

Sustainability-Linked Value Creation Guide for Private Equity Limited Partners

This guide is designed to help private equity Limited Partners (LPs) evaluate and guide General Partners (GPs) in creating financial value through sustainability strategies. It emphasizes the importance of adopting a strategic approach to sustainability that quantifies *outcomes* – such as efficiencies from better resource use or productivity gains from improvements in employee welfare – in financial terms.

Compliance-centric metrics, such as reporting on greenhouse gas emissions and board diversity, have been prioritized by regulators and investors as a necessary starting point for understanding a corporation's sustainability maturity, but they often focus on disclosure rather than value creation. In addition, reporting primarily focuses on risk mitigation and the avoidance of value destruction from neglecting sustainability (e.g., regulatory penalties and climate risk) while .

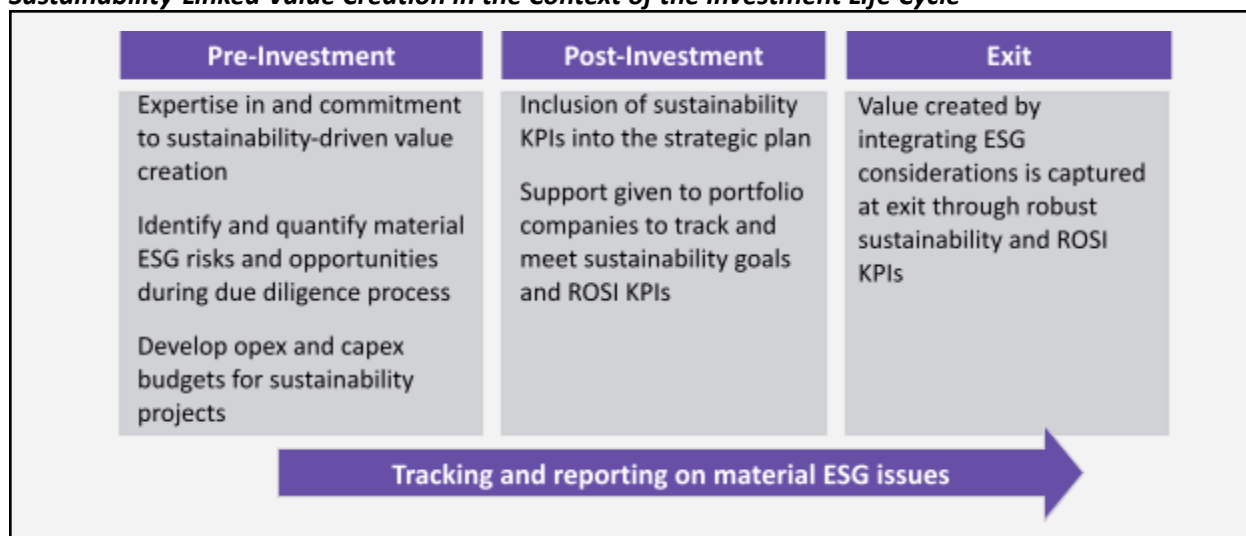
This guide moves beyond both compliance and risk framing. It aims to facilitate a more value-accretive discussion between LPs and GPs by focusing on how sustainability strategies can drive financial performance. The guide adopts a financial (or single) materiality lens, rather than the double materiality approach required under the EU's Corporate Sustainability Reporting Directive (CSRD), which considers a company's impact on people and planet in addition to the impact to the enterprise's value. That said, we find that financial value from sustainability can only be derived where there is real impact on the material ESG issue, e.g. waste and energy use are reduced, positively impacting people and the planet.

Given its emphasis on quantifiable outcomes in financial terms, the guide may be best suited for GPs who take controlling stakes in their portcos and have more mature sustainability integration practices. However, the guide can also provide a good introductory tool for LPs to ask their GPs to explore sustainability-linked value creation. The guide builds on research from the NYU Stern Center for Sustainable Business (CSB) and its [Return on Sustainability Investment \(ROSI™\)](#) tool, which has demonstrated that actively embedding sustainability factors core to business strategy lead to improved financial performance. It also draws from the newly released [UNPRI GP sustainability-linked value creation guide](#), for which CSB was the academic partner. In parallel, CSB is also developing a complimentary tool for GPs and their portcos in collaboration with a group of GPs, ILPA and EDCI. The GP tool is designed to help identify financially material ESG issues and manage financial outcomes through a database of sustainability and ROSI KPIs (visit the [CSB Responsible Private Equity](#) webpage for additional information on this effort).

This brief guide comprises three parts:

- Part I: A summary of key aspects of sustainability-linked value creation
- Part II: A set of five strategic questions designed to address critical issues in sustainability-linked value creation across the investment life cycle (*see Figure 1 below*).
- Part III: A deeper dive into sustainability-linked KPIs and value creation case studies (for GPs as well as LPs).

Sustainability-Linked Value Creation in the Context of the Investment Life Cycle



Part I. Sustainability-Linked Value Creation Summary

What is Sustainability-Linked Value Creation?

Sustainability-linked value creation is a management approach that embeds sustainability into core business strategy, driving better financial performance, competitive advantage, and a positive impact on society by reducing material sustainability risk and optimizing opportunities. Below are examples:

Value Preservation (Risk Mitigation)

- Reduce financial impacts of physical climate risk discovered during due diligence
- Reduce license to operate risk by reducing water use in water-stressed areas

Value Creation

- Introduce water reuse systems to lower water costs
- Improve worker safety, thereby reducing insurance costs and enhancing productivity and retention

The 9 Mediating Factors

We have identified nine drivers of financial performance that can be bolstered by embedding sustainability core to business strategy. Good management of sustainability risks and opportunities is one of the most powerful ways to drive financial performance.

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|--------------------------|---------------------|--------------------------|
| • Innovation | • Sales & Marketing | • Employee Relations |
| • Operational Efficiency | • Customer Loyalty | • Supplier Relations |
| • Risk Management | • Media Coverage | • Stakeholder Engagement |

Examples of how practices can drive financial return

Circular solutions ("E")

Operational efficiencies
Sales and marketing benefits
Supply chain resiliency

Workplace Safety ("S")

Higher productivity
Lower turnover
Reduced insurance costs

Cybersecurity ("G")

Avoided regulatory risk
Reputational benefits
Marketing benefits

Key Requirements for Successful Value Creation Implementation

- | | |
|---|--|
| <ul style="list-style-type: none"> • Senior management involvement (including CEO and CFO) • Investment - capex and opex • Compensation tied to sustainability targets (both portco and deal team) • Collaboration across departments | <ul style="list-style-type: none"> • Adoption of a robust methodology (e.g., the ROSI™ framework) to measure financial returns on sustainable activities (retroactively, on-going and proposed) • Assessing the cost of inaction as well as the cost of action |
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Value Creation Implications

Revenue preservation and growth
Greater profitability/better margins
Higher company valuations
Potential lower cost of capital

Part II. Sustainability-Linked Value Creation Questions

This set of questions is intended as a supplement to traditional due diligence questionnaires, with a focus on sustainability-linked value creation. By honing in on formal mechanisms, metrics and capital allocations, the guide intends to help LPs identify and address gaps in a GP's ability to articulate and demonstrate sustainability-related value. As such, it may be most useful in conversations with GPs that already have some maturity in integrating sustainability into their investment processes.

The guide is structured so that questions build on one another, increasing in depth and complexity. For LPs using this guide as an engagement tool, the text *in blue* offers supplementary prompts designed to elicit more precise information and insights during discussions.

The questions are organized within the context of the investment lifecycle at the portco level:

<i>Pre Investment Due Diligence of Portfolio Companies</i>	Question 1	• Aims to evaluate the GPs' maturity identifying and quantifying material sustainability risks and opportunities in their portcos • Involves evaluating the GP's approach to sustainability integration
<i>Post Investment Strategic Plans, KPI Monitoring</i>	Questions 2,3 & 4	• Do GPs embed sustainability KPIs into portfolio companies' strategic plans to drive measurable progress and value creation? • Do GPs provide oversight, expertise and resources to help quantify financial benefits such as cost savings, efficiency gains, and risk mitigation? • Do GPs support portcos scale sustainability initiatives that drive both financial returns and strategic value and ensure adequate capital allocation (CapEx and OpEx)? • Do GPs benchmarking against peer portcos to strengthen performance?
<i>Investment Exits</i>	Question 5	• Some buyers place greater value on companies with long-term sustainability goals, recognizing these factors contribute to a company's resilience and reputation • Sustainability practices can improve a company's value by boosting operational efficiencies, reducing risks, and creating new revenue opportunities. Is this captured in the valuation?

Sustainability-linked Value Creation Questions

The questions below can serve as an addendum to existing due diligence questionnaires (e.g., UN PRI's or ILPA's), as stand-alone questions, or as a tool for engagement with GPs.

Pre-Investment

1. During due diligence, how do you integrate the quantification of sustainability-linked risks and opportunities? (check all that apply)
 - ☐ We systematically identify and quantify the financial impacts of sustainability-related material risks and opportunities for all target companies as part of our standard due diligence. *(If checked, ask them to describe the process and expand on the answer)*
 - ☐ We incorporate and quantify the financial impacts of sustainability-related risks into the due diligence process on a case by case basis – only if critical and material (e.g., potential lawsuits from environmental issues, major infraction). *(If checked, ask them to describe the process and expand on the answer)*
 - ☐ We assess potential cost savings from sustainability initiatives (e.g., energy savings, waste reduction, regulatory compliance benefits). *(If checked, ask how is this done)*
 - ☐ We evaluate revenue-generating opportunities linked to sustainability trends (e.g., new market access, more sustainable products) *(If checked, ask how is this done?)*
 - ☐ We identify and assess material sustainability-related risks and opportunities for each potential investment qualitatively, but do not yet quantify them in financial terms. *(If checked, ask why not? Do you have plans or the skills to do this?)*
 - ☐ Other (please explain)

Post-Investment

2. Post-investment, describe the processes that are in place to ensure the financial impact of initiatives related to material (or potentially material) sustainability issues are effectively monitored and integrated into the broader strategic goals of the portfolio company. *This is an opportunity to dig deeper into the firm's process and understand how robust GP investment is in sustainability aligned value creation.*
 - ☐ **Risk management.** Sustainability-linked risks are incorporated into the company's risk management framework to proactively manage challenges that could undermine value creation and ensure resilience. *(If checked, please expand on how your firm does this)*
 - ☐ **Sustainability-linked financial KPIs.** Sustainability-driven KPIs (e.g., circularity, water management, energy efficiency) are aligned with financial and operational goals, ensuring they contribute directly to the portcos profitability. *(If checked, please expand on how KPIs are chosen and describe your monitoring and review processes)*
 - ☐ **Leadership.** A team, officer or operating partner tasked with driving sustainability initiatives that have measurable value creation. *(If checked, please expand on how your firm does this)*

- ☐ **Management incentives.** Management's performance incentives are structured to ensure executives are incentivized to create sustainability-linked value. *(If checked, please expand on how your firm does this)*
- ☐ **Other stakeholders.** Stakeholders, customers, and suppliers are involved in sustainability efforts, enhancing brand loyalty, operational efficiency, and subsequently creating business value. *(If checked, please expand on how your firm does this)*

3. How does the Fund allocate capital (CapEx and OpEx) to sustainability-driven strategies that enhance a portcos future financial performance and value creation? *(Check all that apply.)*

- ☐ We require portcos to allocate capital to sustainability-driven projects and initiatives that demonstrate a clear return on investment (e.g., energy efficiency, waste reduction, product innovation, lower employee turnover). *(How do you assess the return on investment?)*
- ☐ We undertake a financial analysis of key material sustainability issues, prioritize them and embed them into the overall capital allocation decisions rather than as separate expenditures. *(How are you tracking the return on your capex and opex? And how will you know these initiatives are driving value?)*
- ☐ We require portcos to allocate a percentage or fixed amount of CapEx and/or Opex funding to mission-critical sustainability initiatives regardless of its return on investment. *(What have you learned from this process? Would you consider including financial KPIs to your sustainability initiatives?)*
- ☐ We require portcos to prioritize investing in sustainability initiatives that reduce financial, regulatory and operational risks (e.g., supply chain, compliance, carbon pricing exposure). *(What have they learned from the process? Have you considered the price of inaction regarding sustainable innovation as a driver for growth?)*
- ☐ Sustainability-related capital and resources allocation occurs only when required by investors, regulators or specific buyer preferences at exit. *(Do you track the return on this capex and opex? How will you know these initiatives are driving value?)*
- ☐ Other *(please explain)*

4. Does the Fund systematically track and report on the financial impact from sustainability initiatives at the Portco level through an integrated system of financial metrics, such as those in the NYU Stern ROSI™ framework or other financial models?

☐ Yes

If selected, please explain how and how often. Then, proceed to Question 4.1.

☐ No

If selected, please provide an explanation. **Do not** proceed to the remaining questions. *(What would they need to begin to track this?)*

- 4.1. Which of the following types of financial benefits resulting from sustainability-linked strategies do you monitor? (Check all that apply.) *Ask the GP to provide an example for any of the checked boxes.*
- ☐ Operational efficiencies (e.g., lower energy costs, waste disposal costs, water costs)
 - ☐ Innovation and growth (e.g., new sustainable products or services)
 - ☐ Sales and marketing/customer loyalty (e.g., price premium, increased market share)
 - ☐ Employee productivity and retention
 - ☐ Risk mitigation (e.g., fewer regulatory fines, reputational damage, climate risk)
 - ☐ Better stakeholder engagement (with regulators, NGOs, suppliers, etc.)
 - ☐ Increased valuation at exit (did sustainability investments improve exit multiples?)
 - ☐ Not applicable. We do not track this information
 - ☐ Other (please explain)

Investment Exits

Please answer this question only if “Increased valuation at exit” was selected in Question 4.1. If not, **do not** proceed beyond this point.

5. What is your process for determining when and how sustainability value drivers are factored into company valuations at exit?
- ☐ Sustainability value drivers and their associated financial outcomes are systematically incorporated into the company narrative and valuation at exit as part of our standard process. *(Can you explain how you are doing this? Is there a “greenium” multiple? What process are you using and who is doing it?)*
 - ☐ We tailor our exit approach based on the buyer’s interest in sustainability. *(How does this process differ from your standard process? What is usually highlighted and quantified?)*
 - ☐ Sustainability issues are factored into the exit process qualitatively, with a focus on sustainability outcomes, but no quantification of the financial benefits. *(Can you provide an example of how that was done? Did it have an impact on the deal? If so, how?)*
 - ☐ Sustainability-driven value creation is not currently factored into company valuations at exit. *(Why not? Do you plan to change this? If so, what is the timeline?)*
 - ☐ Other (please explain)

- 5.1. When demonstrated sustainability performance is included in the exit strategy, it:
- ☐ Enhances the exit price. *(Ask for examples. Ask if they can quantify and by how much?)*
 - ☐ It expands the universe of potential buyers. *(How do you know? Please provide a few examples)*
 - ☐ Other (please explain)

Part III. A Deeper Dive into Sustainability-Linked KPIs and Value Creation Case Studies

While some private equity GPs are making deliberate choices about how to integrate sustainability into their business strategy, goals, and market positioning, many mainstream investors still underestimate its potential as a value driver. A persistent gap remains between investment teams and sustainability professionals, limiting the effective integration of ESG expertise into core investment strategies.

Research from the NYU Stern Center for Sustainable Business (CSB), alongside findings from peer institutions and consultancies, highlights a significant opportunity to close the gap between sustainability and investment teams. When sustainability is embedded into core operations—not treated solely as a compliance function—it can become a source of competitive advantage and financial value.

According to a July 2025 report by UN PRI and Bain & Company, [Sustainability Value Creation: A Framework for Driving Financial Value Through Sustainability in Private Markets](https://www.unpri.org/download?ac=23800), over 60% of surveyed private equity firms consider sustainability important to their strategy.¹ Yet despite this growing recognition, many still lack the internal structures, tools, and cross-functional alignment needed to systematically capture its financial benefits.

This gap persists even as evidence continues to build that sustainable business models can deliver strong returns and measurable impact—within typical private equity holding periods of just three to six years. The report found that well-executed sustainability-linked value creation strategies have been shown to generate: 6–7% uplift in exit multiples, approximately 6% cost optimization, approximately 6% revenue increase and improved employee retention and productivity.²

To help close this gap, the NYU Stern CSB developed the Return on Sustainability Investment (ROSI™) framework. By mapping sustainability actions to financial outcomes, ROSI enables GPs to build stronger investment cases, identify ROI-positive initiatives, and articulate the value of sustainability to internal and external stakeholders. It also helps overcome the common disconnect between ESG and investment teams by translating sustainability into the language of finance. In short, ROSI offers a pathway for moving from *intention* to *evidence*—ensuring that sustainability integration isn’t just aspirational, but demonstrably accretive to value. Case studies on the application of ROSI can be found in the following section (*see page 11*).

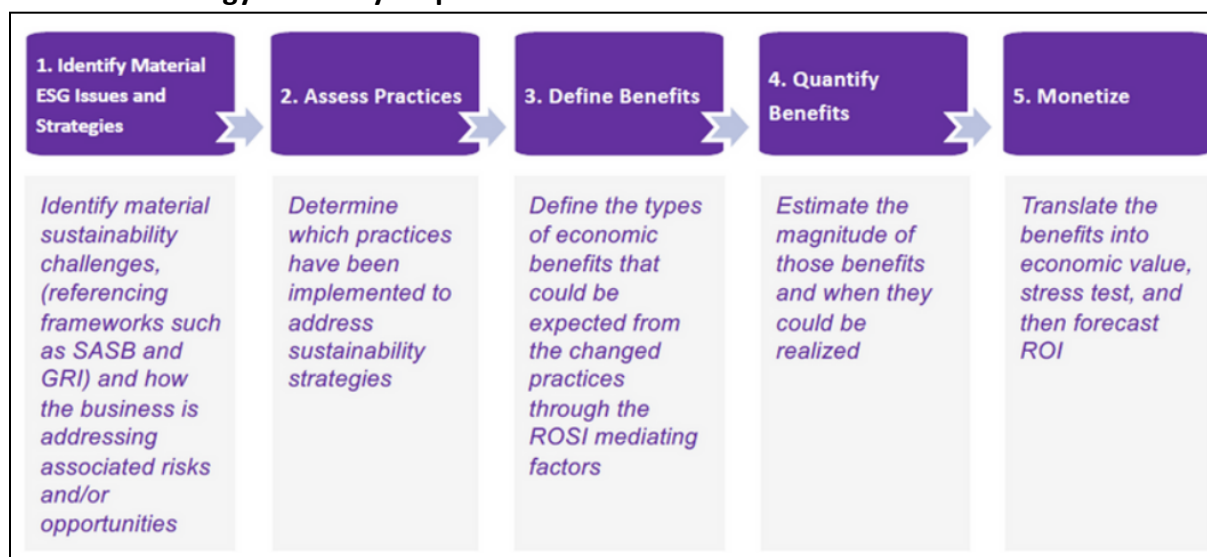
The ROSI™ (Return on Sustainability Investment) methodology follows a five-step process to help investors and companies quantify the financial impact of sustainability strategies. It begins by identifying the ESG issues most material to a company’s financial performance. These issues are then mapped to core business drivers such as innovation, operational efficiency, risk management, employee engagement, or customer loyalty. The next step involves identifying the specific sustainability practices in place—or those that could be implemented—to address these material issues. Once these practices are defined, their financial benefits are quantified, whether through cost savings, revenue growth, risk reduction, or other measurable outcomes. Finally, these results are translated into financial metrics to

¹ UN Principles for Responsible Investment and Bain & Company, *Sustainability Value Creation: A Framework for Driving Financial Value Through Sustainability in Private Markets*, July 2025, <https://www.unpri.org/download?ac=23800>

² Ibid.

calculate the return on sustainability investment, enabling firms to make more informed decisions and clearly communicate the financial value of their ESG efforts.

ROSI Methodology - Five Key Steps



source: UN PRI, Bain & Company and NYU Stern CSB (2025). Sustainability Value Creation: A framework for driving financial value through sustainability in private markets. <https://www.unpri.org/download?ac=23800>

While the ROSI™ framework emphasizes linking sustainability initiatives to financial performance, it's important to recognize that not all ESG metrics lend themselves to short-term financial quantification. Some sustainability metrics are difficult to tie directly to outcomes, especially within the typical three- to five-year investment horizon. Metrics such as greenhouse gas emissions and board diversity are essential for long-term value creation and stakeholder confidence, but their financial impact may be harder to capture. For example, emissions reductions may only translate into measurable cost savings in jurisdictions with carbon pricing, while the benefits of diverse leadership—such as improved innovation and decision-making—may take time to materialize.

Nonetheless, tracking these indicators remains critical. In jurisdictions where companies are required to report under double materiality frameworks—such as the EU's Corporate Sustainability Reporting Directive (CSRD)—many sustainability metrics must be reported regardless of their immediate financial impact, reflecting their broader importance to society and the environment. Initiatives like the ESG Data Convergence Initiative (EDCI) are helping to standardize ESG metric collection across private equity, creating transparency and benchmarking that can improve decision-making and support future financial linkage.

In a related but separate initiative, NYU Stern CSB has been collaborating with a group of GPs as well as with ILPA and EDCI to develop a sustainability-linked value creation tool designed specifically for GPs and their portcos. The tool enables GPs to identify financially material sustainability issues, and includes an extensive database of sustainability and ROSI™ KPIs to support effective tracking, management and quantification of sustainability outcomes. By integrating both operational and financial metrics, the tool helps GPs embed sustainability into value creation planning and portfolio management in a structured, data-driven way (visit the [CSB Responsible Private Equity](#) webpage for details).

Sustainability-Linked Value Creation Case Studies

The value examples below on decarbonization strategies, sustainable sourcing, circularity and employee satisfaction illustrate how firms are already capitalizing on opportunities to turn sustainability into a driver for value creation.

Value Creation Through Decarbonization Initiatives

Decarbonization strategies offer numerous advantages for businesses. First, reducing carbon emissions often leads to significant cost savings by optimizing energy efficiency. Transitioning to clean energy sources tends to reduce exposure to energy pricing volatility, aiding financial stability. Furthermore, by lowering carbon emissions, companies can avoid potential carbon tax fees and penalties, ensuring compliance with evolving regulatory frameworks and market demands.

Adopting a decarbonization strategy can also enhance market positioning, allowing companies to attract environmentally conscious consumers, achieve higher market share, and potentially command premium pricing. Such strategies can foster stronger relationships with supply chain partners, enhancing resilience and reliability. Lastly, demonstrating a commitment to sustainability can lead to a lower cost of capital. Below are a few examples from NYU Stern CSB ROSI™ research:



Capital Power is a Canadian electricity generator with approximately \$1bn in annual revenues. The company evaluated the business case for an early exit from coal-generated electricity and transition to wind and solar energy. Upon applying the ROSI™ framework, three primary benefits were identified:

- Improved employee retention and lower turnover due to sustainability commitments, valued at \$4 million
- Increased competitiveness for new customers interested in renewable energy, valued at \$41 million
- Lower cost of capital for sustainability initiatives, valued at \$189 million

The total estimated benefit from this early decarbonization strategy was approximately \$234 million, demonstrating the significant financial upside of sustainability-driven initiatives in the energy sector.



EILEEN FISHER is an American fashion brand founded in 1984. In 2019, it instituted a transportation optimization strategy, by shifting its transportation mix away from air towards sea and land. The company achieve significant financial and environmental benefits:

- Reduced transportation costs by approximately \$1.6 million in 2019 compared to 2015
- The shift resulted in a cumulative societal benefit of around \$150,000 from 2015 to 2019 due to the reduction in greenhouse gas emissions

Value Creation Through Sustainable Sourcing Examples

Sustainable sourcing is increasingly critical as it addresses pressing environmental and social challenges while meeting investors' and customers' expectations for ethical practices. It can enhance market share, command premium pricing, and foster customer loyalty by aligning with growing consumer demand for responsibly sourced products. Moreover, through third-party certifications, sustainable sourcing reduces reputational, operational, market and regulatory risks by ensuring compliance with environmental and social standards. It also cultivates stronger relationships with resilient, loyal, and high-quality suppliers, improving supply chain reliability. Additionally, these practices support community engagement, securing a social license to operate and strengthening the long-term viability of the business. Below are a couple of examples of our ROSI™ work at NYU Stern CSB:



McCormick & Company, Inc. is a global food company that manufactures spices, seasonings and condiments. It's a Fortune 500 company with nearly \$7 billion in annual revenues. It worked with NYU Stern CSB to quantify the benefits of its Sustainable Sourcing Program (SSP) associated with its five iconic herbs and spices: black pepper, red pepper, cinnamon, vanilla and oregano. The findings using the ROSI™ methodology were:

- Program benefits monetized were: sales & marketing, lower cost of capital, risk management and earned media
- Benefits were estimated at \$6 million annually
- The benefits were expected to increase by 60-70% by 2025



NYU Stern CSB collaborated with McDonald's, Carrefour, slaughterhouses, ranchers and NGOs to monetize the benefits of a deforestation-free supply chain for beef in Brazil. Here are the results:

- **Rancher benefits:** 2.3x increased productivity and 7x increase in profitability, resulting in a \$29 million NPV over 10 years
- **Slaughterhouse benefits:** \$100 million NPV over 10 years from reduced risks, improved supply chain stability and premium pricing
- **Retailer benefits:** \$40 million NPV over 10 years from reduced risks, talent enhancement and premium quality
- **Societal benefits:** 20% reduction in Greenhouse gas emissions

Value Creation Through Circularity Examples

Circularity offers a range of benefits for businesses. By optimizing resource use and minimizing waste, companies can achieve significant cost savings while reducing their environmental impact. Introducing circular practices can unlock new product opportunities, attract environmentally conscious consumers, and strengthen customer loyalty, often leading to higher market share and price premiums. Additionally, closing resource loops enhances supply chain security and reduces exposure to material shortages. Verified sustainability claims through third-party certifications build trust, and positive media coverage

further elevates the brand's reputation, driving long-term competitive advantage. Below are recent case studies:



Advocate Health Care is part of Advocate Health, the third largest nonprofit integrated system in the U.S. It collaborated with NYU Stern CSB to find and quantify operational efficiencies from switching from single use devices (SUDs) to reprocessed devices (rSUDs). Findings included:

- **Reduced procurement costs:** Average annual benefit of \$3 million (3% of operating income) and a \$17.4 million NPV over a 10-year period
- **Reduced waste disposal costs:** \$287k per year (\$1.7 million NPV over 10 years)
- **Reduced GHG emissions:** There was an 857 MT reduction in CO₂e (GHG emissions) over a 10-year period with an annual earnings benefit of \$187K per year and \$1.1 million NPV over 10 years.

Reformation

Reformation, a clothing brand founded in 2009 with sustainability at the core of its strategy, partnered with thredUP, the world's largest online consignment and thrift store, to enhance its circularity efforts. Through this partnership, Reformation offered shopping credits to customers who successfully consigned items with thredUP. Using the ROSI™ methodology, four key benefits of this initiative were identified and quantified, totaling \$1.9 million in 2019:

- Profit generated through partnership program: \$1,000,000
- 2,500 new customers added to Reformation's customer base, generating incremental profit: \$400,000
- Reduction in customer acquisition costs: \$100,000
- Increased earned media from partnership visibility: \$400,000

Value Creation Through Employee Satisfaction, Safety and Well-Being Examples

Quantifying value creation in the social component (the "S" in ESG) often presents greater challenges than measuring environmental impact, primarily due to its complexity and lack of standardization. Unlike environmental metrics, which benefit from widely accepted frameworks, social metrics vary significantly across organizations and industries. Social issues are inherently multifaceted and interconnected, making it difficult to isolate the impact of specific interventions. However, by leveraging the ROSI™ methodology, organizations can overcome these challenges, enabling them to better measure and unlock value in arguably their most valuable asset: their employees.

Employee satisfaction, safety, and well-being are critical drivers of organizational success and offer a clear pathway to creating measurable social value. A supportive and safe work environment enhances productivity and fosters loyalty, reducing turnover and recruitment costs. Prioritizing safety mitigates risks of workplace injuries and lowers insurance expenses. A focus on sustainability and purpose drives employee recruitment, engagement and retention. Additionally, companies that invest in their

workforce's well-being build a positive corporate reputation, strengthening relationships with both employees and customers. By aligning workplace policies with these principles, organizations not only ensure compliance and reduce the risk of lawsuits but also cultivate an engaged, motivated, and resilient workforce. This, in turn, drives customer satisfaction and overall business success.



Recreational Equipment Inc. (REI) is the largest consumer co-op and specialty outdoor retailer with over 180 stores in 41 states. In 2019, the company implemented a sustainability program and collaborated with NYU Stern CSB to better understand the impact of its embedded sustainability strategy.

- **Employee Wellbeing Programs:** REI provided employees with two paid “Yay Days” for outdoor activities. In addition, it closed stores on Black Friday through its #OptOutside campaign, giving employees a paid day off.
- **NYU Stern CSB assessed the impact:** Using the ROSI™ methodology, CSB found that REI’s program led to \$34 million (or 5% of total payroll) in net benefits from increased productivity, retention and overall satisfaction in 2019
- **Conclusion:** REI's investment in sustainability and employee-focused programs not only aligned with its core values but also with positive financial outcomes

KKR’s Broad-Based Employee Ownership Program

Kohlberg Kravis Roberts (KKR), a leading private equity firm with \$190 billion in assets under management (as of September 2024), has implemented a broad-based employee ownership program to drive financial success, address wealth inequality, and foster greater employee engagement within their portfolio companies. The program allocates a portion of a company’s future value into an Employee Ownership Pool, ensuring all employees, including front-line hourly workers, benefit financially. On average, employees receive payouts equivalent to 6-12+ months of compensation upon the investment’s exit.³ The program addresses several interconnected issues in their portcos: low employee engagement and high turnover; lack of shared success; wealth inequality; and operational inefficiencies.

Results from companies adopting this approach highlight its transformative impact. For example, CHI Overhead Doors achieved reduced work-related injuries, enhanced employee morale, and a significant expansion of its operating margin, ultimately leading to a high valuation at exit (see details in the box below). At Ingersoll Rand, extending ownership to all 16,000 employees reduced quit rates from 20% to 3% while boosting employee engagement scores from the 20th to the 90th percentile. Similarly, Insight

³ Thomas, Graham. 2024. Driving Financial Success Through Shared Ownership. NYU Stern CSB Private Equity Sustainability Practicum, December 10, 2024, New York, NY.

Global's ownership program for its 4,500 employees lowered quit rates from 45% in 2017 to 14% in 2022.⁴

CHI Overhead Doors - KKR's Broad-Based Employee Ownership Example

KKR acquired CHI Overhead Doors in 2015. Initial employee surveys revealed significant challenges: only 30% of employees responded, reflecting low morale and a widespread belief that the survey would have no impact. Workplace safety was also a concern, with 14% of employees sustaining a reportable injury annually.⁵ More broadly, the company faced operational inefficiencies, such as wasted scrap metal and inefficient delivery routes.

KKR set aside \$1 million a year for capital improvements and empowered employees to choose the improvements. The workers' first request was for an air-conditioned factory—an almost unheard-of investment in an open-floor uninsulated plant – but KKR agreed. Implementing the workers' request boosted morale, lowered injury rates and increased summer productivity.⁶ KKR also implemented other strategies to collaboratively tackle the scrap metal and delivery route problems. Over time, small improvements added up and profit margins increased to 35% from 20%, – a truly remarkable profit margin for this industry.⁷

In 2022, when KKR sold CHI for \$3 billion, it generated a 10x return on the equity it had invested. It amounted to KKR's most successful deal in two decades. It paid out \$360 million to its 800 employees,⁸ with the average hourly worker earning \$175,000.⁹

⁴ Will Stone, "Shared Success: KKR's Vision for Employee Ownership to Increase Productivity," Business Today (December 1, 2023)

<https://journal.businesstoday.org/bt-online/2023/shared-success-kkr-vision-for-employee-ownership-to-increase-productivity>

⁵ Rouen, E., & Campbell, D. (May 2023). How KKR Got More by Giving Ownership to the Factory Floor: 'My Kids Are Going to College!' Harvard Business School Working Knowledge.

<https://www.library.hbs.edu/working-knowledge/how-kkr-got-more-by-giving-ownership-to-the-factory-floor>

⁶ Ibid.

⁷ Ibid.

⁸ Ibid.

⁹ Emily Bonta, "KKR's Co-Head of Global Private Equity Shares How Employee Ownership Drives Long-term Business Value," *JUST Capital* (March 16, 2023)

<https://justcapital.com/news/kkr-pete-stavros-how-employee-ownership-drives-long-term-business-value/>.