

# The Operator Deficit

*Why the Next PE Return Premium Lives in Operational Execution, Not Financial Engineering — and What the Industry Is Getting Wrong*

## The Structural Shift Is Real, But the Response Is Lagging

The data is now unambiguous. McKinsey's 2026 Global Private Markets Report confirms that operational value creation must carry the majority of the returns burden in the current cycle. Simon-Kucher found 78% of PE executives say operations will grow in importance. CLA reports that lower mid-market firms are rethinking value creation entirely, moving from leverage-driven returns to hands-on operational transformation.

And yet, the industry's actual investment in operational capability remains thin. Most mid-market PE firms employ 2-4 operating partners covering 8-15 portfolio companies, each spanning radically different sectors and geographies. The operating partner function was designed as a post-close governance overlay. What the market now demands is something fundamentally different: sustained, cross-functional execution capability embedded in portfolio companies for the full duration of the hold period.

## The Three Gaps

The first gap is geographic. As mid-market PE firms expand into cross-border transactions — European industrials, MENA infrastructure, APAC growth companies — they discover that their operating playbooks were designed for single-market, English-speaking environments. A pricing optimisation playbook that works for a Midwestern manufacturer does not translate to a GCC logistics company without someone who understands local regulatory architecture, labour law constraints, and supplier economics.

The second gap is functional. The current generation of operating partners tends to be former CEOs or strategy consultants. They are strong on governance, board oversight, and strategic direction. They are weak on the messy, high-leverage work: ERP implementation, working capital optimisation, FP&A buildout, treasury restructuring, and commercial

operations. These are the levers that actually move EBITDA — and they require operators, not advisors.

The third gap is temporal. McKinsey’s data shows value creation in PE is heavily back-loaded — concentrated in the 6-12 months before exit, not distributed across the hold period. Firms that deploy operational improvements from Day 30 post-close, not Month 30, generate materially better returns. But this requires standing operational capacity, not project-based consultant engagements.

### **The Emerging Model: Fractional Operating Capability**

The firms gaining an edge in 2026 are building or accessing fractional operating teams that deploy across portfolio companies with repeatable playbooks. This is not the traditional consulting model. It is an embedded execution model where operators carry KPIs, sit in management meetings, and own outcomes for defined workstreams — treasury, procurement, digital transformation, commercial operations — across multiple portfolio companies simultaneously.

*The arbitrage is clear: a senior operator with cross-border execution experience costs \$300-500K annually. Deployed across 3-4 portfolio companies, the cost per company is \$75-125K — a fraction of what a single consulting engagement costs, with dramatically higher accountability.*

This model is particularly powerful in the “boring” sectors — industrials, specialty manufacturing, business services, logistics — where the operational improvement potential is highest but the talent pool is thinnest. The PE firms that win in these sectors over the next cycle will be the ones that systematise operational execution, not the ones that pay the highest entry multiples.

### **What This Means for Talent Strategy**

The profile PE firms should be recruiting has changed. The traditional path — investment banking to associate to partner — produces excellent deal professionals. It does not produce operators. The new premium is on people who have actually built financial infrastructure, managed cross-border operations, held P&L responsibility in emerging markets, and understand the mechanics of scaling a \$50M revenue business to \$200M.

This is a fundamentally different talent market, and it is under-served precisely because these people are rare, expensive, and usually running their own businesses. The firms that create attractive operating partner models — with meaningful carry participation and genuine decision-making authority — will outperform in a market where operational alpha is the only alpha left.

### **Bottom Line**

Financial engineering returns are compressing. Dry powder is at historic highs. Entry multiples are elevated. In this environment, the only sustainable source of excess returns is operational value creation. The PE industry knows this intellectually but has not yet reorganised its talent model, incentive structures, or operating cadence to reflect it. The firms that close this gap first will define the next decade of mid-market PE performance.