recognized leader in the field of strategy execution, Ed co-authored *Strategic Speed: Mobilize People, Accelerate Execution* (Harvard Business Press, 2010), which provides a blueprint for leaders who are executing transformational change in their organizations. Ed earned his Ph.D. in psychology from the University of Pennsylvania. While at Penn, he also received The Wharton School Certificate in Business Administration.