

Why Private Equity Matters (Part Seven)

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Private equity is often portrayed as a blunt and ruthless strategy – an industry dominated by corporate raiders that slash costs, strip assets, and leave behind a trail of wreckage. This narrative poorly relates how private equity operates and what ultimately drives success in the asset class. Most private equity firms aim not to impair businesses but to improve them. While measures are often taken to improve efficiencies, investment in growth is what makes those changes durable and profitable.

The corporate raider image largely stems from the LBO boom of the 1980s, when hostile takeovers and aggressive financial engineering were more common. Today the landscape looks dramatically different; managers buy businesses after periods of negotiation with founders, family members, or corporate sellers who are seeking a long-term partner. These sellers can roll meaningful equity, aligning incentives with the buyer, and putting them on the same page when it comes to the value creation playbook.

Cost reduction is a lever pulled by private equity, and for good reason. Lacking independent boards or forms of outside financial discipline, privately held businesses may suffer from bloated overhead in some areas, and underspend in others. Thoughtful cost analysis can help improve margins and boost cash flows, but expenses can be reduced only so much before eroding employee morale, customer service, and long-term competitiveness. Austerity gains diminish and then become punitive to the long-term viability of the company.

In contrast, growth compounds. Revenue expansion, whether through new products, geographic expansion, pricing power, or market share gains, amplifies the impact of operation improvements. It also provides optionality. A growing business can reinvest in assets, talent, and technology while still improving margins. In our portfolio of over 500 companies, it is more common to see job growth than job reduction. One of our best performing GPs notes that over the life of their fund, the number of jobs at the portfolio level has grown from 2,500 to 3,300.

Growth is also critical to exit outcomes, as buyers consistently reward businesses with clear growth trajectories. Along with earnings improvement comes expanding valuation multiples, creating a multiplying effect on returns.

Private equity is most effective when it acts as a catalyst, rather than a substitute, for growth. Cost discipline, operational improvements, and capital structure optimization are necessary tools, but not sufficient on their own. Lasting value creation requires building companies that are bigger, stronger, and more competitive than when they were bought. In private equity, growth is not optional, it is the foundation of sustainable success.