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# EXPERT COMMENTARY

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*In the age of AI, people-focused leadership is becoming a key differentiator and a route to true value creation, argues Thrive Alternatives chairman and co-founder [Chris Lerner](#)*



## The inner game of private equity

In recent years, private equity has increasingly shifted from financial engineering to operational value creation. Firms built operating teams, refined playbooks and leaned into sector expertise as the primary drivers of alpha. This evolution has been effective, but it has also led to a new kind of convergence.

Operational playbooks are now widely understood. In most situations, we know what to do. Best practices are shared, talent is mobile and AI will continue to accelerate access to knowledge and pattern recognition. The constraint is no longer the playbook, then – it's execution. And execution, at its core, is a people problem.

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As we have become better at designing value creation though, and in many cases delivering it, we have not always had full awareness of the costs embedded in how it is achieved. Many of the challenges remain familiar: misalignment within teams, friction between stakeholders and reactive decision-making. These issues are often treated as breakdowns, but they point to something deeper.

Most business problems are, in fact, human ones.

### **Psychology matters**

We tend to treat breakdowns in performance as structural issues. When something is off, we adjust incentives, tighten governance or introduce new processes. These are necessary tools, but they often address symptoms rather than causes. Beneath most underperformance sits something more fundamental: stress, fear, ego, identity and broader internal misalignment. These are not abstract concepts, but observable forces that shape how decisions are made, how teams interact and ultimately how value is created or lost.

These dynamics are not only structural, they are also perceptual. People

do not react to objective reality, but to the narratives they construct in their own minds. These narratives shape decisions in real time.

When individuals become overly reactive or focused on controlling results, perception narrows. Attention shifts to what feels urgent or at risk, and away from the broader context. Conversations move from solving problems to defending perspectives. In many cases, the focus shifts entirely to outcomes, reinforcing a “get it done at any cost” mentality.

This industry, by design, has been built on control. Financial incentives, governance frameworks and operating playbooks are all intended to align behaviour and drive performance. These mechanisms are effective up to a point, but they assume that performance can be engineered externally. Targets, rewards, validation and achievement are powerful motivators, but they are incomplete. They do not fundamentally change the state from which people operate. Outcomes are achieved or missed, but the underlying patterns remain unchanged and tend to repeat.

So, as AI accelerates access to analysis and standardises traditional advantages, the real differences between firms are becoming more visible: clarity of judgment and the dynamics within teams.

### **Alignment and performance**

Fundamentally, the implementation of AI will not eliminate human bias or misalignment. It will amplify it.

This has two implications. For leaders, it shifts the role from directing behaviour to creating conditions that support clarity and alignment. For individuals, it requires greater self-awareness and responsibility around how situations are handled.

Performance, in that sense, is not only a function of strategy or structure, but of the quality of attention. As the external game becomes more efficient, the internal one becomes more decisive. When internal alignment is

absent, friction shows up. Our instinct is to push harder or add structure, but this often reinforces the very dynamics we are trying to solve.

There is, instead, a different way to look at it. Performance is not something we extract from people. It is what emerges from human potential when internal friction is removed.

Much of how people operate is shaped by ingrained patterns of thought and behaviour developed over time. Under pressure, individuals default to these responses, reacting from habit rather than awareness. The same patterns repeat, even when they are known to be suboptimal. Effort increases, but clarity does not necessarily follow.

When individuals are able to step outside these default responses, their decision-making improves. They see more clearly, engage more constructively and operate with greater consistency under pressure.

Leadership, then, is not simply about driving outcomes, but about creating the conditions in which people can operate with less internal friction, while helping them develop the awareness and tools to navigate uncertainty more effectively. This does not mean lowering standards or avoiding accountability. It means prioritising clarity over pressure, alignment over control, and trust over monitoring.

In practice, teams tend to mirror the internal state of their leaders. If leadership operates from urgency, fear or ego, those dynamics cascade. If leadership operates with clarity and stability, the same is true.

In my own experience, situations can unfold very differently depending on the state brought into them. When I have set aside pre-formed narratives and entered with neutrality, outcomes have tended to shift, even when the underlying dynamics were unchanged.

### **Redefining value creation**

There is also a broader question worth asking about how we define value creation. In private equity, value is

*“Performance is what emerges from human potential when internal friction is removed”*

typically measured in financial terms. These remain essential. But as markets become more efficient and capabilities converge, it is worth asking whether financial outcomes alone fully capture what is being created.

Value is not only what is measured at exit. It is also reflected in the quality of the organisations we build and the environments in which they operate. Two firms can deliver similar financial outcomes and yet leave very different systems behind. One creates alignment, resilience and long-term capacity. The other achieves results at the expense of energy and cohesion. Both generate returns. Only one creates lasting value.

In that sense, the definition of value creation begins to expand. Financial performance remains essential, but it is no longer the only dimension that matters. The quality of the human system producing those results becomes equally important. This is not a departure from performance. It is a more complete expression of it. The same applies to how we think about impact. What is easiest to measure is not always what matters most.

The firms that will define the future of private equity are not those with better models or deeper networks. They are those that understand how to work with the human systems at the centre of everything they do. They recognise that performance is as much a function of internal state as it is of external strategy.

After all, we are not just stewards of capital. We are stewards of people. ■