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Beyond the term sheet
The human levers that drive returns

Deloitte Private Equity

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Executive summary

In today's high-multiple, return-constrained environment, execution drives returns. Pricing and leverage still matter, but the real delta comes from how leadership aligns, how fast teams integrate, and whether the organization can scale.

This paper draws on interviews with several leading private equity (PE) firms, from global mega funds, to mid-market specialists. It explores how human capital is being deployed as a lever across the investment lifecycle. The focus is pragmatic: how top performers are using structured CEO assessment, cultural diagnostics, and talent data to protect the internal rate of return (IRR), accelerate synergy capture, and strengthen the exit narrative.

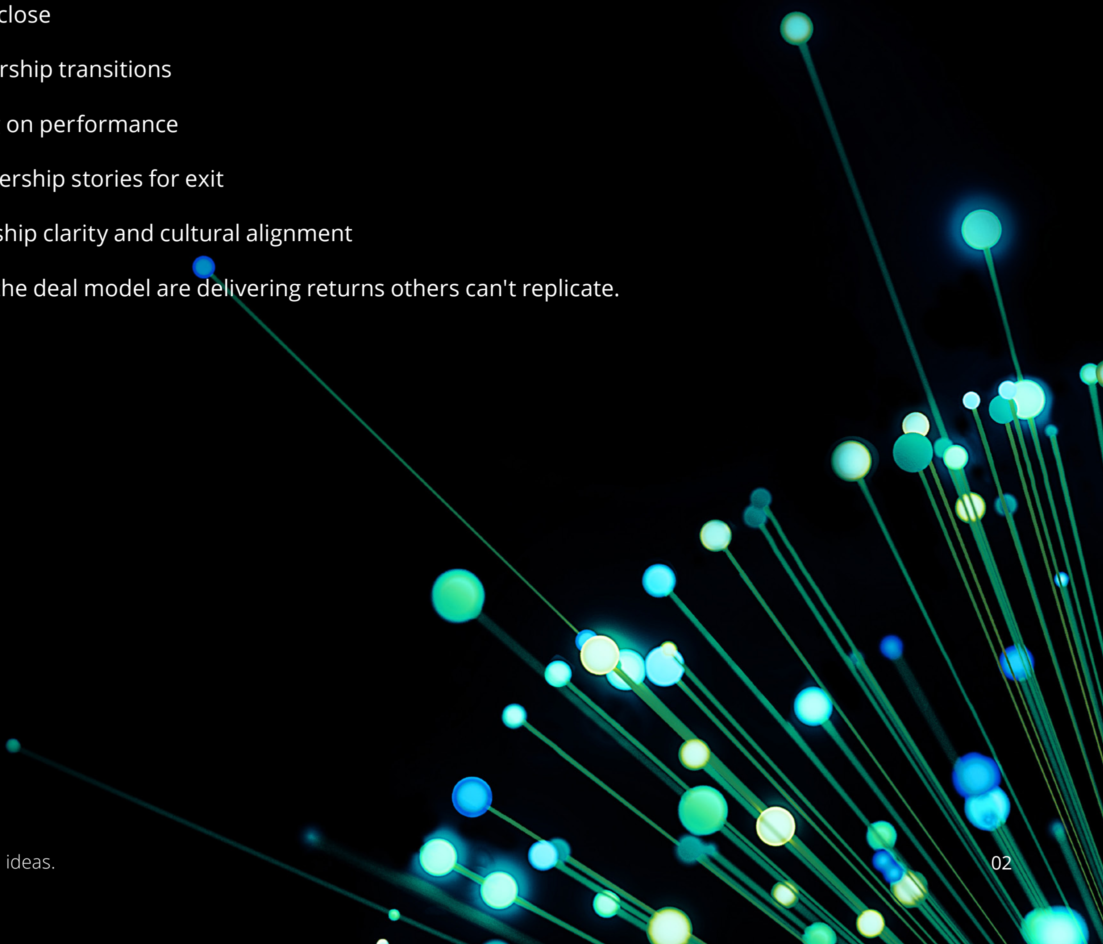
Whether you're underwriting a deal, running a PortCo, or preparing for sale, these insights help pressure-test:

- CEO fit and succession risk
- Culture gaps that delay execution
- Turnover patterns and other talent metrics that erode Earnings before Interest, Tax, Depreciation and Amortization (EBITDA)

Leadership and culture don't show up in the Confidential Information Memorandum (CIM), but they are often the reason targets aren't achieved or buyers hesitate at exit. Read this if your priorities include:

- Accelerating time-to-value post-close
- De-risking integration and leadership transitions
- Quantifying people-related drag on performance
- Building institutional-grade leadership stories for exit
- Unlocking alpha through leadership clarity and cultural alignment

Organizations that build people into the deal model are delivering returns others can't replicate.



The shifting returns equation

The PE industry is navigating one of its most complex deal environments in over a decade. As of Q1 2025, funds available for investment globally exceed US$1.1 trillion, yet deal volume has declined over 30% year-over-year, and holding periods now surpass five years for nearly half of all portfolio companies. Meanwhile, the multiple of EBITDA used to value businesses for North American buyouts remain elevated, averaging roughly 12x EBITDA, citing Preqin data. With higher than historic average interest rates and limited room for multiple expansion, the pressure to generate value post-close has never been greater.

When capital is expensive and valuations are high, returns often hinge on factors such as execution, driven by aligned leadership, scalable culture and organizational clarity.

Historically, value creation has been anchored in familiar levers: commercial acceleration, margin expansion, and cost optimization. But with anecdotal evidence pointing to diminishing headroom across those traditional areas, a critical question to emerges.:

Are we fully capturing the value embedded in people?

Deloitte's Human Capital and Transactions Diligence practice tested this question through in-depth interviews with several leading PE firms. The findings were clear: **leadership is widely acknowledged as a value driver with most firms embedding structured executive assessments into diligence**. **But other aspects of the human capital agenda, such as cultural alignment, employee engagement and retention remain inconsistently addressed, despite mounting evidence that they materially influence deal success.**

This shift is not theoretical. Over the last few years, many PE firms have begun to elevate the talent agenda, recognizing that organizational adaptability, decision-making and management depth are critical to navigating volatility and delivering against the investment thesis.

In a capital-heavy, return-constrained environment, we believe that firms which integrate human capital diligence early and embed leadership and culture into their value creation plans will be best positioned to drive operational performance, protect IRR, and support premium multiples at exit.

What we heard from PEs

"We never go to investment committee (IC) without assessing the CEO."

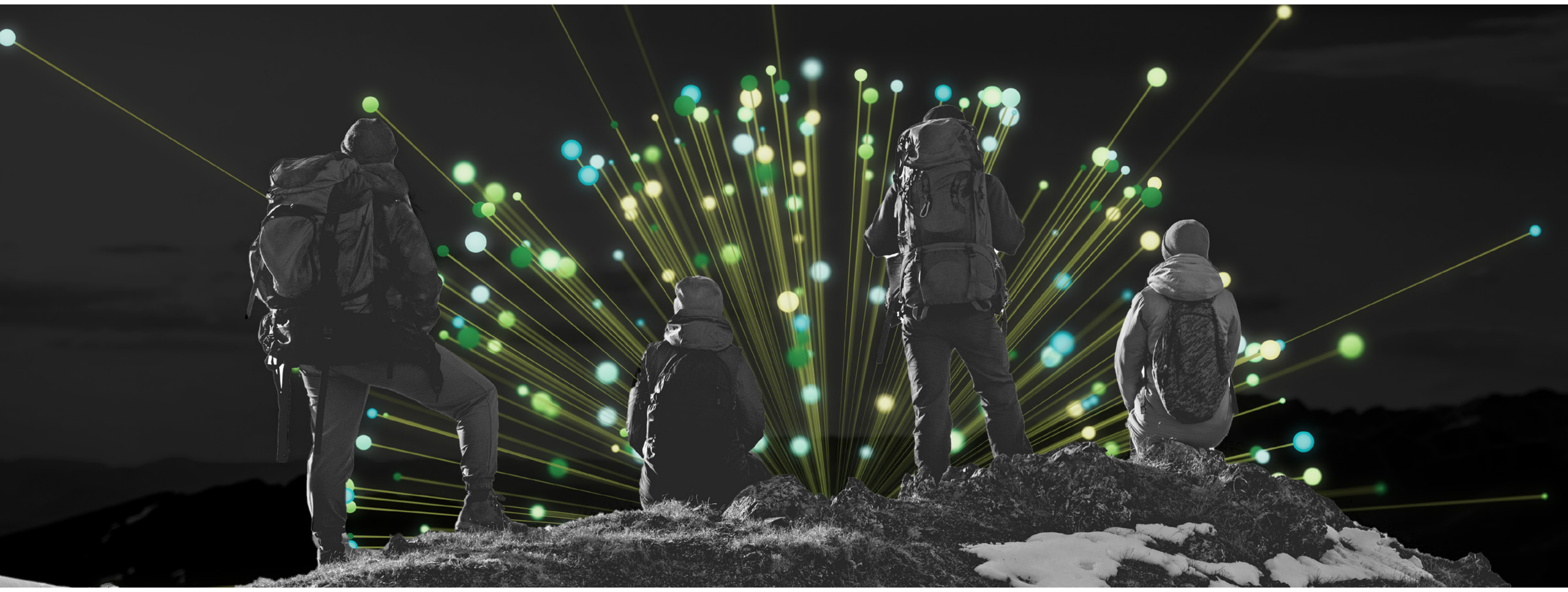
"We model succession—but we're not always ready when it hits."

"Culture? We talk about it... but we don't touch it."

The conclusion from our interviews is insightful and a critical question is emerging: leadership is consistently prioritized but the level of discipline varies. Culture and engagement are acknowledged yet rarely treated as a value creation lever.

Only 35% of PE firms deploy a structured human capital strategy across the deal lifecycle—despite 80% citing talent as a top-three value driver.

— Society for Human Resource Management (SHRM), 2021



What does everyone agree on? *Leadership assessment*

Leadership may be the most established element of the human capital agenda but even here, there's a wide variation in execution. Across the firms we interviewed, leadership is consistently prioritized during diligence and early in the hold period, but the tools, timing, and rigor differs from investment to investment.

In PE, leadership is the engine that drives the value creation plan (VCP), from strategic vision to operational discipline, to cultural alignment. It encompasses the C-suite, succession planning, and the articulation of a clear mission, vision, and values (MVV). Every firm Deloitte spoke to employs some form of structured leadership evaluation using a mix of executive assessments, external benchmarking, and rigorous interviews.

Several consistent themes emerged:

- Leadership and particularly C-suite roles are now a gating item for IC approval
- Succession planning and talent scarcity are modeled proactively, with tools like the 9-box grid and emerging use of AI to map potential gaps
- Leadership assessments are used to test alignment with the VCP, not just to evaluate experience or track record (see end box)
- The CEOs are expected to drive the MVV and in some firms, this is linked to individual KPIs and performance contracts.

While leadership assessment is widely adopted, many firms acknowledge a growing need for post-close support, particularly when coaching new CEOs, aligning leadership teams or transitioning from founder-led to institutional models. In founder-led deals, cultural friction often stems from identity shifts, legacy loyalty, and unspoken norms. Addressing these dynamics early is critical to preserving team continuity and post-close momentum. A clear strategy, grounded in the MVV and VCP, remains essential for aligning the organization's direction and the leadership team must evolve with the company's maturity, ensuring leaders possess the necessary skills and attributes to support the company's current needs.

We consider, based on our research, that PE firms that invest early in leadership clarity and support are better positioned to accelerate execution, reduce integration risk, and build a leadership story that supports premium multiples at exit.

Firms that conduct pre-close CEO readiness assessments are 2.4x more likely to meet their value creation targets within the first 18 months.

— Spencer Stuart, 2021

Which areas are still maturing? *Culture and employee engagement*

Leadership is only part of the equation. What surrounds the leader, the culture, the way decisions are made, how people are motivated - matters just as much.

Despite broad recognition that culture and engagement shape execution and retention, these factors remain underutilized in VCP.

Whilst leadership is receiving increasing investment and scrutiny, culture and employee engagement remains a glaring blind spot across the PE lifecycle.

Most firms Deloitte spoke with collect some form of culture and belonging metrics or employee turnover rates. These are some of the key quantifiable aspects of culture but even these are inconsistently measured and even less frequently translated into action. The ability to track and act on people-related metrics often hinges on the quality of the HR infrastructure in place. Several firms noted that variability in human resources information system (HRIS) maturity across portfolio companies directly affects their ability to collect consistent data. In many cases, the lack of integrated systems delays insight into team sentiment and masks early signs of value leakage. While some portfolio companies may lack mature HRIS systems, even low-tech diagnostics such as targeted interviews, pulse surveys, or structured referencing (e.g., confidential 1:1s with key stakeholders) can uncover people-related risks early in the hold period.

In practice, culture is viewed as a by-product of leadership– rather than an independent lever that can be shaped to support execution. Conversations frequently returned to the CEO's role in "setting the tone", but few firms described actionable culture strategies beyond that. Only isolated examples emerged of cultural change being used to drive performance, and these were largely limited to pay structure and benefits adjustments.

Yet culture need not remain abstract. Decades of organizational research, including models by Schein, Denison, and the Iceberg Model, show that strong cultures consistently align stated values with everyday behavior, enable clear leadership, and foster a shared sense of direction. High performing environments also support transparent decision-making, adaptability, and broad-based participation. Increasingly, psychological safety, described by Amy Edmondson as the ability to take interpersonal risks without fear of repercussion, is emerging as a key enabler of innovation, accountability, and execution under pressure. In diligence, these traits can be surfaced through patterns in decision speed, leadership alignment, and team sentiment. Without this lens, culture remains unmeasured, until it shows up in missed milestones and EBITDA drag.

The table below outlines several of the cultural indicators that can be pressure-tested during diligence–helping sponsors distinguish between resilient execution environments and cultural fragility

Culture signals in diligence: What strong versus weak looks like

Theme	Strong culture indicators	Weak culture indicators
Values-to-behavior alignment	Employees describe lived values that match company messaging and leadership actions	Discrepancy between stated values and daily decisions; skepticism toward leadership messaging
Psychological safety	Team members feel safe speaking up, surfacing risks, and challenging decisions (Edmondson)	Silence in meetings, upward feedback avoidance, or fear-based compliance
Decision-making dynamics	Clear, timely decisions with inclusive input where appropriate	Bottlenecks, opaque rationale, or decisions concentrated in a few individuals
Leadership consistency	Leaders are aligned in tone and priorities; changes are explained and stabilized	Frequent shifts in direction or leadership turnover that disrupt continuity
Innovation appetite	Smart risk-taking encouraged; failure seen as learning	Aversion to risk; new ideas dismissed or punished
Engagement and participation	People feel heard and involved in shaping direction; regular feedback loops	Passive compliance, disengagement, or a “just execute” culture

When it comes to turnover, the picture is similarly reactive. While some firms track voluntary attrition, few quantify the cost of recruitment, backfill ramp time, or team disruption. There was little discussion of how firms proactively model turnover risk or take early action when patterns emerge.

Culture and belonging remains on the radar but is not a priority. Firms reported tracking related data and occasionally factoring it into recruitment decisions but acknowledged that this area has seen diminished strategic focus.

As one investor put it during Deloitte’s PE interviews:

“We know culture matters—but we don’t have a way to act on it.”

Three patterns emerged from our conversations:

- Culture is acknowledged, but unmeasured. It's typically absorbed under the CEO's remit, with limited use of diagnostic tools or structured assessment.
- Engagement data is available, but rarely actionable. eNPS is collected in some cases but not consistently tied to performance, integration, or leadership metrics.
- Retention is viewed as a lagging indicator, with limited evidenceof firms modeling turnover cost or using it as a leading signal of value erosion.

This gap presents risk, but also opportunity. A number of firms expressed growing interest in more systematic ways to assess cultural norms, reduce regrettable attrition, and manage integration risk. But for now, the tools, methods, and prioritization in this area remain underdeveloped relative to leadership.

Compared to leadership, culture and engagement remain underdeveloped as value creation levers—often acknowledged, but rarely operationalized.

Culture and engagement may not appear on a term sheet, yet gaps in these areas commonly result in missed milestones, regrettable attrition, and delayed integration. In high-pace environments, these dynamics can drag execution and threaten exit value.

Firms that treat culture as measurable and aligned with leadership are better positioned to preserve momentum, protect IRR, and unlock value others overlook.

What We Heard from PEs – Culture and engagement

"We collect eNPS and turnover data but rarely act on it."

"Culture is led by the CEO. Beyond that, we don't touch it."

"We know retention matters, but we've never

modeled the cost of attrition."

In one study of 946 PE buyouts, cultural misalignment was associated with significantly lower efficiency gains and a higher likelihood of unsuccessful exits.

— Kammerlander, Klingler, Wright (SSRN)

The case for using the culture lever

The consequences of cultural misalignment between a buyer and seller can be both immediate and material. Consider one case noted during Deloitte's PE interviews: a firm that, despite appointing an exceptionally qualified leadership team post-acquisition, witnessed a 30% surge in key employee attrition and a 15% drop in operational KPIs within the first year. The root cause? A fundamental clash between new leadership strategies and the entrenched company culture

This is not an isolated occurrence. Across transactions, cultural friction can impair leadership effectiveness and disrupt execution of the VCP. These breakdowns can show up in both revenue growth and cost performance:

- **Delayed synergies and missed VCP targets:** Cultural friction can delay realization of early value creation levers by up to 30%, particularly when teams struggle to align with new leadership or adapt to shifting decision-making norms. (Glassdoor Economic Research, 2020).
- **Revenue disruption:** One firm's aggressive post-close cost-cutting conflicted with a culture of innovation, triggering the departure of key R&D talent and a 12-month delay in new product development (PEI, 2023). In other cases, cultural disconnects have weakened customer service, brand equity, or commercial responsiveness, especially where culture was central to go-to-market execution.
- **Engagement and productivity declines:** Firms that deprioritize culture post-close often report declines in morale and productivity. One Society for Human Resources Management (SHRM) study found that organizations lacking a structured approach to culture experienced up to a 20% drop in employee engagement, thought impacts vary significantly by context. (Society for Human Resource Management, 2021).

In stark contrast, firms that treat culture as a measurable asset unlock clear performance advantages, not just in sentiment, but in retention of employees, execution, and returns:

- **Stronger retention and engagement:** Firms that assess cultural fit during due diligence see employee retention rates double post-acquisition. One study found a 25% increase in retention rates when cultural assimilation programs were implemented (Harvard Business Review, 2020).
- **Accelerated synergies:** Organizations with clear cultural integration plans can achieve operational synergies up to 30% faster than their peers (Deloitte Insights, 2021).
- **Higher financial returns:** Culturally aligned companies outperform competitors, realizing an average EBITDA growth advantage of 15% over a three-year period (Glassdoor Economic Research, 2020).

These findings point to a broader shift in how firms link culture to core value drivers. When indicators of alignment such as decision-making dynamics, psychological safety, and vaues-to-behavior consistency are embedded into leadership evaluations and early action plans, teams can execute faster, retain talent longer and reduce costly post close drag. Culture is a performance driver. When assessed and aligned, it can contribute directly to revenue growth, margin expansion, and ultimately, return delivery at exit.

Conclusion

Leadership and culture are no longer peripheral considerations, they are often foundational to value creation. In today's market where high entry multiples and tighter capital structures demand more from operations, returns are increasingly shaped by who leads, how teams align and whether organizations can scale under pressure.

Some of the most successful investors aren't waiting until problems surface to address these matters. They're moving early, evaluating leadership, assessing cultural fit, modeling talent risk and embedding people insight into the deal thesis. This structured, data-informed approach enables them to execute faster, integrate more effectively and protect returns.

Leadership and culture metrics are becoming standard diligence inputs, enhancing board visibility, supporting sustainability transparency, and strengthening investor confidence. Both General Partners and Limited Partners are using these signals to assess alignment, monitor risk, and sharpen value creation oversight.

Deloitte's Human Capital Due Diligence team brings deep global M&A experience and field-tested tools to help PE firms translate people data insight into execution, map human capital risks to the value chain, quantify their cost, and identify opportunities to accelerate performance, integration and return delivery.

Because PE-firms that see early, see clearly.

Call to action

The next era of PE will be led, not managed.
Deloitte practitioners go beyond check-the-box diligence, they help PE firms connect leadership alignment and cultural clarity to execution speed, retention, and IRR.

This structured approach brings rigor to CEO assessment and culture risk.

From pre-close diagnostics to post-deal alignment, Deloitte practitioners help PE firms and their portfolio companies to shape leadership teams, structure organizations for scale, and embed culture as a lever for performance.

Most PE firms agree that leadership and culture matter, but few can measure their impact or act early enough to protect returns.

To help deal teams pressure test their human capital strategy, Deloitte have compiled a short checklist based on what top-performing firms are already asking:

If you're not asking these questions–you may be leaving alpha on the table.

The seven questions PE deal teams should be asking

1. *Have we assessed CEO readiness using objective tools?*
2. *Is leadership alignment and role clarity embedded into our 100-day plan?*
3. *Have we pressure-tested turnover risk and modeled its impact on EBITDA, retention costs, and execution drag?*
4. *Is our HR data infrastructure (systems, reporting cadence and ownership) mature enough to support timely decisions?*
5. *Do we have early insight into team morale and engagement across the portfolio, before performance is impacted?*
6. *Is succession planning proactive-or post-facto scramble?*
7. *Can we articulate a credible leadership narrative to buyers ahead of exit?*

The Human Capital maturity map: A five-dimension snapshot assessing how PE firms are operationalizing leadership, structure, and culture across the investment lifecycle. Use this map to pinpoint your current state and identify pragmatic next steps to improve execution and protect returns.

Dimension	Low maturity	Emerging maturity	High maturity
Leadership assessment	Ad hoc interviews only	Structured CEO assessment pre-close	Full C-suite evaluation aligned to VCP
Cultural fit evaluation	Not assessed	Leadership style considered	Culture mapped against strategy pre-close
Talent risk modeling	Turnover observed post-facto	Basic attrition metrics reviewed	Proactive modeling of people-related EBITDA risk
Organisation design and role clarity	Flat, founder-dependent org	Early org charts reviewed	Org design assessed and aligned to deal thesis
Post-close integration planning	Focus on financial/ operational levers only	Culture mentioned in early integration plans	Culture, leadership, and structure embedded into 100-day plan

The following summaries highlight leading practices we observed across top-performing PE firms. They can serve as a practical reference for evaluating and evolving leadership and culture diligence approaches.

Leadership readiness assessment practices in PE firms

PE firms employ various methods for leadership readiness assessments, often tailored to their specific needs:

01. **Continuous leadership readiness assessments:** Leadership assessment is a continuous process throughout the deal lifecycle. Structured tools such as psychometric testing and behavioral interviews are commonly used. Many top-performing PE firms use psychometric testing to evaluate leadership potential. Approximately 75% of PE firms utilize psychometric testing as part of their leadership assessment process (Glassdoor Economic Research, 2020).

02. **Customized assessment approaches:** The assessment approach is customized based on each portfolio company's needs. Firms shared that a customized leadership assessment approach has led to significant improvements in portfolio company performance. About 65% of PE firms reported improved performance metrics after implementing customized leadership assessments (Insights from Deloitte's PE interviews).

03. **Structured and rigorous evaluation processes:** Firms follow structured processes for assessing leadership, especially for critical roles. Some firms use proprietary systems that involve intensive scrutiny and multiple stages to ensure the right leaders are in place. Nearly 80% of PE firms have structured and rigorous evaluation processes for key leadership roles (Spencer Stuart, 2021).

04. **Data-driven decision-making:** Firms incorporate data to track the success and failure of key hires. This data-driven approach has improved the success rate of key hires, ensuring that leadership decisions are based on solid evidence. Approximately 70% of PE firms use data analytics to inform their leadership decisions (Insights from Deloitte's PE interviews).

Culture assessment for PE firms

Firms should move beyond intuition and embed cultural due diligence into every phase of the investment process:

01. **Embed cultural diligence into the deal process:** Evaluate culture alongside leadership by gauging employee sentiment, decision-making norms, and organizational adaptability. Leading firms now use survey data, organizational network analysis (ONA), and sentiment analytics to quantify cultural strengths and vulnerabilities even before a deal closes (Deloitte Insights, 2021).

02. **Integrate leadership assessments with cultural evaluation:** Recognize that leadership effectiveness is often inseparable from cultural fit. Best-in-class firms employ psychometric testing, 360-degree feedback, and AI-driven behavioral analytics to ensure that new leaders can seamlessly integrate with, and even enhance, the existing cultural framework (Glassdoor Economic Research, 2020).

03. **Develop post-deal strategies to reinforce cultural alignment:** Cultural diligence must extend beyond the closing table. Implement structured assimilation programs, continuous engagement tracking, and leadership coaching. By establishing clear cultural KPIs—such as leadership alignment scores, integration milestones, and engagement uplift rates—firms can monitor progress and recalibrate strategies in real time (Society for Human Resource Management, 2021).

04. **Leverage advanced people analytics:** Some of the most forward-thinking firms integrate HR and financial data to map the correlation between culture, retention, and business performance. Continuous analysis of workforce sentiment against operational KPIs allows for proactive management of cultural risks before they impact the bottom line (Deloitte Insights, 2021).

References
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