Cultural

Due Diligence

What financial models cannot see, and why the gap between what an organization says about itself and how it works is the single largest undisclosed risk in any deal or integration.

70–90%	44%	94%	+50%
of M&A deals fail to deliver expected value	of integration leaders cite cultural friction as the top reason integrations fail	of executives say culture is critical, yet only 26% manage it effectively	more likely to meet synergy targets when culture is managed in planning
HBR / McKinsey	*McKinsey, 2023 (n=1,100)*	*Deloitte*	*McKinsey, 2024*

THE PROBLEM

Culture: The Most Expensive Thing You Never Audited.

In nearly every M&A transaction, carve-out, or strategic investment, the same due diligence checklist applies: financials, legal exposure, tax structure, commercial pipeline, regulatory risk. Culture, how people work together, decide, and follow through, is treated as a footnote, if it appears at all.

This is not because practitioners believe culture is unimportant. McKinsey's 2023 survey of almost 1,100 M&A leaders found that **44% named lack of cultural fit as the top reason integrations fail**, ahead of financial miscalculation, technology incompatibility, and regulatory friction. The same practitioners admitted they gave culture too little attention, too late. In the same survey, 60% said they wished they had spent more resources on it.

The evidence is remarkably consistent across decades and geographies. When Kraft merged with 3G Capital's Heinz platform, the financials were compelling. The cultural collision, between a brand-centric, collaborative consumer goods culture and a relentless cost-optimization ethos, was not surfaced until value had already been destroyed. Microsoft and Nokia. Unilever and SlimFast. AT&T and Time Warner. The pattern repeats.

> **RESEARCH**
> Deloitte finds that addressing culture during M&A leads to 30% higher innovation levels and 14% higher productivity. McKinsey data shows firms that manage culture effectively are over 40% more likely to meet cost synergy targets and 70% more likely to exceed revenue targets.
> *Deloitte, 2024 | McKinsey & Company, 2023*

Yet despite all of this, **cultural due diligence remains the exception, not the standard.** When it does occur, it tends to be superficial: a handful of leadership interviews, a review of stated values, perhaps a culture survey. What it rarely captures is the thing that actually determines whether two organizations can merge their ways of working: how people behave, not what they say they believe.

> "An organization's culture, the common set of behaviors, mindsets, and beliefs that shape how people work, is a driving force for its success. Yet culture is overlooked in discussions about M&A, and this neglect carries consequences."
>
> *McKinsey & Company, 2025 M&A Annual Report*

Private equity firms are increasingly aware of this gap. Research from 2025 shows that even the most rigorous PE investors frequently rely on gut feel and superficial reference checks when assessing human capital, the same firms that would never accept a financial model without stress testing it. Human capital and cultural assessments remain among the least systematized disciplines in the diligence process.

The result: cultural risk compounds invisibly. It only becomes visible after close, when it is expensive, when talent has already begun to exit, and when the operational friction of two incompatible ways of working starts to consume the synergies the deal was meant to create.

TALENT RISK

Research shows that 75% of key people quit within three years of a merger. Studies in healthcare M&A found physician retention dropped 16.5 % within two years of a PE exit, directly attributable to culture shock and lost organizational identity.

MarshBerry | JAMA Health Forum, 2025

COD PERSPECTIVE

Culture Is Not What Is Written On The Wall. It Is What Happens In The Room.

COD's central insight, developed over thirty years working inside organizations across fifty countries, is that culture is not simply a set of values. It is a set of behaviors based on each individual's mindset. It lives in meetings, in one-on-ones, in whether someone feels free to raise a problem before it becomes a crisis.

This distinction is decisive. Survey-based culture assessments measure stated preferences. They capture what people believe about their organization, filtered through social desirability, seniority hierarchies, and the language their employer has trained them to use. They do not capture how decisions get made, who owns the outcome, whether actions are tracked and followed through, or whether leaders ask questions or issue instructions when things go wrong.

COD has observed the same pattern across industrial manufacturers, high-tech firms, service providers, and construction companies: the organizations that described themselves as collaborative were often the ones most driven by command-and-control behaviors at execution level. The gap between cultural self-description and cultural reality is one of the most reliable risk signals in a diligence process.

Solution × Acceptance = Result

Even the best integration plan delivers nothing if the people who must execute it do not own it. Ownership requires involvement. Involvement requires a leadership style that asks before it tells. Cultural due diligence must assess whether that style exists, or whether it will have to be built.

COD's approach to **cultural due diligence** is therefore **behavioral, not attitudinal.** It asks: how do leaders actually interact with their teams? What happens in the first ten minutes of a meeting? Who speaks? Who decides? What gets written down and followed up? These are not soft questions. They are the operational questions that determine whether a post-merger organization can execute at all.

This perspective connects directly to three decades of evidence: culture change happens through interaction patterns, not announcements.

THE MODEL

The COD Cultural Readiness Assessment.

COD's Cultural Readiness Assessment (CRA) evaluates a target organization across four behavioral dimensions. Each dimension is grounded in observable evidence, not only survey responses, and is assessed through a combination of structured interviews, document analysis, and direct behavioral observation during the diligence period.

The Four Dimensions Of Cultural Readiness

01

Leadership Interaction Style

How do leaders behave in practice, when under pressure, when presenting results, when a team member has a problem? COD maps observed behavior against three styles: task-oriented (authoritarian), target-oriented (goal-setting), and solution-oriented (involving). The degree of solution-orientation determines how easily new operating models can be adopted post-deal.

02

Decision Quality & Accountability

How decisions are made, and whether they are followed through. Does the organization have visible decision logic? Are actions named, owned, and tracked? Is there a shared, accessible record of commitments? Fragmented decision-making is the single most common source of post-merger drag, it compounds the moment two organizations share a management layer.

03

Execution Discipline

Does the organization keep its operating rhythm under pressure? Is there a meeting clock, a predictable cadence at strategic, operational, and project levels, that holds even when leaders are overloaded? Is work broken into manageable steps, or does it live in 6-month plan documents that nobody revisits? Execution discipline is the infrastructure of culture. Where it is absent, integration timelines collapse.

04

Change Absorption Capacity

How does the organization respond to gaps? When the distance between current state and required state becomes visible, through a merger, a new strategy, a changed market, does leadership involve the team in closing it, or does it issue instructions and wait? Organizations that treat gaps as open questions rather than top-down directives absorb change faster, retain talent longer, and produce integration plans that the people implementing them own.

These four dimensions do not exist in isolation. An organization with strong leadership interaction style but weak execution discipline will generate good conversations and poor outcomes. One with strong discipline but low change absorption will execute the wrong plan with great precision. The CRA maps the profile and identifies exactly which dimension represents the integration risk and what it will cost to address it.

WHAT WE OBSERVE

Observable Signals: What Healthy And Fragile Look Like In Practice.

The following signals are drawn from COD's thirty-year library of organizational observation. They are not theoretical. They are what COD consultants see when they sit inside a client's operating rhythm.

DIMENSION	HEALTHY SIGNAL	RISK SIGNAL
Leadership Interaction	Leaders ask open questions before offering their view. Team members speak first. Silence is used, not filled.	Leaders present conclusions and ask for agreement. Challenge is rare. The same voices dominate.
Decision Accountability	Every meeting ends with a named action, a single owner, and a due date, recorded in a shared, visible log.	Meetings end with general agreement and no written record. Actions are revisited from scratch next meeting.
Execution Discipline	Predictable meeting cadence maintained regardless of workload. Work packages have 1–2 week timelines. Progress is visible to all.	Meetings frequently rescheduled under pressure. Initiatives exist in long-horizon plans without intermediate milestones.
Change Absorption	When a gap is identified, the team is asked to describe it before a solution is presented. People at multiple levels own next steps.	Organizational changes arrive as announcements. Teams implement plans they did not design. Early warnings go unreported.

WHY OBSERVATION MATTERS

A 2024 case study from a large technology merger illustrates the problem with survey-only approaches. External cultural assessment concluded: “two very similar cultures.” On-site observation revealed one culture built on loyalty, discipline, and control: the other on collaboration and trust. The survey had measured stated preferences. Behavior told a different story.

Culture Intelligence, 2024

HOW IT WORKS

A Rigorous Process With No False Precision.

COD's Cultural Readiness Assessment follows a structured four-phase process. It is designed to work within the compressed timelines of deal processes while delivering evidence that is specific enough to inform integration planning and board reporting.

PHASE 1 · 3–5 DAYS

Desk Research & Cultural Profiling

Before any interaction with the target, COD constructs a cultural baseline from publicly available signals: leadership communications (tone, vocabulary, what is celebrated), Glassdoor and LinkedIn data patterns, organizational history (carve-outs, restructurings, leadership tenure), strategic communications over the past 3–5 years. This baseline tests initial hypotheses and guides the questions that follow.

Output: *Cultural Hypothesis Brief: a structured working document of preliminary signals and hypotheses to test in-field.*

PHASE 2 · 5–10 DAYS

Structured Interviews & Behavioral Observation

COD conducts open, non-leading interviews at multiple levels, executive committee, middle management, and team leads where access permits. Questions are designed around behavior, not opinion: "Tell me about the last decision your team made together. How did it happen?" In accessible processes, COD observers join working meetings. The meeting itself, how it opens, who speaks, how it closes, what gets recorded, is the richest single data source available.

Output: *Behavioral Observation Log + Interview Summary across all four CRA dimensions.*

PHASE 3 · 3–5 DAYS

Analysis & Cultural Risk Scoring

COD synthesizes all findings into a four-dimension CRA score, not a single culture metric, but a dimensional profile that shows exactly where cultural compatibility is strong, where it requires management, and where it presents a deal risk that should be priced or mitigated in integration design. The profile is compared against the acquirer's own cultural baseline where available.

Output: *Cultural Readiness Report with Risk Heat Map - board-ready format.*

PHASE 4 · OPTIONAL

Integration Design & Operating Model Readiness

For clients who want to move directly from diligence to integration planning, COD translates the CRA findings into a behavioral integration roadmap: which leadership interaction patterns need to shift, which decision structures need to be established, what cadence and infrastructure to build in the first 90 days, and how to sequence the change so that the people who need to execute it understand and own it. This is not a change management plan. It is an operating model design, built from the actual behavioral distance the deal requires both organizations to travel.

Output: *Integration Operating Model Roadmap - first 90 days and quarterly milestones, with named owners.*

WHAT YOU RECEIVE

Deliverables That Drive Decisions, Not Files That Justify Fees.

I

Cultural Readiness Report

Board-ready assessment across all four CRA dimensions. Includes scored dimensional profile, key supporting evidence, risk flags, and specific integration implications. Written for executive committees and investment committees.

II

Cultural Risk Heat Map

A visual summary of where cultural risk is concentrated, which dimensions represent compatibility, which require active management, and which are deal-condition considerations. Designed for use in deal review and integration planning meetings.

III

Leadership Behavioral Gap Analysis

A targeted analysis of the distance between the target's current leadership interaction style and the style required by the post-deal operating model. Identifies who the key cultural carriers are, and where the integration's leadership change effort needs to be concentrated.

IV

Findings Presentation

A structured 2–3 hour working session with the acquiring team or investment committee. COD presents findings, fields questions, and facilitates discussion on integration implications. The session follows COD Meeting structure: everyone's perspective is captured before conclusions are drawn.

V

Integration Operating Model Roadmap (optional Phase 4)

A 90-day behavioral integration plan with quarterly milestones, named ownership, and a meeting clock that gives the combined entity its operating rhythm from day one. Built to be owned by the integration team, not presented to them.

WHY CORE OF DEVELOPMENT

The Advantage Is Proximity To Real Behavior.

Most cultural due diligence is conducted by survey platforms alone, HR consultancies, or strategy houses whose primary expertise is analytical, not operational with the aim to measure the culture. COD has spent thirty years **inside** it: sitting in the meetings, watching the decisions, building the operating structures that determine whether a culture can change and how fast.

This is not a theoretical distinction. It changes what we look for, how we interpret what we see, and how confident we can be in the conclusions we draw.

We stay until it works.	We assess what people do, not what they say.	We build self-sufficiency, not dependency.
COD does not deliver findings and leave. For clients who engage COD through integration, we are present in real operating meetings for up to three quarters, observing what works, enabling course correction, and transferring capability systematically until the client operates independently.	Every COD assessment is grounded in observed behavior. We know what a solution-oriented meeting looks like because we have run thousands of them. We know what task-oriented behavior looks like under pressure because we have observed it in fifty countries. That pattern recognition is not replicable by survey.	COD's goal in any engagement, including a diligence, is to transfer capability to the client team. The Cultural Readiness Report is not a document for COD to manage. It is a tool for your integration team to use. We build you the operating model. You run it.

Culture is not announced. It is built, one meeting, one decision, one followed-through action at a time. Cultural due diligence must look at exactly that level. Everything else is superficial.

CORE OF DEVELOPMENT