

Private Equity Services: Organizational Culture

The Growing GAAP (Generally Accepted Accounting Principles) Gap

Thirty-five years ago, book value, as presented in the balance sheets of U.S. companies was, on average, around 95% of the market value of those companies. In 2010, book value was just 20% of market value; “intangible assets”, most notably Organizational Culture, accounts for a large proportion of this GAAP Gap in most industries.

The jury’s in on the influence of organizational culture on business outcomes, including financial performance. A myriad of well-designed, well-executed, peer-reviewed research studies reveals the clear and direct impact culture has on business performance in all economic cycles¹.

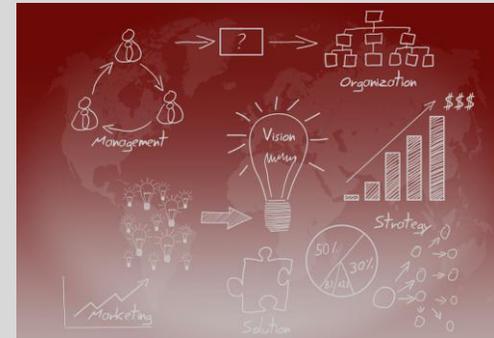
Your culture is migrating even as you read this. If you’re not measuring and managing this migration, your culture is likely becoming a drag on business performance.

Unless portfolio company managers and private equity governance teams are equipped to measure and manage organizational culture, they are precluded from managing a large fraction of the wealth-producing assets of the enterprise.

Organizational Culture is the most important of the intangible assets for three reasons:

1. It is the foundation upon which all other stakeholders – clients, investors, partners/suppliers, employees and trade communities – are served. All other intangible assets are supported by the culture foundation.
2. Organizational Culture formation and development does not lend itself to “templated” approaches, thus, it is very difficult to copy and replicate. It provides what business strategist, Michael Porter, calls an “economic moat” of competitive advantage (or protection) around an enterprise.
3. Organizational culture is the “internal brand.” A lack of congruence between a company’s internal and external brand can be a terminal problem.

LeadFirst’s Culture Measurement & Management System, called *Dialog™*, is a comprehensive, flexible and economical means of establishing or improving a high-performance organizational culture.



*“Culture eats strategy
for breakfast”*

-- Peter Drucker



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¹ Contact LeadFirst for research