



5 Ways ESG Drives Operational Efficiency in PE-Backed Companies

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Executive Summary

ESG isn't just about compliance or reporting – when approached strategically, it's a powerful tool for improving operational performance. In today's private equity landscape, rising costs, economic uncertainty, and growing LP expectations put deal teams and operating partners under pressure to [unlock new sources of value](#). In this pursuit, ESG can and should be part of the playbook. By meeting customers' rising expectations of suppliers, ESG can help maintain or grow revenue, while also serving as a direct driver of cost savings, operational resilience, and workforce productivity.

Here are five practical ways ESG initiatives are driving measurable outcomes that reinforce positive financial returns and responsible business practices:

Note: While not all examples below are from sponsor-backed companies, each highlights a specific initiative with clear operational outcomes. These are included to illustrate transferable practices that can be applied across portfolio settings to drive measurable performance improvements.

1. Energy and Resource Efficiency

ESG-led energy and resource audits are a practical tool for identifying and eliminating utility waste. By tracking key performance indicators (KPIs) like energy and water intensity, portfolio companies can pinpoint inefficiencies, benchmark across sites, and implement targeted improvements. These efforts often uncover quick wins with clear ROI and short payback periods.

Example Initiatives:

- [LED Retrofits and Sensor-controlled Lighting](#). Upgrading to energy-efficient LED lighting, and integrating motion or daylight sensors, is a low-lift initiative that significantly reduces electricity consumption without impacting operations.
- [HVAC Optimization and Smart Meters](#). Heating, ventilation, and air conditioning systems are major energy consumers in industrial and commercial settings. ESG-driven assessments can identify opportunities to recalibrate systems, install smart thermostats, or implement preventative maintenance to reduce unnecessary consumption and improve asset performance.
- [Water Usage Tracking and Leak Detection](#). Monitoring water usage across operations – particularly in industries like manufacturing, agriculture, or food processing – helps uncover leaks, overuse, and inefficiencies. Installing submeters and setting water intensity KPIs enables teams to manage consumption and reduce utility costs.

Real-World Impact

- **Walmart** implemented a company-wide LED retrofit across its stores and distribution centers, yielding [up to \\$200 million in annual savings](#) through decreased electricity use and lower maintenance costs.
- **United Parcel Service (UPS)** re-engineered its delivery routing with navigation software designed to [minimize left-hand turns](#) and idling. The results were substantial: 10 million gallons of fuel saved, 20,000 tons of Co₂ emissions avoided, and 350,000 more packages delivered each year – all achieved using 1,100 fewer trucks and 28.5 million fewer miles driven.

2. Waste Reduction and Circular Practices

Waste isn't just an environmental concern – it's a signal of operational inefficiency. ESG programs provide a structured approach for companies to measure, manage, and reduce waste across the value chain. ESG-led diagnostics and KPIs help identify sources of excess materials, overproduction, inefficient packaging, and missed recycling or reuse opportunities. The result is not only improved environmental performance but also meaningful cost savings through reduced raw material consumption, avoided landfill fees, lower handling costs, and more circular supply chain models.

Example Initiatives:

- *[Inventory and Production Optimization](#)*. ESG assessments can reveal overproduction, redundant inventory, or inefficient batch sizes that lead to unnecessary waste. By aligning production closely with demand and refining procurement or forecasting systems, companies can reduce material excess while improving working capital efficiency.
- *[Recycling, Reuse, and Circular Economy Practices](#)*. Striving for closed-loop systems – such as packaging, repurposing byproducts, or designing products for end-of-life recovery – can transform waste streams into value streams. ESG frameworks help identify opportunities for process changes that reduce waste and extend resource lifecycles.

Real-World Impact

- **Unilever** applies [AI-powered weather analysis](#) to optimize ice cream production volumes. By predicting temperature-driven demand more accurately, the company reduces excess manufacturing and waste, reallocating inventory in real time, and improving delivery routes. These changes not only cut product loss and emissions but also enable smarter decisions across production, storage, and logistics.
- **Herman Miller**, a global furniture manufacturer, replaced disposable corrugated packaging with a returnable foam filler for shipping chair components. The change delivered [\\$46,000 in annual material and labor savings](#), eliminated 266 hours of handling time, and diverted 24,645 pounds of cardboard from landfills each year.
- **Eton Shirts**, a PE-backed dress shirt manufacturer, began tracking waste across its headquarters and two warehouses in 2022. Within a year, it achieved an 85% landfill diversion rate by improving sorting and reuse practices, including repurposing inbound boxes for outbound shipments. These efforts led to a [44% reduction in total waste](#) and the associated disposal costs.

3. Workforce Retention and Productivity

Employee turnover is a persistent and often underappreciated cost driver – increasing expenses related to recruitment, training, and lost productivity. ESG-led human capital strategies that prioritize

engagement, inclusion, and workplace safety can reduce attrition and unlock measurable operational value. By embedding ESG principles into workforce programs, portfolio companies can improve employee experience, drive stronger performance, and reduce disruption across operations. The result is a more stable, motivated workforce – one that supports business continuity and directly impacts EBITDA.

Example Initiatives:

- [Employee Engagement and Culture Programs](#). Employee feedback, culture & inclusion, and recognition can build a more inclusive and motivated workplace culture, higher engagement levels have been linked to lower turnover, greater productivity, and improved resilience – particularly in high-churn sectors.
- [Workplace Safety and Injury Prevention](#). Improving safety standards and reducing workplace hazards leads to fewer lost-time incidents, lower workers' comp costs, and increased morale. Safety programs often include training, ergonomic assessments, and frontline feedback loops, which can contribute to measurable operational uptime.

Real-World Impact

- [Ya Ya Foods](#), a PE-backed manufacturer, identified employee turnover as a critical cost center and launched a multifaceted retention strategy. The company introduced market-aligned compensation, targeted hiring, and structured onboarding programs, while also leveraging engagement survey data to inform team-specific action plans. Investments in frontline leadership developed and revamped recognition programs supported cultural improvements. [The program resulted in steadily declining turnover](#), falling at or below the industry average of ~25%.
- [Boeing](#) implemented a [wide-ranging workforce strategy focused on safety, engagement, and productivity](#). Through its annual Ergo Challenge, employees submitted 68 ergonomic improvement projects across 22 sites, cutting ergonomic risk by 93% and generating \$2.6 million in savings through avoided costs. Separately, Boeing's EDGE program embedded cross-functional teams on factory floors to identify and resolve safety and process inefficiencies. The initiative has produced over 1,200 improvements, including 341 safety solutions, and is credited with \$5.5 million in annual productivity gains – all while deepening employee involvement and buy-in at the operational level.

4. Supplier and Vendor Risk Management

A company's operational resilience is closely tied to the strength and reliability of its supply chain. ESG integration in procurement helps reduce exposure to labor violations, environmental non-compliance, and other supplier-related risks that can disrupt operations or damage reputation. By aligning with vendors committed to responsible practices, companies gain greater consistency, fewer operational surprises, and stronger long-term partnerships.

Example Initiative:

- [Supplier ESG Screening](#). Incorporating ESG into vendor due-diligence – such as labor practices, environmental compliance, and business ethics – helps companies proactively identify suppliers that may pose operational or reputational risks. Tools like pre-contract assessments, supplier codes of conduct, and third-party audits can reduce delays, avoid product quality issues, and ensure supply continuity.

Real-World Impact

- In 2024, the U.S. Department of Labor [filed a federal complaint](#) after uncovering child labor violations in Hyundai's U.S. supply chain. The case revealed serious gaps in supplier oversight, exposing both Hyundai and its vendors to costly legal expenses and extensive reputational damage.

5. Governance and Process Optimization

Effective ESG frameworks leverage internal governance, risk management, and strategic decision-making. Companies that digitize and track ESG KPIs are capable of gaining better visibility into operational risks and performance, enabling more informed and agile responses to business challenges. In private markets, where speed, investor transparency, and accountability matter, ESG systems can serve as a backbone for process improvement – driving consistency across sites, simplifying reporting obligations, and reducing the likelihood of disruptions.

Real-World Impact

- **StandardAero**, a PE-backed aerospace manufacturer, launched its GreenERmro™ initiative to embed ESG principles into core operations and drive measurable performance improvements. By digitizing key environmental and safety metrics across its facilities, the company [unlocked \\$1.3 million in annual savings](#) through targeted projects focused on energy, water, waste, and workplace safety. Key outcomes included:
 - A rinse water reuse system, saving 4 million gallons of water, and cutting landfill shipments by 75% in 2024.
 - A 100% renewable energy contract in Dallas, contributing to over 19,500 MWh of clean energy procurement across the business.
 - A 7% reduction in test cell fuel use, achieved through better measurement and process optimization in engine testing.
 - A Total Recordable Incident Rate (TRIR) of 0.8 – roughly 50% below the industry benchmark, through various data-driven safety initiatives.

Turning ESG into EBITDA

ESG is no longer just a reputational or compliance exercise – it's a practical lever for driving operational efficiency and value creation across private equity portfolios. Although many companies feel pressure from large customers to improve ESG performance, ESG initiatives can yield measurable operational impact when embedded strategically into core operations. Forward-thinking portfolio companies are already capturing these benefits through targeted, data-driven programs. For PE firms looking to unlock hidden value and build more resilient businesses, ESG isn't a cost center – it's a catalyst.

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