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Why CFOs Are the Most Coveted Leaders in Private Equity Today

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The role of the private equity CFO has become business-critical, but rising demand and turnover will continue to challenge PE firms.

In times of volatility, financial stability becomes an understated hallmark of business success. Private equity (PE) firms have, appropriately, responded to the severe macroeconomic challenges of recent years with caution, making [unprecedented pullbacks](#) in investment and reaching [record levels](#) of dry powder. Today's firms are steadying their balance sheets and preparing for long-term growth by building quality over quantity—a process that will increasingly require proactive CFOs.

CFOs are key drivers of sustainable value creation for PE firms and their portfolio companies. As portfolio sizes remain limited and the need for exceptionally successful exits grows, the role of the chief financial officer will expand in the coming years. Subsequently, demand for experienced private equity CFOs is certain to rise.

The Indispensable Role of the Private Equity CFO

As the industry [weathered the storm of COVID-19](#), private equity CFOs proved to be indispensable strategists throughout investment lifecycles and beyond. When sitting at the firm level, an experienced CFO provides oversight of the PE company's financial operations, creating and optimizing a master plan to increase profit margins and streamline growth.

Within portfolio companies, elected CFOs take a more granular approach. These PE-backed executives—who, like [private equity CEOs](#), more often than not replace pre-acquisition leaders—closely evaluate the financial state of their portfolio company as early as the start of the deal. From there, CFOs are expected to deliver measurable improvements to exit value on a tight timeline, all while regularly communicating progress to stakeholders.

Private equity CFOs, in essence, set the stage for financial success. They bring the vision of the firm to life—from the direction it wants to take a portfolio company to the financial heights it wants to reach—to ensure its business goals are achieved. But as ongoing global issues and rising stakeholder expectations put pressure on the private equity space, CFOs will be expected to increase their strategic input and contribute transformative visions of their own.

How the CFO Role Is Evolving

The role of the private equity CFO is expanding far beyond its traditional limits. These days, the most effective CFOs serve as technologists, analysts, regulatory experts, and beyond as duty calls. In fact, [S&P Global Market Intelligence](#) reports CFOs now only spend 10-50% of their time on financial oversight.

For CFOs of private equity firms, outward-facing and hands-on activities have replaced many of the high-level tasks that once consumed their day-to-day workload. They're taking part in investor relations and portfolio company onboarding, all while lending a hand to various aspects of business strategy—talent attraction, location strategy, advanced technology implementation, and more. In today's landscape, the most effective private equity CFOs are excellent *organizational* leaders, not just finance leaders.

When selecting CFOs for portfolio companies, private equity firms will increasingly seek tech-savvy leaders. According to [PwC](#), 40% of portfolio companies will prioritize digital transformation and automation to maximize exit value, putting IT tasks under the realm of the CFO. PE-backed CFOs will also be expected to utilize data at a large scale—perhaps with the support of automations and AI tools—both to drive precision in strategy and to meet rising demand for transparency from stakeholders.

As portfolio company CFOs take a smarter, more efficient approach to finance, freeing themselves from more mundane tasks, [Deloitte](#) predicts these executives will gain footing in the C-suite and rank more equally with CEOs.

But as private equity CFOs rise through the ranks and become increasingly central to decision making, they can anticipate more weight on their shoulders than ever before. Expectations and responsibilities are growing, placing CFOs in a constant race against time.

Rising Demand and Declining Tenure

Unsurprisingly, the average tenure of corporate CFOs is on the downswing. It has become a rarity for CFOs to remain at a company for more than [five years](#), in large part due to the rising pressure to perform across industries. In private equity, where the first 100 days are critical to achieving success (and impressing stakeholders), the sense of urgency can be particularly nerve-wracking.

But despite the turnover, the number of CFOs—in particular, CFOs with private equity experience—entering the job market certainly isn't keeping pace with the demand for these

highly coveted leaders. The job market is tight, and it's being exacerbated by delayed portfolio company exits and the growing availability of opportunities for CFOs.

Private equity firms must recognize that CFOs are irreplaceable members of their leadership teams, and an empty seat will certainly be felt. Firms must continuously invest in financial executives—whether it's by providing [competitive compensation](#) or access to technology and resources that simplify their roles—to attract top-performing CFOs and strengthen long-term retention.

The Competition for Top Financial Talent Continues

The role of private equity CFOs is expanding well beyond the financial realm. In the face of changing markets and rising expectations, financial executives have become organizational leaders who deeply influence private equity firms and portfolio companies as a whole.

CFOs are business-critical leaders, on the verge of ranking equally with CEOs. In volatile times, their expertise has proven to be invaluable and irreplaceable. But as demand for PE-experienced CFOs skyrockets, the pressures of the position have led to faster turnover and a clear need to support these talented leaders. How will you attract and retain the financial talent you need?