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Why Investing in Top Private Equity Talent Now Is Key to Future Growth

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As competition for top talent grows, PE firms must reevaluate their leadership needs and strengthen retention strategies.

The private equity industry has entered a lull. Firms are raising new funds at the slowest rate in over a decade; deal volumes and exit sales have dramatically dropped; and cash flows for PE investors have turned sharply negative. Tough competition for a limited number of acquisition targets has increased the difficulty of achieving profitability goals—and hesitance within PE firms has further aggravated the sector-wide slowdown.

Reassessing and strengthening talent strategies will be key to shifting the tides. Effective leadership—and the ability to attract and retain talent across the organization—can revitalize activity in the industry while elevating agility within firms. As investment in portfolio companies slows, PE firms must make strategic investments in their own organizations for long-term growth.

Reevaluating Leadership Priorities

For private equity firms, strong leadership teams have long been a key indicator of high-potential portfolio companies. PE leaders evaluate potential investments with an organization's current executives in mind—and upon acquisition, they're often eager to replace existing leaders with candidates who better fit their strategic vision. While the importance of portfolio-company leadership certainly hasn't changed, the current inflationary environment and rising competition have proven that effective internal executives are equally as critical to success.

Private equity leaders have been cautious in recent years—pulling back in investments and keeping record levels of dry powder in stock. Simultaneously, sellers have been dissatisfied with declining profit margins, largely caused by rising interest rates, which has contributed to a 63% slump in deal volumes between 2022 and 2023. More than ever, PE firms need leaders who take strategic *action* to revitalize growth—but high-performing PE executives must offer different strengths than those they seek from portfolio company leaders.

Whereas charismatic, relationship-building executives are key to value creation in portfolio companies, Harvard Business Review reports PE firms are 50% more likely to prize agility and adaptability for their own leadership teams. The strongest members of the C-suite will be resilient changemakers—from private equity CFOs who can create and regularly optimize strategies according to profitability goals to CEOs who act with urgency toward a clear vision.

Finding or developing these high-demand professionals is the first step to continuous growth—one that requires careful evaluation of a leader's ability to think on their feet and turn strategy into action. However, once firms acquire top private equity talent, they must turn their focus on retention, particularly as CEO turnover continues to challenge firms across the PE sector.

Optimizing Retention Strategies

Turnover struggles aren't exclusive to the C-suite. PE firms also face the increasingly high-cost challenge of retention at junior levels. Salary expectations are rising—private equity professionals now expect 13% higher cash compensation than in 2022—and those in junior roles expect the largest gains this year. Aggressive recruitment strategies from PE firms are further driving up hiring costs. To avoid setbacks in profitability and productivity, PE firms must have equally aggressive retention strategies that convince top performers at all levels to stay.

Flexible work arrangements may be key to retaining top private equity talent. Despite a growing interest in remote opportunities, less than one-third of PE leaders are prioritizing hybrid work strategies. Firms that offer flexibility—even beyond *where* employees work—have become destination employers. Altamont Capital Partners, for example, offers an unlimited PTO policy that enables employees to take time off whenever the lifecycle of a deal allows.

When we analyzed top trends in private equity for 2022, we identified diversity and inclusion as critical priorities—and moving into 2024, they will continue to be driving factors for retention across PE firms. While the private equity industry has long struggled to prioritize the human aspect of the workplace, MIT Sloan found that failure to promote diversity, equity, and inclusion is one of the top contributors to toxic work culture—the leading driver of employee turnover. On the other hand, Gallup reports *great* culture provides a sense of purpose while empowering PE investors and leaders to drive business results.

While McKinsey reports some progress in hiring women and ethnically diverse talent, 54% of women in PE still feel their career trajectory is limited by their gender. Stronger DEI initiatives—such as the development of paths to promotion for historically underrepresented groups—are essential to the long-term retention of top private equity talent from diverse backgrounds.

Entering The Future of Talent in Private Equity

While PE firms are lean businesses that commonly maintain their staffing levels, they have raised a significant amount of capital over the past four years. As deal activity continues its slow pace, investing in executive teams—leaders who can drive more strategic investments, organization-wide talent acquisition, and high-value activities—must be a spending priority. As hiring costs mount and competition for top talent rises, a talent-focused approach will ensure C-suites are equipped with adaptable, innovative leaders who drive progress for years to come.

Strong retention strategies, including diversity and inclusion initiatives, will enable more than effective leadership—it will also drive talent acquisition and retention success in the junior ranks. Investing in top talent now, at every level, will empower PE firms and employees to make smarter business investments in the future.

How are you adjusting your talent strategies to attract and retain private equity leaders?