



---

# Private Equity: Maximizing Return and Minimizing Risk by Unlocking the Value of Culture

GALLUP®





## IT IS AN UNPRECEDENTED TIME FOR THE NORTH AMERICAN PRIVATE EQUITY INDUSTRY.

---

Record levels of fundraising activity in alternatives, dozens of new market entrants annually, and an ever-growing stockpile of dry powder have increased the competition for quality assets, putting upward pressure on valuations and downward pressure on returns.

As a result, investment teams have sought to augment their value-creation optionality during the underwriting process to drive outsized returns, despite peak entry-valuation multiples.

Beyond the factors that have direct implications on the private equity environment, exogenous factors — such as global trade uncertainty, geopolitical instability, volatility in domestic politics and the impact of the COVID-19 pandemic — further complicate the value-creation strategies of private equity teams.

Amid the current state of market dynamics, it is becoming increasingly difficult to rely on traditional post-close value-creation levers, such as sourcing accretive acquisitions, green and brown fielding, expanding into new product categories and geographies, etc. In response, Gallup has worked tirelessly with private equity teams and their portfolio companies to explore ways to expand upon the traditional value-creation playbook. Gallup's resulting research indicates that considerable value-creation opportunities exist within organizations' approaches to human capital and culture strategies.

**Human capital — specifically culture — is often categorized as a “soft issue”** among the complex facets of an enterprise. Leadership experts, PE firms and portfolio companies agree that culture is a key factor in successful investments, yet it is frequently regarded as a secondary or tertiary concern. Often, the portfolio acquisition undervalues the human element and underestimates how improperly aligned cultures inhibit performance. Systemic human capital inefficiencies can quickly erode the foundation of enterprise-level value-creation strategies, but strong employee motivation, cohesion and buy-in have the power to significantly drive value-creation efforts. Gallup's scientific approach to identify strengths and weaknesses within corporate culture and link them to specific portfolio business outcomes and KPIs provides a schematic to unlock value.



“

“Cost-cutting and layoffs are no longer enough to drive returns in today’s tough market environment.”<sup>1</sup>

“

“As the industry grows and evolves, it’s critical to get the human capital part of the deal equation right.”<sup>2</sup>

<sup>1</sup>PwC, “Creating Value Beyond the Deal: Private Equity”

<sup>2</sup> Korn Ferry, “Private Equity’s Newfound Talent Focus”

“

“Gallup has discovered human capital strategies that combine in a powerful way to add up to 59% more growth revenue per employee. Each strategy has been widely tested and proven effective on its own. Organizations [that use these strategies] held their own in a down economy, and then outpaced the competition as the economy improved.”

— Jim Harter, Gallup Chief Scientist

Gallup takes a data-driven approach to extract value from the intangible assets within an enterprise.

## Culture Defined

### **CULTURE**

is the unique way an organization delivers for its customers, empowers its employees and ultimately defines its purpose.

From the C-suite to the factory floor, leaders, managers and employees throughout an organization attempt to define corporate culture. Not surprisingly, there are probably as many definitions of “culture” as there are people trying to define it. Some take a descriptive approach, defining culture in terms of its essential features, such as being innovative, performance-based or traditional. Others take a dynamic view, defining culture in terms of the interplay among different forces in the organization. These approaches similarly view culture as an invisible hand that guides and shapes an organization. While there are likely infinite ways to define such an amorphous, intangible asset, Gallup believes “culture” can be distilled to, “how we do things around here.”

A strong, infectious culture functions as a differentiator in the marketplace. Culture is the foundation upon which customer relationships are built and maintained. Similarly, culture is the basis by which organizations attract and retain highly talented employees. That said, it should come as no surprise that employees with whom an organization’s culture resonates are those who strongly and consistently outperform their benchmarks.

Gallup conceptualizes organizational culture as an output; the inputs — which must be meticulously cultivated by senior leaders — are leadership, values, morality, tribal knowledge, human capital, teamwork, processes and performance. Unique to your brand and its promise, defined by leadership's vision, delivered by process leaders and activated by employees, culture dictates how customers experience your brand. The inputs that form the foundation for culture should be measured, developed and driven throughout the organization. When a strong company culture is lived out, it can quickly become a competitive advantage and differentiator in the marketplace, embodying the following:

**1 Culture is unique to every organization.**

Every organization has a unique purpose and brand. Organizations that want to create or sustain a strong culture can only do so by understanding the ways in which purpose, brand and culture interact.

**2 Culture results in a *stickier* customer base.**

Customers who are enthralled by the service they receive from an organization will be willing to pay more, knowing they will be taken care of.

**3 Culture attracts best-in-class talent to your organization.**

The world's most successful enterprises clearly define, consistently execute on, and effectively align their culture throughout their organizations, inspiring high commitment from employees. This approach to culture attracts talented employees and inspires them to consistently deliver the organization's brand promise to its customers.

**4 Culture reinforces intra-organizational alignment.**

Strong culture reinforces engagement within and across disciplines in an organization, increasing the propensity for employee cohesion and alignment.

**5 Culture drives performance.**

It improves performance outcomes across various measurable benchmarks.

**“Culture — driven by purpose and brand — sets the direction for your organization. Engaged employees are the fuel.”**

— GALLUP'S APPROACH TO CULTURE

Among U.S. employees, **four in 10 strongly agree** with the statement, “The mission or purpose of my company makes me feel my job is important.” By moving that ratio to **eight in 10 employees**, organizations can realize the following:

**85%**

net profit increase over a 5-year period

**25%**

growth in workforce over a 3-year period

**+50**

point increase in employee engagement over a 3-year period

**The best cultures attract high performers (top 20%) in a given talent pool.**

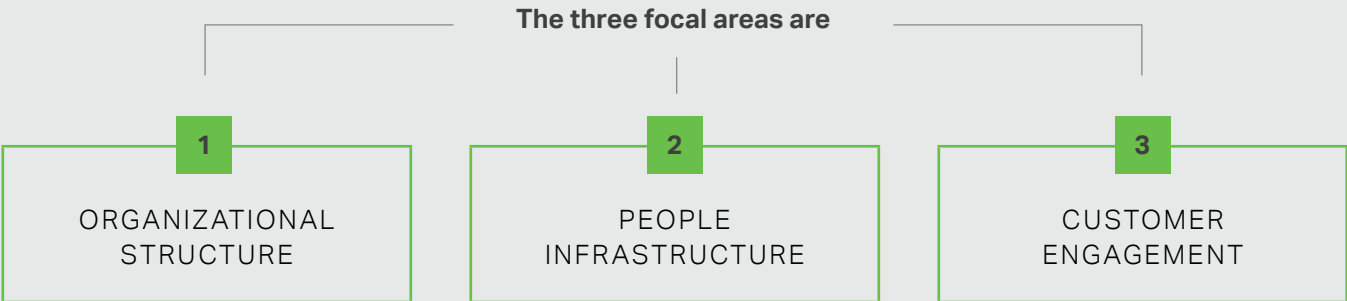
# How Gallup Helps Unlock Value

While culture is crucial to unlocking an organization’s full potential, management teams and investors often struggle to identify and leverage the functional aspects of their organization’s culture, neglecting potentially valuable opportunities to drive business outcomes, and ultimately, equity value. Gallup has devised a method that allows management teams to link the key intangible elements of culture (e.g., leadership, cohesion, motivation, etc.) with the tangible elements of an enterprise, such as efficiency and financial performance. Effectively, Gallup has unlocked the ability to extract value from the intangible assets within an enterprise. Based on Gallup’s world-class data analytics and research. Gallup’s *Culture Asset Management* measures, values and provides steps to improve the culture of an organization.

Gallup’s rigorous, data-science approach can validate how certain cultural changes have the potential to drive real business outcomes.

By maximizing the return and minimizing the risk of organizational culture through actionable initiatives, private equity firms are able to unlock **more value, faster**.

Gallup leverages qualitative and quantitative measures to evaluate organizational culture and identifying areas of strengths and weaknesses.





Like culture, methodologies and corresponding activities are unique to each client organization.

**Components that Gallup measures include, but are not limited to, the following:**

#### **QUALITATIVE**

- stakeholder interviews
- customer interviews
- process and procedure review

#### **QUANTITATIVE**

- financial review
- employee survey (census)
- analytics for B2B and B2C
- proprietary industry benchmarking
- customer and employee correlation; HumanSigma

#### **DIFFERENTIATOR:**

- proprietary benchmarking
- more than 80 years of experience studying workplace behaviors, customers and economic changes

**The actional initiatives include, but are not limited to, the following:**

- assessments and evaluations for the C-suite constructing and developing high-performing teams
- leadership succession planning
- employee experience management
- leader/manager development
- talent attraction and selection tactics
- talent effectiveness
- diversity and inclusion
- customer engagement

## CASE STUDY 1

### About

Large, privately held casual dining restaurant chain based in the United States

- **350** worldwide locations
- **90** franchised restaurants
- **24** countries

### Client Challenge

With over 350 worldwide locations spanning more than 20 countries, the casual dining restaurant chain struggled to meet revenue expectations year over year. Improving the financial strength of the organization was paramount after it was recently privately acquired. This client turned to Gallup to understand the potential impact their hiring process and current staff was having on their financials.

### Approach

Gallup partnered with this client to identify service values, create a culture that supports and sustains those values, and evaluate where the most significant profitability losses lie within their locations, related to their staff. Through a qualitative and quantitative study, Gallup was able to create service values to attract, inspire and deliver a consistently excellent guest experience in all locations. By working with the executive leadership team, Gallup established a set of competencies and behaviors that led to the staff's increased adoption and scaling of service values to develop a unique culture. Gallup also created a people operating model roadmap for the company, which prioritized a set of critical initiatives and identified financial opportunities and risks related to their staff across the organization.

### Impact

Servers with higher talent outperform less talented servers by

**\$16,000**

**in average annual gross sales**  
per server, per year.

**Sixty-six percent of current staff**  
(low performers) represented a potential  
loss of over

**\$680,000**

**in gross sales per year.**

**Thirty-four percent of current staff**  
(high performers) represented a  
potential gain of over

**\$728,000**

**in gross sales per year.**

Restaurant locations, on average  
with better staff engagement metrics  
experienced

**28%**

**higher EBITDAR.**

## CASE STUDY 2

### About

Global pharmaceutical manufacturer worth **\$16B** with offices in **80+** countries and **40,000** employees globally

### Client Challenge

Supply chain and production leaders were operating at target manufacturing levels. When benchmarked against industry peers and world-class manufacturing operations, however, they were far behind. This client thought they had maximized most opportunities within the production environment.

### Approach

Gallup performed a qualitative and quantitative review of the integration of production employees, manager support, and corresponding policies and procedures. After the review, Gallup determined that managers and leaders were talented, but underutilized and in need of better management and leadership methods. For example, managers used to have a reactive behavior, only going onto the production floor when there was a problem or their approval was needed. This led to managers rarely having production conversations with front-line employees. In addition to leadership behavior changes, Gallup also recognized a misalignment in incentives between different departments and people performance metrics.

### Impact

Average annual COGS improvement of 1.23% resulting in

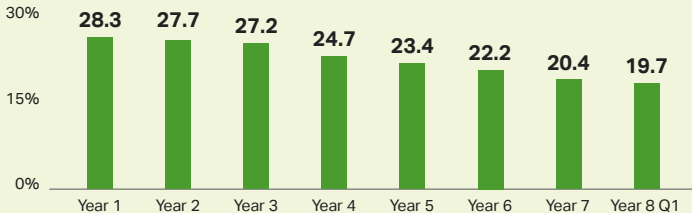
**~\$119M**  
annual savings

**40%**  
decrease  
in customer complaints

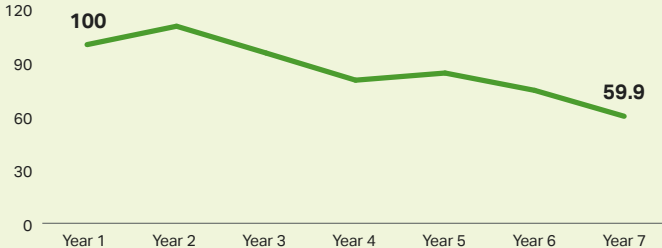
**100%**  
improvement  
to “out of stock”  
product availability

**99.8%**  
delivery accuracy

Cost of Goods Sold



Customer Complaints Relative to Sales



## CASE STUDY 3

### About

International restaurant brand with **\$4B+** in revenue and more than **16,000** company- and franchise-owned stores in the U.S. and 85 international markets, which employ **400,000** franchised and corporate team members globally

### Client Challenge

After a product relaunch and multiple technology enhancements, this client organization was already an industry leader, but wanted to know the effect that enhancing its customer experience and maximizing its talent could have on business outcomes.

### Approach

The client partnered with Gallup to understand the power of people and find ways to optimally leverage team members to drive store profitability and unit economics. Gallup identified three areas where the company needed to advance in order to accelerate growth: customer service, employee retention and leader development that builds entrepreneurial leaders.

### Impact

By helping the 70 below-average GMs increase their performance to **average**, the client added

**\$3M+**

to its bottom line and

**\$11M+**

in sales.

By helping the 70 below-average GMs achieve **high** performance, the client added

**\$8M+**

to its bottom line and

**\$19M+**

in sales.

Aggregate of 3-year EBITDA outlook:

**~\$11M to \$28M**



## CASE STUDY 4

### About

Publicly-traded global manufacturer of security devices worth **\$2.7B** with B2B and B2C distribution

- **10,000+** employees
- **40+** manufacturing sites

### Client Challenge

This client wanted to understand how it could leverage people in an environment and industry that does not traditionally consider the variation of people's performance in a production environment.

### Approach


Gallup partnered with this client to help leaders understand how their own engagement cascades down from their respective leadership teams to production employees. Gallup's measurement provided production leaders with visibility into how positive human behavior improvements lead to positive operational outcomes within the manufacturing industry. Gallup also worked with plant leadership at select sites to develop leader behaviors that address employee needs, further improving operating metrics.

### Impact

Financial metrics were adjusted to a per-person level to make them more comparable across locations. Using Gallup's methodology to compare financial metrics of locations in the top third for employee engagement to locations in the bottom third showed:

- **Gross margin (GM)** per employee is **128% higher**.
- **Revenue (REV)** per employee is **96% higher**.

Levels of 2019 Engagement	Grand Mean	GM	REV
<b>Bottom</b> (3.69 or below) 13 sites	3.45	\$90,166	\$248,626
<b>Middle</b> (3.70 to 3.99) 14 sites	3.81	\$203,059	\$425,214
<b>Top</b> (4.00 or higher) 13 sites	4.21	\$205,799	\$486,400

A person wearing a grey blazer over a black and white striped shirt is sitting at a white desk. Their right hand, adorned with a silver ring, is pointing at a bar chart displayed on a tablet. The chart features green bars of varying heights. In the background, a laptop and some papers are visible on the desk.

## Unlock the Value of Your Firm's Culture

### Gallup's Private Equity Practice

**SAM ACUNA**  
sam\_acuna@gallup.com

**JEFF DAGBO**  
jeff\_dagbo@gallup.com

## COPYRIGHT STANDARDS

This document contains proprietary research, copyrighted materials and literary property of Gallup, Inc. It is for the guidance of your organization only and is not to be copied, quoted, published or divulged to others outside your organization. All of Gallup, Inc.'s content is protected by copyright. Neither the client nor the participants shall copy, modify, resell, reuse or distribute the program materials beyond the scope of what is agreed upon in writing by Gallup, Inc. Any violation of this Agreement shall be considered a breach of contract and misuse of Gallup, Inc.'s intellectual property.

This document is of great value to Gallup, Inc. Accordingly, international and domestic laws and penalties guaranteeing patent, copyright, trademark and trade secret protection safeguard the ideas, concepts and recommendations related within this document.

No changes may be made to this document without the express written permission of Gallup, Inc. Gallup® is a trademark of Gallup, Inc. All other trademarks and copyrights are property of their respective owners.

GALLUP®

**World Headquarters**

The Gallup Building  
901 F Street, NW  
Washington, D.C. 20004

**t** +1.877.242.5587

**f** +1.202.715.3045

**[www.gallup.com](http://www.gallup.com)**